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PRESSURE AND FRAUDULENT FINANCIAL REPORTS OF LISTED INDUSTRIAL GOODS FIRMS IN NIGERIA

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Abstract
Fraudulent financial reporting poses a significant threat to the integrity of the trust of stakeholders in businesses and the fraud triangle highlights key elements that contributes to the occurrence of fraud in a firm. This study examined the effect of pressure on fraudulent financial reports of listed industrial firms in Nigerian from 2012 to 2022. The independent variable is pressure proxied as financial stability, leverage and financial targets) while the dependent variable fraudulent financial report is proxied as discretionary accruals. A sample of 10 industrial firms were drawn from a population of 13 firms. Secondary data was obtained from the audited annual reports of the selected industrial goods firms in Nigeria. Descriptives research design was adopted for analysis. Based on the Hausman test, Random effect was used to analyse the panel data. The study found that financial stability has a significant positive effect on discretionary accrual. The result reveals that leverage and financial targets have an insignificant effect on discretionary accruals. The study concludes that pressure is capable of increasing fraudulent financial reports in industrial firms if not checked. The study recommends that financially stable industrial firms should prioritize transparency and conservative accounting practices to maintain and enhance their credibility in the financial markets.

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1. Background to the Study

Anyone with an interest in a company, whether they work there or not, can feel threatened by financial dishonesty. People in the general public, as well as investors, creditors, employees, regulators, and external auditors, are all considered stakeholders. Investors' money goes down the drain, workers' income goes out the window, and society's economy takes a nosedive as a result of fraud. Worldwide, victims of financial crimes have seen their wealth eroded. Such as the infamous energy scandal involving Enron, WorldCom, Ted Baker, Cadbury Nigeria Plc, and America Lehman Brothers. The result has been a worsening scenario for many organisations and an unprecedented and unprecedented strain on managers' personal resources, leading to an unquenchable need for more money to make ends meet.

According to Omoolorun and Abilogun (2017), these have led to many managers forgetting to carry out their duties with the core values of professionalism such as integrity, accountability and responsibility. This 21st century menace has resulted into pressure for different criminal activities in the corporate world, even in our entire society causing corporate failures.

According to Moses (2018), financial reports can be fraudulent if they contain intentionally false or misleading information with the goal to mislead readers. Having said that, there are instances when management's presentation of financial accounts to outside parties does not guarantee that the information being conveyed is accurate. Companies can be motivated to modify and submit misleading financial accounts in order to make them look good to other stakeholders (Abirolo & Olorunfemi, 2020).

PwC's Global Economic Crime and Fraud Survey (2021) shows that the percentage of organizations experiencing fraud has remained proportionately steady since 2018. However, the survey of 1,296 executives across 53 countries and regions found a rising threat from external perpetrators (bad actors) that are quickly growing in strength and effectiveness. Nearly 70% of organizations experiencing fraud reported that the most disruptive incident came via an external attack or collusion between external and internal sources.

Based on the importance of fraud detection, this study will analyze whether the factors contained in the fraud triangle perspective have been empirically proven to influence the possibility of fraudulent financial reports on listed industrial goods firms in Nigeria. Arising from the above, the study postulate thus:

$H0_1$: Financial stability does not have a significant effect on discretionary accrual of listed industrial goods firms in Nigeria

$H0_2$: Leverage does not have a significant effect on discretionary accrual of listed industrial goods firms in Nigeria

$H0_3$: Financial target does not have a significant effect on discretionary accrual of listed industrial goods firms in Nigeria

Literature review, methods, results, discussions, conclusion, and suggestions make up the rest of the work.

2. Literature Review

This section house conceptual review as well as theoretical and empirical studies.

