

Consequences of Financial Statement Fraud: A Developing Country Perspective

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Abstract

Using data obtained from a sample of 212 respondents drawn from professional and academic accountants in Benue State of Nigeria, we identify, in order of severity, the main consequences of financial statement fraud (FSF) from a developing country perspective. We also ascertain whether significant differences exist in the views of the respondents on what they consider as the major consequences of FSF. The results of our data analyses which document, in order of severity, loss of job, drop in market capitalization and criminal prosecution as the main consequences of FSF are consistent with our *a priori* expectations in a developing country. The results also reveal significant differences in the rankings of the consequences of FSF by professional and academic accountants, validating the need for bridging the knowledge gap between the dyad on the phenomenon of interest.

Keywords: agency theory, fraud triangle theory, financial statement fraud, developing country, Nigeria

1. Introduction

Financial reporting (FR) is intended to serve a number of user groups with diverse and sometimes conflicting interests, such as shareholders (present and prospective), creditors, lenders, labour leaders, and governments. A number of perspectives are, therefore, associated with FR but all tilt towards magnifying its importance in resolving the principal-agent conflict occasioned by asymmetric information available to the two parties. One perspective considers FR as the way by which managers of organizations give account of their stewardship to their owners and other stakeholders (Van Tendeloo & Vanstraelon, 2005). Others consider FR as: the production and communication of information to shareholders and all other users who have interest in an organization (Olaolye, 2010); the provision of information that is useful in making business and economic decisions, the objective been affected by the economic, legal, political and social environment in which FR takes place (Belkaoui, 2002); and the provision of information about the reporting entity's financial performance and financial position that is useful to a wide range of users for assessing the stewardship of the entity's management and for making economic decisions (IASB, 2010). The IASB (2010) dedicates one of the objectives of FR to the information needs of present and potential investors about the reporting entity's financial performance and financial position that is useful to them in evaluating the entity's ability to generate cash, and in assessing the entity's financial adaptability.

The import of the foregoing is to highlight the importance of FR and also exude the need for financial reports that are useful but not misleading in material ways, reports that are prepared in line with accepted fundamental ethics and guidelines applicable to all accountants to enable them carry out their professional duties credibly. However, the wave of financial statements fraud (FSF) exemplified by reported cases such as Enron, Tyco, Quest, and Global Crossing in the US, Olympus Corporation in Japan, and Cadbury Plc and Access Bank Plc in Nigeria, has renewed interest on why companies engage in financial statement misrepresentations and the accompanying consequences. Explanations on why companies engage in FSF resonate from the fraud triangle and fraud diamond theories, and the agency theory.

The fraud triangle theory, originating from Cressey' (1953) classical works on factors that induce fraud, suggests that individuals become involved in fraud due to three factors, namely perceived opportunity, perceived pressure, and rationalization. Albrecht (2008) expatiates further on the fraud triangle: (1) pressure could emanate from a financial need, the need to report better than actual performance, a challenge to beat the system, or even fear can

motivate fraud, and greed; (2) the perpetrator must also have the opportunity to commit the fraud and the belief that he would not be caught or even when he is caught, the punishment would not exceed the benefits derived from the fraud; and (3) the perpetrator can rationalize his action.

The inadequacy of the fraud triangle theory has led to the propounding of the fraud diamond model by Wolfe and Hermanson (2004) which incorporates the fraudster's capabilities. Wolfe and Hermanson (2004) describe capability as a trait of the individual perpetrating fraud. These capabilities include: (i) positioning, which means that the individual is in a position not available to others which allows him to create or exploit an opportunity; (ii) intelligence, which presupposes that the individual is creative and smart enough to understand and exploit the weakness of the system to his advantage; (iii) ego, which signifies the fraudster's confidence in his abilities not to be caught; (iv) coercion, wherein the individual can influence others to assist or conceal the fraud that is occurring; (v) deceit, which suggests that the fraudster probably will be able to lie or divert convincingly; and (vi) ability to management the stress that could result when the individual is caught in the act.

The principal-agent relationship evokes transfer of trust and duty to the agent with the belief that the agent is opportunistic and will pursue interests, including executive fraud, which antagonizes the interest of the principal (see Jensen & Meckling, 1976). The agent could, if the opportunity exists as enunciated under the fraud triangle theory, and with the requisite capabilities propounded in the fraud diamond model, expropriate corporate resources and fraudulently conceal the act in the financial reports. The discretion offered for accounting policy choices under generally accepted accounting principles (GAAP) also provides the opportunity for distortions in financial reports that could shield the agents from exposure.

