

Forensic Accounting and Fraud Prevention in Owner-Managed Small and Medium Enterprises (SMEs) in Ogun State, Nigeria

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ABSTRACT

This study examined forensic accounting at fraud prevention in small and medium enterprises (SMEs) with emphasis on owner – managed entities. The study adopted a cross-sectional research design, a type of observational study designed with questionnaire administered on administered on selected 165 respondents (middle and senior level staff of Accounting, Finance, Logistics, and Human Resources) in 26 selected small and medium enterprises managed by the owners/family members in Abeokuta metropolis of Ogun State, Nigeria. Simple percentage and frequency tables were used to analyse the distribution of responses and data analysed through descriptive statistics and One Sample T-Test using IBM’s SPSS Statistics 22 to test for the hypothesis formulated in the study.

The findings revealed that the application of forensic accounting, with appreciable progress in the developed world, but limited appreciation and usage in emerging economies will prevent fraud in Nigeria SMEs. The understanding of entrepreneurs’ owner-managers and their adoption of forensic accounting practices beyond the traditional auditing and investigation come to the fore. The study thus concluded that the adoption and application of forensic accounting by SMEs will greatly assist in the prevention and detection of fraud in this engine of economic growth. It therefore recommended that right attitude of SMEs owner managers, well defined business processes, controls and enhanced training on forensic accounting by academic, professional bodies and organizations is highly essential in preventing fraud not only in SMEs but in the private with no exception of the public sector.

Keywords: Small and medium enterprises (SMEs), Fraud, Forensic Accounting

INTRODUCTION

Small owner managed businesses in Nigeria, and typical of other developing economies have been characterized by high mortality within their first five years of existence as only about five or ten percent survive, thrive and grow to maturity. The mortality rate among small businesses in Nigeria is very high. Studies including Toyin, Issa and Chima (2014) indicate that most businesses do not celebrate their fifth anniversary with mortality principally linked to factors like ineffective management, inefficient accounting system, inadequate financial management, inexperience and lack of commitment on the part of operators among others.

The preponderance of fraud incidences (resulting from the foregoing) either at corporate or national levels have assumed global concern because of their devastating impacts leading to massive erosion of shareholder value, bankruptcy of corporate businesses, diminution of investor confidence, increased poverty and general societal discontent (Ogunode, O and Dada, S 2022). The study established that forensic accounting is a fundamental tool that contributes to aiding the combating of the scourge of frauds both at corporate levels

and in governmental establishments. The paper identified that unlike in developed economies, the rate and pace of adoption of forensic accounting techniques and tools in fraud prevention initiatives has been very slow. This has been due to lack of political will, poor ethical tone set by management and dearth of skilled forensic accounting professionals in emerging economies.

The Nigerian economy has been negatively impacted by economic and financial frauds over the years which have consistently grown with its attendant effect on the country economic growth and development. These frauds are common and rampant in all economic sectors and it is the bane of slow development of the Nigerian economy as a whole.

Small and Medium Enterprises (SMEs) are considered the propelling engine of growth and thus play a vital role in shaping a country's economy. They can be considered an attractive and huge innovative system. Due to the socially and economically beneficial effects of the SMEs, the sector is considered an area of strategic interest in an economy. They are crucial for local economic development, playing a noteworthy role in job creation, poverty alleviation and economic growth.

According to the World Bank, Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries. SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included. Six Hundred Million (600 million) jobs will be needed by 2030 to absorb the growing global workforce, which makes SME development a high priority for many governments around the world. In emerging markets, most formal jobs are generated by SMEs, which create 7 out of 10 jobs.

Statement of Problem

While underscoring the importance of SMEs in economic growth, they are however subject to challenges impeding these business entities. These include but not limited to Lack of clear succession plan, Financial literacy/irresponsibility, Lack of proper strategic planning, Disregard for Essential Services i.e. Insurance/Legal/Professional Services, Infrastructure, Bad Policies etc.

These challenges, principal among them are the disregard for professional service, Financial literacy/irresponsibility associated with owner managers. These in one way or the other serves as catalyst to fraud in small and medium enterprises (SMEs). Fraud is a debilitating factor that affects business growth and a major problem for many organizations especially SMEs since they have smaller resources to both prevent and recover from a fraud. SMEs have fewer anti- fraud controls hence they are more vulnerable to fraud (Olufemi A. and Johnson A. 2019) In a bid to reduce fraud and manage the risks proactively, SMEs needs to identify factors leading to fraudulent behavior.