2.1 Conceptual Review

The conepts of pressure and fraudulent financial report are discussed thus:

2.1.1 Pressure

According to Huang et al. (2017), pressure, which can originate from inside or outside the organisation, is the single most important element that can lead to fraud. One example of an internal influence is the pressure that employees are under from within the organisation to meet certain financial goals and ensure financial stability. Financial stability, leverage, and financial target are the metrics used to quantify pressure. A financial necessity, a moral need (such as retaliation against an employer), or both might serve as impetuses for dishonest behaviour, say Okafor and Egbunike (2022). When this happens, it's because the person is driven to conduct deception. When a business is financially stable, it means it is in a secure position. According to Skousen (2008), managers are tasked with ensuring that the company's finances remain stable. Management may be more likely to engage in dishonest financial activities if they perceive a danger to the company's financial viability. Management will face mounting pressure to commit financial statement fraud when financial stability or profitability is below average as a result of dangers posed by economic conditions, operating entities, or industries.

Leverage is the amount of debt that an entity uses to buy more assets. Leverage is employed to avoid using too much equity to fund operations (Gu, 2008). An excessive amount of leverage increases the risk of failure, since it becomes more difficult to repay debt (Serly & Eddy, 2020). This increases the pressure on management to commit fraud on the financial statement. Sholihah (2014) views financial target as excessive pressure on management to achieve the company's financial targets. Corporate managers have a responsibility of an agent to perform their best and aim to achieve the financial targets that have been set by shareholder (Sihombing & Rahardjo, 2014). Shareholders have a goal to get a high return on their investment. Therefore, companies usually have financial objectives: wider revenue growth, faster profit growth, wider profitability, higher share, higher stock returns, rising share prices, recognition as a blue-chip company as well as more stable profits in recession periods. Consequently, due to many unrealiistic financial objectives that must be achieved management will have excessive pressure to meet the company's financial targets (Robbins & Mary, 2004).

2.1.2 Fraudulent Financial Reporting

Financial reports consist of accounting information records for a company over a business cycle or one year. Companies can demonstrate the state of their financial health and performance through financial statements (Okwo, 2022). Understanding the financial position and performance of a company is crucial in revealing how employers have utilised company assets to generate revenue over time. Financial statements must be presented with integrity, accountability, and fairness in accordance with Generally Accepted Accounting Principles (GAAP). Deliberately misrepresenting the financial report suggests a fraudulent financial report. Engaging in deceptive practices can be considered unethical if a manager is aware of inaccuracies in the financial statements and fails to provide proper justification (Zimbelman et al., 2014).

financial reporting is an omission or elimination of amounts or disclosures that are intentionally carried out to deceive its users. According to Reskino and Anshori (2016), fraudulent financial report is an act usually carried out by the management that misleads the investors regarding the company performance. This deceptive act is intentionally done to bias the material facts, and to mislead the accounting information that can affect or change the user's decision and assessment after considering the wrong facts that have been presented.

2.3 Theoretical Review

This section of the study reviews fraud triangle theory,

2.3.1 Fraud Triangle Theory

Fraud triangle theory is an idea propose to investigate the causes of fraud. Reasons people commit fraudulent activities was first examined by Cressey Donald, a criminologist in 1950s. The idea was later coined by the researcher in 1973, which he called the fraud triangle or triangle cheating.

In an attempt at explaining fraud in accounting, Cressey (1953) proposed the following elements of fraud (Pressure, Opportunity, and Rationalization). This fraud triangle theory is noted to be one capable of explaining the elements that cause fraud. Onibudo (2007) state that, for fraud to occur there must be three elements which he identifies as "WOE". This means the Will, Opportunity and Exit, these in-turn referring to fraud triangle, which is pressure, opportunity and rationalization.

Pressure is the first component of fraud triangle proposed by Cressey. Romney and Steinbart (2012) define pressure as a key motivating factor for individual to indulge in unethical behavior called fraud. Pressure is a condition where a person is having the urge to take deviant actions when experiencing financial difficulties caused by conditions that are un-shareable. Pressure is a factor that motivate the perpetrator to misrepresent the financial reporting. In this instance, the pressure will drive management to misrepresent financial reports toward achieving a certain degree of profit or financial stability even if the method can violate the law. Thus, the pressure the perpetrator faces leads them to behave irrational by committing an illegal act to solve the underlying problem in the organization (Yuniasih et al., 2020).