1.1 Nigerian Situation

Nigeria has been classified as a developing country by the International Monetary Fund's World Outlook Report, April 2014. A developing country is characterized as a nation with lower standard of living, underdeveloped industrial base, and low Human Development Index (HDI) relative to other countries. Other features associated with a developing country are (a) the transitional nature of the economy-from a closed economy to an open market economy, and (b) a young and growing population capable of spurring strong long-term growth rates by replenishing aging workers and consuming goods. While this study does not intend to delve into the debate related to the affirmative and contrarian views of developing country characterization, it is imperative to integrate the developing country/economy perspective into the perfect fraud storm theory propounded by Albrecht, Albrecht and Albrecht (2004). The researchers examine the FSF from the perspective of agency and stewardship theories and identify a number of factors which create the 'perfect fraud storm' that orchestrates FSF. The factors relevant for our current discourse include (i) a booming economy (which hides the fraud), (ii) moral decay, (iii) misplaced executive incentives, (iv) pressure from large borrowing, (v) opportunistic behavior from audit firms, and (vii) greed from a wide variety of people.

Based on the Albrecht et al. (2004) postulations, the Nigerian economy provides ample avenues through which FSF could be perpetrated. The economy is classified as booming and presumably the largest in Africa, particularly in terms of population and consuming power, which makes it possible for FSF to thrive and be hidden for a number of years like in the case of Cadbury Plc. Anecdotal evidence associates the economy with obscure features such as: large scale moral decadence; corporate executives undoubtedly having misplaced incentives, allowing the principal-agent conflict to manifest; pressure from companies to borrow to finance operations with conditionalities that must be met, even if the solution lies in FSF; auditors in dire need to keep their clients at the expense of loss of auditor independence; and greed among the populace.

The failures and collapse of leading companies and banks in Nigeria with adverse consequences on shareholders, lenders and depositors have renewed interest on ethical issues in financial reporting. The Securities and Exchange Commission (SEC) in 2008 penalized Cadbury Plc as well as Akintola Williams Delotte for accounting scandals (Achua, 2009) and also suspended Afroil Plc and Capital Oil Plc for different violations. A number of banks were also liquidated by the NDIC between 1994 and 2003 for various offences including FSF. Oceanic Bank Plc and Intercontinental Banks Plc were similarly implicated in FSF, the latter eventually been taken over by Access Bank Plc. The increasing wave of FSF prompts inquiries into which of the consequences is considered most severe and whether its occurrence does not attract severe consequences which could compel corporate management to act ethically as they prepare their financial reports.

1.2 Objectives and Organization of the Paper

In this paper, we first examine the views of professional and academic accountants to ascertain what they perceive as the main consequences of FSF. We argue that knowledge of the most severe consequences of FSF is necessary for practitioners, captains of industry, and academic researchers for these groups are expected to be

interested in the risk associated with FSF. Next, we ascertain whether the views of professional and academic accountants cohere with respect to the subject matter. We argue, again that professional and academic accountants are likely to have different perspectives on the consequences of FSF. Professional accountants often see FSF as pervasive and problematic, capable of eroding public confidence in the accounting and auditing profession, but a task that must be done under certain situations. Academic accountants are, however more sanguine, and more likely to view FSF from the angle of the effect it has on the users of accounting information who rely on financial statements that are not a true representation of the underlying position of the company.

The remainder of this study proceeds as hereafter stated. In the next section we examine FSF within its conceptual context, causes and consequences. The methodology is presented in section three, while section four analyses the data and discusses the results. The study summary, conclusions, and limitations are contained in section five.

2. Financial Statement Fraud (FSF)-Causes and Consequences

Fraud is a term that is cloaked in numerous definitions; it is the intentional deception, lying, and cheating which contrast with truth, fairness, and equity (Singleton & Singleton (2010). Fraud is also viewed as embracing all multifarious means which human ingenuity can devise, and which are resorted to by one individual to get advantage over another by false suggestions, by suppression of truth and includes all surprise, trick, cunning, dissembling and any unfair way by which another is cheated (Beasley, Carcello, Hermanson, & Neal, 2010).

The Association of Certified Fraud Examiners (ACFE), in its report to the Nations, asserts that FSF is a scheme “in which an employee intentionally causes a misstatement or omission of material information in the organization’s financial reports (e.g. recording fictitious revenues, understating reported expenses or artificially inflating reported assets)” (ACFE, 2012, p. 10). The ultimate aim of FSF is to misrepresent financial statements by way of deliberate misstatements or omissions of amounts or disclosures of financial statements in order to deceive financial statement users, particularly investors and lenders.