Objective of the Study

The main objective of this study is to examine the significance of forensic accounting in the prevention of fraud in owner – managed small and medium enterprises (SMEs). The hypothesis stated in null form serves as a guide to the study.

Hypothesis

There is no significant relationship between forensic accounting and fraud prevention in Owner-Managed Small and Medium Enterprises (SMEs) in Nigeria

LITERATURE REVIEW

Fraud prevention is a forward thinking rather than a reactive process. It is the sum total of measures taken to anticipate and forestall the occurrence of frauds. When properly done, it is capable of preserving organizational reputation, enhancing enforcement of laws and deterring crime and criminals and consequently maintenance of criminal justice (Oladipo and Olurotimi, 2021). According to Ogwiji and Lasisi (2022), fraud prevention as a practice would only yield positive results if the organization enthrones an ethical culture which is supported by a sound internal control system. Among other options, a number of scholars have suggested that one of the principal tools to achieve fraud prevention on a sustainable basis is the application and deployment of forensic accounting techniques (Kumari and Mangala, 2015; Dada, Owolabi and Okwu, 2015; Ehioghiren & Atu, 2016; Sule and Sani, 2019; Okoye and Ndah, 2019; Obafemi, 2021). According to the PWC's Global Fraud Report of 2022, over half (52%) of all surveyed corporate entities having revenues in excess of \$10bn documented having experienced one form of fraud or the other within the last twenty-four (24) months. In particular, the report identified cybercrimes as the primary form of fraud now confronting corporate firms thus further underscoring the need for the usage of forensics and forensic accounting techniques to address same.

Theoretical Framework

This paper adopted the following theories for its work, rotten apple theory and fraud diamond theory. The purpose of adopting the aforementioned theories for this study is that they captured the essence of the work.

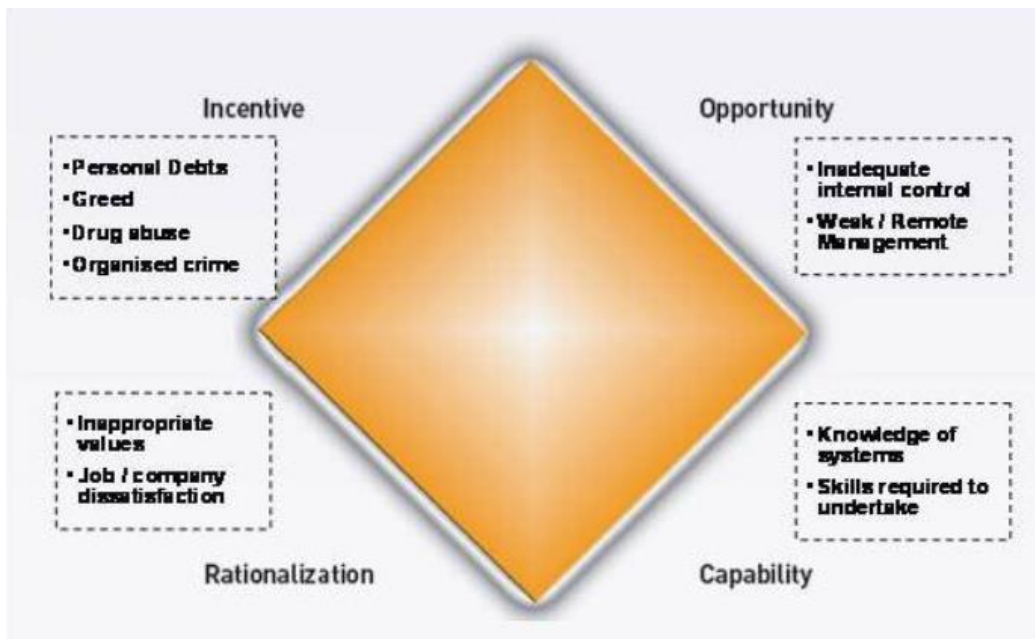
Rotten Apple Theory Ashforth, B. E. & Trevino, L. K. (2008)