2.3.2 Agency theory

The agency theory was formulated by Jensen and Meckley in 1976. This study will address the concept of fraud, specifically fraudulent financial reporting, through the lens of agency theory. The relationship between managers and shareholders of the firm is embedded in agency theory. This relationship has the potential to significantly impact the decision-making process within the firm, ultimately affecting the overall performance and outcomes of the organisation. Therefore, agency theory focuses on the possibility of conflicting interests and goals between parties involved in a transaction, leading to actions that benefit one party while harming the other.
The agent effectively utilises company assets and engineers company performance as part of management activities. This statement aligns with Poll's (2004) findings, which suggest a strong correlation between earnings management and financial statement fraud.
If the earnings management action is not addressed and goes unnoticed by the owner, it can potentially lead to a financially misleading statement, which is a serious concern.

2.3.3 The Clark Study Theory

The Clark study theory is highly significant when it comes to fraudulent financial reports. This theory was initially proposed by Richard C. Hollinger, who suggested that employees engage in

theft primarily due to the conditions in their workplace. Furthermore, he concluded that the actual costs of employee fraud are significantly underestimated (Hollinger, 1976). According to this theory, Hollinger suggests that external economic pressures can drive employees to engage in fraudulent activities. This situation, as described by Safiq and Seles (2018), involves an overwhelming amount of pressure on employees to meet the demands and expectations of external parties in order to fulfil their obligations.
Every employee may be inclined to engage in unethical behaviour (assumes the potential for unethical behaviour exists in the workplace) According to Henrich et al. (2001), individuals engage in dishonest behaviour after carefully considering the potential benefits and drawbacks associated with their actions. Just like a certified management accountant (CMA), employees internalise the norms and values of their society as part of socialisation. These norms and values serve as an internal benchmark against which a person compares their behaviour. Employees can categorise their actions into more compatible terms and find justifications for their actions. In Nigeria for instance, employees often use slogans such as "it's our national cake" to express their dedication to their company.

2.3.4 Signaling theory

Signalling was initially observed in the research of Akerlof and Arrow, focusing on job and product markets. Spence (1973) later expanded on this concept, developing signal equilibrium theory. Signalling theory is valuable for understanding the behaviour of two parties: the organisation and stakeholders who possess varying levels of information. Usually, the sender is the one who decides when, if, and how to communicate or signal the relevant information of the company. On the other hand, the receiver is responsible for determining how to interpret the communicated information or signal of the company. Hugo (2019). Signalling theory focuses on minimising information gaps among the organisation, shareholders, and stakeholders.
However, in an attempt to showcase their exceptional performance, management of a company may resort to creating a deceptive financial report. Furthermore, the theory suggests that managers manipulate earnings to communicate their knowledge of the company's future prospects, serving as a signalling mechanism. Managers engage in deceptive practices to manipulate financial reports and artificially boost stock prices.

2.4 Empirical Review

This section reviews prior research studies into the effect of pressure element on fraudulent financial report thus;
Djatnicka et al (2023) examined Fraud Triangle Perspective in detecting financial statement fraud using the beneish m-score model in property and real estate companies. The study used data from listed property and real estate companies on the Indonesia stock exchange. The analysis technique in the study was logistic regression analysis. The dependent variable was financial statement fraud proxied by M-score. On the other hand, the independent variables were financial stability proxied by change in assets (ACHANGE), external pressure proxied by leverage ratio (LEV) and financial target proxied by return on assets (ROA). The results of the study showed that financial stability and financial targets both have a positive effect on fraudulent financial statements. Meanwhile, external pressure has no positive effect on fraudulent financial statements.