Extant literature associates the causes of FSF as efforts to: avoid reporting losses or exaggerated performance; meet security analyst’s expectations; increase stock price and induce demand for new issues; meet listing requirements or avert delisting by stock exchange; trigger performance related compensation or earn-out payments, etc. (see, for example Beasley, Carcello & Harmanson, 1999; Roychowhury, 2006; Skousen & Wright, 2006). The role played by unethical corporate culture in FSF has also been highlighted by researchers who assert that a corporate culture that emphasizes profits and stock prices creates an environment in which managers feel pressured to produce favourable financial statements, and are, therefore, more likely to misrepresent the financial position of the company (Summers & Sweeney, 1998; Skousen & Wright, 2006; Morgan & Burnside, 2014).

Investigations into the consequence of FSF can be categorized into four main groups. First are consequences related to the firm such as high litigation costs, civil fine, bankruptcy or substantial economic losses by the company engaged in FSF, devastation in the normal operations and performance of alleged companies, increased cost of capital and closure of business, drop in market capitalization, delisting from the stock market, excessive regulatory intervention, and loss of credibility of the reporting company (Loebbecke, Eining, & Willingham, 1989; Razaee, 2002; Tsegba, Upaa, & Tyoakosu, 2015).

The second group of consequences are capital market related and include: diminishing the confidence of capital markets and market participants in the reliability of financial information and making the capital market less efficient (Razaee, 2002). The third group of consequences pertains to the individuals (senior management, mid- and lower-level employees and organized criminals) that commit FSF. The effects of FSF on these people are career destruction such as criminal persecution and loss of job. The fourth group is the accounting profession epitomized in the public loss of confidence in the financial reporting process, the perverse perception of the integrity and objectivity of the auditing profession, especially auditors and the auditing firms, and erosion of public confidence and trust in the accounting and auditing profession.

One of the leading investigations which provides evidence on the consequences of FSF on both companies and individuals was conducted by Beasley et al. (2010) under the sponsorship of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This study provides a comprehensive analysis of FSF occurrences investigated by the U.S. Securities and Exchange Commission (SEC) between January, 1998 and December, 2007. The study identified 347 companies involved in alleged instances of FSF during the ten-year period and revealed that severe consequences affected companies committing fraud. Companies experienced significant abnormal stock price declines as news of the alleged frauds first emerged. The average fraud company’s stock price was found to drop by an abnormal 16.7 percent in the two days surrounding the initial

press disclosures of an alleged fraud.

In addition to the negative stock market reactions to news announcements about alleged fraud or fraud investigations, many fraud firms suffered long-term consequences, including bankruptcy, delisting by national exchanges, and material asset sales. Twenty-eight percent of fraud firms became bankrupt or liquidated within two years from the year in which the SEC issued the last Accounting and Auditing Enforcement Releases (AAERs) related to the fraud, and 47 percent were delisted from a national stock exchange. Material asset sales also affected about 62 percent of fraud companies. These rates of occurrence were significantly higher than the experiences of no-fraud firms during those same time periods. The consequences associated with FSF were also found to be severe for individuals allegedly involved. In almost half of the cases (47 percent), the SEC barred one or more individuals from serving as an officer or director of a public company. Civil fines were imposed in 65 percent of the fraud cases, and disgorgements were imposed in 43 percent of the cases.

Unlike the Beasley et al. (2010) study, which draws data from reported consequences of FSF, this study uses an exploratory approach with emphasis on what the key stakeholders (professional and academic accountants) perceive as the consequences of FSF. The main hypothesis tested in this study is whether significant differences exist in the views of professional and academic accountants on what constitute the consequences of FSF.

3. Methodology

3.1 Sample

The data used in this exploratory study is obtained from a sample of 212 professional and academic accountants in Benue State of Nigeria. The restriction of the respondents within Benue State domain is due to logistics and resource constraints (in term of both time and money). The professional accountants are defined as members of the two dominant accountancy bodies operating under Nigerian legislation, namely the Association of National Accountants of Nigeria (ANAN), and the Institute of Chartered Accountants of Nigeria (ICAN). In this study, academic accountants are construed as accounting lecturers and postgraduate students. This construct underscores the realization that postgraduate students bear strong relationship with their lecturers and are, therefore, likely to perceive academic issues in similar vein. Furthermore, the inclusion of postgraduate students is in recognition of their active roles in accounting research and wider knowledge of emerging issues in accounting such as FSF. The population of accounting lecturers and students is drawn from all the tertiary institutions in Benue State that offer accounting courses.