Herbenita et al (2023) examined the potential of fraud financial statements in fraud triangle in manufacturing companies in Indonesia in 2016 - 2020. the study employed logistic regression supported by EViews 12 software to analyze its data. The dependent variable consisted was financial statement fraud while the independent variables in the study consisted of financial stability, financial target, personal financial need, external Pressure, Opportunity, and rationalization. The results of the study indicated that financial stability, financial targets, and personal financial needs significantly affect fraudulent financial statements. In contrast, external Pressure, Opportunity, and rationalization have no significant effect on fraudulent financial reports.

Narsa et al (2023) examined the fraud triangle and earnings management based on the modified M-score: on manufacturing companies listed on the Indonesia Stock Exchange in the period 2017–2019. The study was carried out based on the logistic regression test and t-test. The variables used were the dependent variable earnings management proxied modified M-score and independent variable pressure; Financial Stability proxied by assets growth, leverage proxied by total debt and financial target proxied by return on assets (ROA). Opportunity; Nature of Industry proxied by receivables and Effectiveness of Supervision proxied by independent commissioner. Rationalization proxied by Auditor Changes. The study reported that financial stability, nature of industry and effectiveness of supervision shows a negative relationship with earning management.

Sudirman (2023) examined the effect of pressure, opportunity, rationalization on fraudulent financial statements in banking companies in South Sulawesi. The study used quantitative descriptive research method and multiple regression analysis with a significance level of 5%. The variable consisted of fraudulent financial statement and pressure proxied by external pressure, opportunity proxied by ineffective monitoring and rationalization proxied by total accruals. Based on the results of data analysis, the study found that all the component of fraud triangle from Pressure opportunity and rationalization have a positive effect on fraudulent financial statements.

Uwah et al (2023) investigated the accounting ratios and false financial statements detection on firms listed on the Nigerian Exchange Group PLC. Data obtained were analyzed using descriptive statistics, Pearson correlation and Pooled Data Binary logit regression analysis. The dependent variable was false financial statements proxied by probability of false financial statement. While the independent variables consisted of profitability ratios proxied by return on assets (ROA) and leverage ratios proxied by total debt (LEV). The findings of the study suggested that profitability has a positive relationship with false Financial Statement detection.

3. Methodology

This study adopts an ex post facto research design. The population of this research consist of all listed industrial goods firms in Nigeria for 11 years, from 2012-2022. The selection of industrial goods firms as population is because they are a driving force in the economy; they contribute to country revenues.

This study uses two variables, namely the dependent and independent variables. The dependent variable is fraudulent financial reports proxied by discretionary accruals, while independent variable is pressure measured by financial stability, leverage and financial target. The study's model is adopted from Manurung and Hadian (2013) Suryandari et al. (2019) Abiloro and Olorunfemi (2021), Narsa et al (2023), and modified thus:

$$DACC_{it} = \alpha_{it} + \beta_1 FS_{it} + \beta_2 LEV_{it} + \beta_3 FT_{it} + \varepsilon_{it}$$

Where,

DACC – discretionary accruals
FS – financial stability
LEV – Leverage
FT – Financial target
β_1 β_5 – Beta coefficient
α – constant
ε – error terms
it – identifier and time

Table 3.3: Description of variables

S/N	Variable	Measurement	Source
1.	Discretionary Accruals	measured by using the Modified Jones Model	Manurung & Hadian (2013)
2.	Financial stability	Measured as the asset growth which is current total asset minus previous total assets divided by current total asset	Narsa et al. (2023)
3.	Leverage	Measured as total debt divided by total asset	Manurung & Hadian (2013)
4.	Financial target	Measured as earnings after tax divided by total asset	Narsa et al. (2023)

4. Results and Discussion

Table 4.1: Summary Statistics

VARIABLE	OBS	MEAN	STD. DEV	MIN.	MAX.
DAAC	72	2.067	15.744	-44.158	87.388
FS	72	1.75	3.95	0.924	2.09
LEV	72	0.673	0.813	0.322	5.011
FT	72	0.832	0.182	-0.506	1.05

Table 4.1 shows the descriptive statistics of the variables used in the study. From the analysis, the mean value of fraudulent financial reports measured as discretionary accruals for industrial goods firms is 2.07% with a standard deviation of 15.7%. It also has a minimum and maximum value of -44.15% and 87.38% respectively. The standard deviation of 15.7% shows the extent of dispersion or deviation of the data from the mean. However, the minimum and maximum values reveal that industrial goods firms engaged in discretionary accruals but some firms are more aggressive than others due to different level of pressure imposed by the stakeholders.

The average value of financial stability is N1.75 billion with a deviation of N3.95 billion. The minimum and maximum values are N924 million and N2.09 billion respectively. The deviation from the average is not much while the minimum and maximum value shows that the difference in financial stability of industrial goods is much.

Table 4.1 also shows that average leverage of industrial goods which is pegged at 67.3% with a dispersion of 81.2%. The minimum and maximum leverage used by industrial firms are 3.2% and 501% respectively. This shows that industrial goods firms use lots of debts in its funding. The average of financial target which shows that earnings based on total asset employed is 8% with a wide dispersion of 18.3%. The minimum and maximum values are pegged at -5% and 105% respectively.

Table 4.2: Summary Random Effect Regression Results

CBEM	Beta Coef	Z-values	P -value
FS	2.2207	8.85	0.000
LEV	1.47	1.76	0.079
FT	-2.55	-0.83	0.409
Constant	.0763733	3.10	0.002
R^2		0.3789	
Prob > F		0.0000	
Obs		72	

Source: Researcher's Computation Using STATA Version 16

Table 4.5 shows the coefficient of determination (R^2), which explains that 38% of the variations in the fraudulent financial reports of listed industrial goods firms can be explained by pressure to commit fraud proxied as financial stability, leverage and financial targets, nature of industry, effective monitoring, auditor changes.

4.1 Test of Hypotheses:

Hypothesis one

The random effect result in table 4.5 shows that financial stability has a coefficient of 2.22207 and a z score of 8.85 with a probability value of 0.000. Therefore, the null hypothesis is rejected and the alternate which states that financial stability has a positive significant effect on fraudulent financial reporting (discretionary accrual) of listed industrial goods firms in Nigeria is accepted. The study signifies that an increase in financial stability result to an increase in discretionary accrual by 222%.

Hypothesis two

Table 4.5 shows that the effect of leverage on fraudulent financial reporting (discretionary accruals) has a coefficient of 1.47 and a z score of 1.76 with a probability value of 0.079. The null hypothesis is accepted because the probability value is above 5% threshold. Therefore, leverage does not have significant effect on discretionary accruals in industrial firm in Nigeria.

Hypothesis three

Table 4.5 shows that effect of financial target on discretionary accruals. The result revealed that the coefficient is -2.55 with a probability of 0.409. Hence, the null hypothesis which states that financial target has no significant effect on discretionary accrual on listed industrial goods firms is accepted because the probability value is above 5%.

4.2 Discussion of the Findings

The findings of the study on the effect of fraud triangle on fraudulent financial reporting are discussed below.

4.2.1 Financial stability and discretionary accruals

The result reveals that financial stability has a significant positive effect on discretionary accrual. This implies that a unit increase in financial stability will result to an increase in discretionary accrual. This finding is consistent with the findings of Djatnicka et al (2023), Elfina and Arfianti (2023), Herbenita et al (2023) and Rahman et al (2020) but in contrast to Sabatian and Hutabarat (2020) and Rahayu (2020) who found that financial stability does not affect fraudulent financial reports.

The positive effect of financial stability on discretionary accruals could be explained by the idea that financially stable companies may have more flexibility and less pressure to manipulate their financial statements compared to companies facing financial distress. Stable companies might be less incentivized to engage in earnings management practices through discretionary accruals, as they are not facing immediate financial constraints. Financially stable firms may prioritize transparency and conservative accounting practices to maintain and enhance their credibility in the financial markets. This emphasis on transparency could result in lower levels of discretionary accruals as managers may be more inclined to adhere to conservative accounting principles.