The sample size was determined using Yaro Yamane's method while Bourley population allocation formula was adopted to distribute the sample among the three respondents groups as presented in Table 1 below. The non-probability purposive sampling technique was used in the selection of sample for this study; participants were chosen based on their roles and knowledge in accounting theory and practice.

Table 1. Population and sample distribution

Population Group	Total Population	Sample Distribution	Percentage
Professional Accountants	340	160	75.5
Accounting Lecturers	68	32	15.1
Postgraduate Students	42	20	9.4
Total	450	212	100

3.2 Data

This study used both primary and secondary data. The primary data are obtained from a sample of Nigerian academics (accounting lecturers and postgraduate students), and professional accountants (members of ANAN and ICAN engaged in auditing and the provision of professional accountancy services) who reside in Benue State of Nigeria. The views of academic and professional accountants are essential in assessing the perceptions of Nigerians regarding the consequences of FSF because these critical stakeholders are involved in the teaching and practice of accounting and are expected to be knowledgeable in of financial statement misrepresentation.

The main instrument for data collection is the questionnaire which was designed to measure the perceptions of the respondents on a number of issues related to the consequences that emerge when companies are engaged in FSF. The questions are made-up of Likert scales: ("strongly agree," represented by 5, to "strongly disagree" represented by 1). The questionnaire was partitioned into two main sections: the first section contains demographic information on the socio-economic status, education, and professional qualifications of the

respondents, while the second section contains *attitudinal questions*; covering respondents' opinions, attitudes, values and beliefs on their perceptions on the consequences of FSF. The study further employed personal interviews to obtain additional information on the specific areas that the questionnaire instrument could not cover.

3.3 Specification of Variables

The choice of variables is based on results of prior studies that have been found relevant for the occurrence of FSF and the arising consequences. The variables suggested by Loebbecke et al. (1989) and further expanded upon by Razaee (2002) are adopted in this study (see Table 2 below).

Table 2. Proxies for the consequences of financial statement fraud

S/No.	Proxy	Code
i.	Litigation cost	β_1
ii.	Delisting from the stock exchange	β_2
ii.	Increases cost of capital.	β_3
v.	Loss of jobs	β_4
v.	Drop in market capitalization	β_5
i.	Criminal Prosecution	β_6
ii.	Bankruptcy	β_7
ii.	Civil Fines	β_8
x.	Change in ownership	β_9

3.4 Validation and Reliability Tests

Validity tests were carried out to check the ability of the research instrument to measure the variable it was intended to measure. Both face and content validity tests were conducted and the results found to be satisfactory. Furthermore, to ensure stability, dependability and predictability of the research instrument, reliability tests were conducted to determine if the scale consistently reflects the construct it measures using the Cronbach's alpha method. A pilot test was carried out using 10 copies of the instrument in Benue State University, Makurdi. The Cronbach's coefficient alpha test for reliability was carried out using the computer software package Statistical Package for Social Sciences (SPSS) version 20. The overall Cronbach's coefficient alpha was found to be 0.727, which is within the range (0.75) reported by Loebbecke et al. (1989).

3.5 Techniques of Data Analysis

The data collected for this study were analyzed using both descriptive and inferential statistics. The descriptive method was employed to describe the demography of respondents and other variables in the study using percentages, frequency count, mean and standard deviation. The hypothesis was tested using the non-parametric Kruskal Wallis H test, which allows the comparison of more than 2 independent groups, and Mann-Whitney U-test for comparing 2 independent groups-for the post hoc analysis. Severity of consequences of FSF was computed by odds ratio using logistic regression. All analyses, again, were done using the application package SPSS version 20.

The Kruskal-Wallis H test adopted for the purpose of hypothesis testing is based on the following equation:

$$H = \frac{12}{\beta(\beta+1)} \sum_{i=1}^k \frac{R_i^2}{\beta_i} - 3(\beta + 1)$$

where, H = Kruskal-Wallis test statistic; $\beta = \beta_1 + \beta_2 + \dots + \beta_k$ are the proxies for consequences of FSF; R_i = the sum of the ranks assigned to β_i observations in the dataset.

4. Results and Discussion

The first part of this section presents the profile of the respondents, followed by the results and discussions.

4.1 Profile of Respondents

Table 3 shows the profile of respondents. Panel A of the table indicates that 131 (79.4%) of the respondents were males, while 34 (20.6%) were females giving a total of 165. The female minority is as a result of Nigerian culture and religious beliefs which discourage females from receiving western education and taking up white collar jobs. However, the wide differential in the sex of respondents does not have statistical significance on the

result because the questions are not gender sensitive. Panel B presents the respondents in their groups which include 113 (68.5%) Professional Accountants, 32 (19.4%) Accounting Lecturers, and 20(12.1%) Postgraduate Students. The dominance of professional accountants is an added advantage to the study since they are closely involved in financial statements preparation and auditing and are, therefore, in a better position to express opinion on the consequences of FSF.

Table 3. Profile of respondents

Item	Frequency	Percentage (%)	Cumulative (%)
Panel A: SEX			
Male	131	79.4	79.4
Female	34	20.6	100
Total	165	100	
Panel B: GROUP			
Professional Accountants	113	68.5	68.5
Academics Accountants	32	19.4	87.9
Postgraduate Students	20	12.1	100
Total	165	100	

4.2 Inferential Analyses

In order to assess the severity of the overall perceived consequences of FSF among professional and accounting academics, a multinomial logistic regression was carried out with the subject views as the dichotomous criterion variable and the category of each subject (Professional Accountant =1, Accounting Lecturers =2, and Postgraduate Students = 3) as the predictor variable. The independent variables were coded so that odds ratio (ORs) larger than 1 was associated with the greater likelihood of severer consequences, while ORs less than 1 meant that the proxy was associated with a lesser likelihood of severity. In order to facilitate comparison of the dimensions of severity without compromising the precision of the Likert scale, the sub-scales were split into dichotomous variables representing 'low severity' and 'high severity'. The dichotomous variables were created such that the two Likert points at the upper end of the severity range were re-coded as 'high severity', while the 3 Likert points at the other end were re-coded as 'low severity'. The choice of this cutoff is similar to the procedure described by Hall and Dorman (1988), where recoded scores of 1,2,3 were defined as 'low' while recoded scores of 4 or 5 were defined as 'high' on each proxy subscale. Percentages of low and high severities on each of the subscale (proxy) were then calculated and compared between the 3 groups.

4.3 Results

The results are presented, seriatim, with respect to the two research objectives. The first objective of this study was to ascertain, in order of severity, what Professional Accountants and Academic Accountants (Accounting Lecturers and Postgraduate Students) perceive are the main consequences of FSF. Table 4 below shows predictors of overall perceptions of professional and academic accountants on the subject matter.

Table 4. Adjusted odds ratio of the predictors of the overall consequences of financial statement fraud (FSF)

Proxy	Odds ratio	95% confidence interval	p-value	Ranking
β_1	0.87	0.92–5.07	0.591	6
β_2	0.62	0.31–1.04	0.070*	7
β_3	1.30	2.13–3.77	0.050**	4
β_4	2.87	3.50 – 6.23	0.000***	1
β_5	2.45	2.18–3.41	0.050**	2
β_6	1.99	2.88–5.72	0.160	3
β_7	1.03	1.11–2.23	0.451	5
β_8	0.16	0.24–1.43	0.319	9
β_9	0.58	0.21– 0.73	0.600	8

The result of the analysis, based on the overall views of the respondent groups reveals that β_4 (Loss of jobs) is ranked the severest consequence of FSF (OR = 2.87; 95% CI = 3.50 - 6.23; $p < 0.01$), which is highly significant

at 95% confidence interval and the implication is that it has 2.87 times the odds of being severest than the odds of low severity. The second ranked overall severer consequence is β_5 (drop in market capitalization) (OR = 2.45; 95% CI = 2.18-3.41; $p=0.050$), which has the odds of 2.45 times of being severer than not. This proxy (β_5) is also significant at the 95% confidence level. The third ranked consequence, in order of severity, is β_6 (criminal prosecution) (OR = 1.99; 95% CI = 2.13-3.77; $p=0.160$). This proxy is, however, not significant at the 95% confidence level. The least ranked consequence is β_8 (Civil fines), which is, however, not significant at 95% confidence level.

Objective two: Consensus on consequences of financial statement fraud (FSF)

The second objective of this study was to ascertain whether significant differences exist between the perceptions of Professional Accountants and Academic Accountants (Accounting Lecturers and Postgraduate Students) on what constitute the consequences of FSF. The Kruskal–Wallis H and Chi-Square tests were carried out to achieve this objective. Table 5 Panel A and B present the results of the Kruskal–Wallis H and Chi-square tests respectively on the subject matter. Panel A of the table shows the mean rank of the overall perceptions of the consequences of FSF. Accounting Lecturers have the least overall perceptions on the consequences of FSF (mean rank = 965.91), followed by Professional Accountants (mean rank = 969.57). Postgraduate Students have the highest overall view of the consequences of FSF (mean rank = 1143.87). The test statistics report a chi-square (X^2) value of 22.824, with an associated probability (p) value of less than 0.01. It can be concluded that there are significant differences in the overall views of Professional and Academic Accountants on the consequences of FSF.