On the contrary, financially distressed companies might be more tempted to engage in earnings management practices through discretionary accruals to meet short-term financial targets or to present a more favourable picture to stakeholders.

4.2.2 Leverage and discretionary accruals

The result reveals that leverage has an insignificant effect on discretionary accruals. This finding is consistent with the findings of Tjen et al (2020) and Uwah et al (2023) but deviates from the findings of Serly and Eddy (2020) who found that leverage had a significant negative effect on discretionary accurals

The relationship between leverage and discretionary accruals can be influenced by various factors, including the financial health of the company, management incentives, and external regulatory environments. Research suggested that firms with high levels of leverage may be more prone to engaging in earnings management activities, including the manipulation of discretionary accruals. High leverage could create financial pressure on management to meet debt obligations or satisfy expectations of stakeholders, potentially leading to a willingness to use discretion in accounting estimates. On the other hand, studies such as those by Jones (1991) and Roychowdhury (2006) have indicated that firms with low leverage might also exhibit elevated levels of discretionary accruals. The reasoning is that managers in low-leverage firms may feel less constrained by debt-related concerns, providing them with greater latitude to manipulate accruals to achieve certain financial objectives.

4.2.3 Financial targets and discretionary accruals

The result reveals that financial targets have an insignificant effect on discretionary accruals. This finding is consistent with the findings of Mangeka and Rahayu (2020), Wahyuni and Budiwitjaksono (2017) but deviates from the findings of Jao, et al (2020) and Rachmania et al (2017) who found that financial target has a significant effect on fraudulent financial report.

Numerous studies have highlighted the connection between financial targets and earnings management. Firms may be motivated to meet or beat these targets to signal their financial health to stakeholders and investors. The literature suggests that financial targets can lead to the manipulation of discretionary accruals as a means to achieve these goals (Dechow et al., 1995). The regulatory environment can shape the relationship between financial targets and discretionary accruals. Stricter regulations may limit the extent to which firms can manipulate accruals to achieve their targets, while lax regulatory environments may provide greater opportunities for earnings management (Healy and Wahlen, 1999). Financial markets often react strongly to firms meeting or missing financial targets. This can create pressure on managers to use discretionary accruals strategically to influence market perceptions. Investor expectations and reactions to earnings announcements play a significant role in driving the link between financial targets and discretionary accruals (Kothari et al., 2005).

5. Summary, Conclusion and Recommendation

This study's objective is to examine the effect of pressure on fraudulent financial reports of listed industrial firms in Nigeria from 2012 to 2022. The specific objectives examined the effect of financial stability, leverage and financial targets on discretionary accruals. The null hypotheses were formulated and tested in line with the objectives using random effect regression analysis. The following are the major findings:

i. Financial stability has a significant positive effect on discretionary accrual.
ii. Leverage has an insignificant effect on discretionary accruals.
iii. Financial targets have an insignificant effect on discretionary accruals.

The study concludes that financially stable companies may have more flexibility and less pressure to manipulate their financial statements compared to companies facing financial distress. Financially stable firms may prioritize transparency and conservative accounting practices to maintain and enhance their credibility in the financial markets.

Based on the conclusion of this study, the following policy recommendations are put forward:

i. The study recommends that financially stable industrial firms should prioritize transparency and conservative accounting practices to maintain and enhance their credibility in the financial markets.
ii. The study recommends that the relationship between leverage and discretionary accruals in industrial firms should be explored using various factors, including the financial health of the company, management incentives, and external regulatory environments which are not captured in this study.
iii. The study recommends that industrial firms should strive to meet or beat these financial thresholds to signal their financial health to stakeholders and investors.

Conflicts of Interest

The authors have disclosed no conflicts of interest.

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