Table 5. Kruskal-Wallis H test of differences in the views of the respondent groups

Panel A: Respondent Groups		
	No. of Ranks	Mean Rank
Professional Accountants	1355	969.57
Accounting Lecturers	384	965.91
Accounting Postgraduate Students	240	1143.87
Total	1979	

Panel B: Test Statistics	
Chi-Square	22.824
Df	2
Asymp. Sig	0.000

Since significant differences exist between the respondents (Professional Accountants, Accounting Lecturers, and Postgraduate Students) on what constitute the consequences of FSF, adjusted odds ratio analysis was used to identify the specific areas of differences. Table 6 presents the adjusted odds ratio of the consequences of FSF based on the perceptions of Professional Accountants, together with the ranking.

Table 6. Adjusted odds ratio of consequences of financial statement fraud (FSF)

Professional Accountants				
Proxy	Odds ratio	95% confidence interval	p-value	Rank (in order of severity)
β_1	0.61	0.32 - 2.07	0.251	7
β_2	0.56	0.31 - 1.04	0.652	8
β_3	0.35	0.51 - 2.03	0.065*	9
β_4	1.98	1.07 - 3.13	0.068*	3
β_5	1.61	1.11 - 4.44	0.110	4
β_6	2.63	1.13 - 5.77	0.020**	1
β_7	0.78	0.88 - 1.72	0.231	6
β_8	2.01	1.21 - 3.23	0.000***	2
β_9	1.01	0.21 - 1.03	0.325	5

Note. *** Significant at 1%; * Significant at 10%.

The results presented in Table 6 above suggest that Professional Accountants perceive the proxy β_6 (Criminal Prosecution) (OR = 2.63; 95% CI = 1.13-5.77; $p = 0.020$) as the severest consequence of FSF. This proxy is significant at the 95% confidence level ($p = 0.02$). Professional accountants also consider β_8 (Civil Fines) (OR = 2.01; 95% CI = 1.21-3.23; $p < 0.001$) as the second significantly likelier consequence of FSF which is significant at the 1% level. The third severe consequence of FSF as perceived by Professional Accountants is the proxy β_4 (Loss of jobs) (OR = 1.98; 95% CI = 1.07-3.13; $p < 0.068$). This is, however, not significant at the 5% level. The consequence considered least severe by Professional Accountants is proxy β_3 which is increase cost of capital (OR = 0.35; 95% CI = 0.51-2.03; $p < 0.065$). This consequence is, however, not significant at the 95% confidence level.

Table 7 presents the results of the perceptions of Accounting Lecturers on the consequences of FSF.

Table 7. Adjusted odds ratio of consequences of financial statement fraud (FSF)

Accounting Lecturers				
Proxy	Odds ratio	95% confidence interval	p-value	Rank (in order of severity)
β_1	0.91	0.39-2.11	0.541	5
β_2	0.89	0.54-1.86	0.091*	6
β_3	0.51	0.21-0.69	0.144	8
β_4	3.15	1.44-3.56	0.025**	1
β_5	2.52	1.05-2.61	0.001***	2
β_6	1.74	1.24-3.69	0.061*	3
β_7	1.52	1.02-2.19	0.065*	4
β_8	0.66	0.53-1.46	0.562	7
β_9	0.13	0.06-1.01	0.691	9

Note. *** Significant at 1%; * Significant at 10%.

From the Accounting Lecturers' perspective, loss of job (β_4) is considered the severest consequence of FSF (OR = 3.15; 95% CI = 1.44 - 3.56; $p < 0.025$) followed by drop in market capitalization (β_5) (OR = 2.52; 95% CI = 1.05 - 2.61; $p < 0.001$). Both consequences (loss of job and drop in market capitalization) are significant at the 95% confidence level. Accounting Lecturers consider β_6 (criminal prosecution) as the third severe consequence of FSF (OR = 1.74; 95% CI = 1.24 - 3.69; $p < 0.061$). The consequence considered least severe is change in ownership (β_9) (OR = 0.13; 95% CI = 0.06 - 1.01; $p < 0.691$), but this consequence is not significant at the 95% confidence level.

Table 8. Adjusted odds ratio of consequences of financial statement fraud (FSF)

Postgraduate Students				
Proxy	Odds ratio	95% confidence interval	p-value	Rank (in order of severity)
β_1	1.11	0.56-1.25	0.501	5
β_2	0.42	0.11-0.89	0.061*	6
β_3	0.22	0.02-0.09	0.048**	8
β_4	3.48	1.82-4.11	0.020**	1
β_5	3.22	1.20-2.24	0.041**	2
β_6	1.61	1.02-3.21	0.460	4
β_7	2.61	1.11-2.44	0.041**	3
β_8	0.42	0.13-1.01	0.701	6
β_9	0.19	0.01-0.08	0.036**	9

Note. *** Significant at 1%; * Significant at 10%.

From the Postgraduate Students' perspective, the proxy β_4 (Loss of job) (OR = 3.48; 95% CI = 1.82 - 4.11; $p < 0.02$) is considered the severest of the consequence of FSF. This is followed by β_5 (*drop in market capitalization*) (OR = 3.22; 95% CI = 1.20 - 2.24; $p < 0.41$). The proxy β_7 (bankruptcy) comes third (OR = 2.61; 95% CI = 1.11

– 2.44; $p < 0.41$). The proxy considered least severe is β_9 (change in ownership) (OR = 0.19; 95% CI = 0.01 – 0.08; $p < 0.036$).

Table 9 below summarizes the rankings of the perceptions of the three groups on what could be the consequences of FSF. The rankings reflect lack of consensus on the consequences of FSF among Professional Accountants on the one hand, and Academic Accountants (Accounting Lecturers and Postgraduate Students) on the other hand. Accounting Lecturers and Postgraduate Students seem to agree on the first and second severest consequences of FSF, namely loss of job and drop in market capitalization respectively. Accounting Lecturers and Postgraduate Students also attach similar rankings to litigation cost (rank 5), disrupts the capital market (rank 6), and increase in cost of capital (rank 8) as severe consequences of FSF.

Table 9. Ranking of the perceptions of the consequences of financial statement fraud (FSF)

Proxy	Professional Accountants	Accounting Lecturers	Postgraduate Students
β_1	7	5	5
β_2	8	6	6
β_3	9	8	8
β_4	3	1	1
β_5	4	2	2
β_6	1	3	4
β_7	6	4	3
β_8	2	7	6
β_9	5	9	9

Due to lack of consensus between Professional Accountants and Academic Accountants on what constitute fraudulent financial reporting, further analysis was carried out to ascertain whether significant differences exist between the perceptions of the two groups. The exclusion of Postgraduate Students from this further analysis is as a result of the near coherence of their perceptions with those of Accounting Lecturers. Post hoc tests between the groups were conducted using Mann-Whitney U-test for observable latent differences.

Table 10 shows the mean rank and the test statistics on the views of Professional Accountants and Accounting Lecturers on the consequences of FSF. Accounting Lecturers have a higher mean rank (916.57) than Professional Accountants (777.00). The test statistics show a Z value of -4.655, which is significant at a p-value of less than 1%. The results suggest that there are significant differences in the views of Professional Accountants and Accounting Lecturers on the consequences of FSF.

Table 10. Mann-Whitney determinants post hoc test on differences in the views of professional accountants and accounting lecturers

Panel A: Respondents Groups		
Group	No. of Ranks	Mean Rank
Professional Accountants	1355	777.00
Accounting Lecturers	240	916.57
Total	1739	
Panel B: Test Statistics		
Mann-Whitney U	134144.000	
Z	-4.655	
Asymp. Sig. (2-tailed)	.000	

4.4 Discussions

The discussions in this section focus on *a priori* expectations emanating from extant literature and a few empirical studies conducted on the subject matter. The first objective of the paper is to ascertain, in order of severity, the consequences of FSF as perceived by professional and academic accountants. The results obtained in section 4.3 suggest that loss of job is considered by the dyad as the most severe consequence of FSF. The identification of loss of job as the most severe consequence of FSF in a developing country is expected, especially in Nigeria where there is paucity of jobs and high rate of unemployment. Fears of losing one's job cut

across all levels of staff—from senior management to the lowest level of management—in both corporate and government organizations. More often, the loss of job emanating from FSF is followed by career destruction and criminal prosecution. The Beasley et al.'s (2010) study report has also highlighted loss of job and the banning of some individuals from serving as officers or directors of public companies as the consequences of FSF in a number of the reported cases. The FSF cases involving Enron in U.S., Olympus Corporation in Japan, and Oceanic Bank in Nigeria, where chief executive officers of the companies were not spared provide evidence which supports loss of job as a very severe consequence of FSF.

The second severe consequence of FSF identified by the respondents is drop in market capitalization. Drop in market capitalization has far reaching implications for a developing country that might be under pressure from large borrowing (see Albrecht et al., 2004), and may also be seeking for funds from the capital market. Drop in market capitalization would also affect the perceptions of present and prospective investors about the company regarding its future prospect. The findings in Beasley et al.'s (1999) study which suggest that drop in market capitalization is a major consequence of FSF is supportive of these results.

The third severe consequence of FSF reported in this study is criminal prosecution. As observed in Beasley et al. (2010), 64% of the indicted fraudulent CEOs and 75% of the indicted fraudulent CFOs suffered conviction for their involvement in FSF based on the outcome of prosecutions. In Nigeria, the Economic and Financial Crimes Commission (EFCC), which is charged with the responsibility of prosecuting economic and financial crimes committed against the state and corporate bodies, has prosecuted a number of cases related to FSF committed by chief executive officers. The FSF cases involving Oceanic Bank Plc and the defunct Intercontinental Bank Plc were prosecuted by EFCC and various sentences given to the chief executive officers of the banks. The consequence considered least severe by the respondents is β_8 (Civil fines) (OR = 0.16; 95% CI = 0.24-1.43; $p = 0.319$) imposed on the companies for FSF. The low ranking of fines as sanctions to defaulting companies and individuals in Nigeria is expected because of the low regime of fines applicable generally to criminal cases.

The second objective of the study relates to whether the respondents' views cohere with each other. The results of this study, however, suggest that there is lack of consensus on what could be considered as the most severe consequence of FSF among professional accountants and academic accountants (Accounting Lecturers and Postgraduate Students). This result is expected, based on our arguments that Professional Accountants consider FSF as problematic and capable of eroding public confidence in the accounting and auditing profession, whereas the academic accountants are more sanguine and view FSF from the angle of the effect it has on users of accounting information.

The significant differences in the perceptions of these key stakeholder groups (Professional and Academic Accountants) have implications for policy formulation and implementation for the regulatory body (SEC) that ensures compliance with financial reporting ethics. Coherence in the perceptions of the respondents who are key stakeholders in financial reporting project on what dovetail to severe consequences of FSF is likely to orchestrate more meaningful efforts to curtail the menace in the course of policy formulation. The significant differences in the views of these stakeholders (Professional and Academic Accountants) who are also part of the policy formulation process, either by direct involvement or association, would continue to pose challenges regarding issues that relate to identification of the consequences of FSF.

5. Summary and Conclusions

The main objectives of this study were to identify, in order of severity, the main consequences of FSF using the perceptions of Professional Accountants and Academic Accountants (Accounting Lecturers and Postgraduate Students), and also ascertain whether significant differences existed in their perceptions. The results of the study suggest that 'loss of job', 'drop in market capitalization', and criminal prosecution' are the main consequences of FSF. These results are expected in a developing economy where the rate of unemployment is very high and people are not ready to lose their jobs. Moreover, companies in developing countries with booming economies are likely to seek for funds to finance their expansion from the capital markets. Drop in market capitalization would, therefore adversely affect the amount realized from the capital market and should be a source of concern.

The significant differences observed in the views of professional and academic accountants on the consequences of FSF are expected but worrisome. Professional Accountants view criminal prosecution as being the severest consequence of FSF, which is expected, because they are the ones to suffer most when the fraud is discovered. Academic Accountants are more worrisome about loss of job, which is rather absurd. Being more sanguine about the consequences of FSF, it is expected that Academic Accountants' concerns should trail market reactions to FSF in areas such as drop in market capitalization and cost of capital increases. Overall, this study provides evidence that is consistent with both empirical and anecdotal evidences which associate FSF with criminal

prosecution and loss of jobs.

The implication of the findings of this study should, however, be interpreted with caution because the empirical evidence provided is based on some restricted data from a single state in a developing country. The study is also based on the perceptions, rather than observations, of the severe consequences companies engaged in FSF are subjected to. Further research could address these concerns by providing more comprehensive evidence on the consequences of FSF in Nigeria, covering more of the 36 states of the federation. It could also investigate specific cases of FSF reported by the Securities and Exchange Commission (SEC) in Nigeria and the sanctions imposed by the regulatory body.

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