Argue that it is comforting to assume that one bad apple or renegade faction within an organization is somewhat responsible for the crime we too often observe. However, organizations are important to our understanding of crime, because they influence the actions of their members. Therefore, both micro and macro views are important to understand crime. It is certainly an interesting issue whether to view white-collar misconduct and crime as acts of individuals perceived as 'rotten apples' or as an indication of systems failure in the company, the industry or the society as a whole. The perspective of occupational crime is favoring the individualistic model of deviance, which is a human failure model of misconduct and crime. This rotten apple view of white-collar crime is a comfortable perspective to adopt for business organizations as it allows them to look no further than suspect individuals. True leaders can inspire their employees to reach new heights of personal growth and career development. They can be role models who help create a new generation of corporate leaders. Employees want to emulate the leaders they see at their companies. Executives and managers who lead by example in compliance and integrity lessen the risk of fraud by their employees. Unfortunately, the opposite also applies. Poor leaders who lack character and integrity, and who turn to fraud and abuse, can damage the people they lead.

The Fraud Diamond Theory Wolfe and Hermanson (2004)

The Fraud Diamond Theory (FDT) was first presented by Wolfe and Hermanson in the Certified Public Accountant (CPA) Journal (December 2004). It is generally viewed as an expanded version of the Fraud Triangle Theory. Figure 2.2 presents the diagram for FDT. In this theory, an element termed capability has been added to the three initial fraud elements of the Fraud Triangle Theory. Wolfe and Hermanson argued that although perceived pressure or incentive might coexist with an opportunity to commit fraud and a rationalization for doing so, it is unlikely for fraud to take place unless the fourth element (i.e., capability) is also present. In other words, the potential perpetrator must have the skills and ability to commit fraud.

Figure 2.1: The Fraud Diamond Theory



Source: Wolfe and Hermanson (2004)

According to the study “Opportunity opens the doorway to fraud, and incentive (i.e. pressure) and rationalization can draw a person toward it. However, the person must have the capability to recognize the open doorway as an opportunity and to take advantage of it by walking through, not just once, but repeatedly”. With the additional element presented in the FDT affecting individuals’ decision to commit fraud, the organization and auditors need to understand employees’ individual traits and abilities in order to assess the risk of fraudulent behaviours in the public sector.

The elements of FDT are interrelated to the extent that an employee cannot commit fraud until all of the elements are present. The theory proposes that pressure can cause someone to seek opportunity, and pressure and opportunity can encourage rationalization. At the same time, none of these two factors, alone or together, necessarily cause an individual to engage in activities that could lead to fraud until the fraudster has the capability to do so. The additional element, i.e., capability is what differentiates the FDT and FTT.

Capability

This is the situation of having the necessary traits or skills and abilities for the person to commit fraud. It is where the fraudster recognised the particular fraud opportunity and ability to turn it into reality. Position, intelligence, ego, coercion, deceit and stress, are the supporting elements of capability. Study also shows that not every person who possessed

motivation, opportunities, and realisation may commit fraud due to the lack of the capability to carry it out or to conceal it. This element is particularly important when it concerns a large-scale or long-term fraud. Furthermore, only the person who has an extremely high capacity will be able to understand the existing internal control, to identify its weaknesses and to use them in planning the implementation of fraud.

Position/Function

The theory further opines that the person’s position or function within the organization may furnish the ability to create or exploit an opportunity for fraud not available to others. A research has also found that

corporate CEOs were implicated in over 70 percent of publicly-company's accounting frauds. They also report that many organizations do not implement sufficient checks and balances to mitigate their CEO's capabilities to influence and perpetuate frauds. Additionally, when people perform a certain function repeatedly, such as bank reconciliations or setting up new vendor accounts, their capability to commit fraud increases as their knowledge of the function's processes and controls expands over time.

Intelligence/Creativity and Ego

The fraudster is someone who understands and capable of exploiting internal control weaknesses and using the position; function or authorized access to the greatest advantage. Intelligent, experienced, creative people with a solid grasp of controls and vulnerabilities, commit many of today's largest frauds. This knowledge is used to leverage the person's responsibility over or authorized access to systems or assets.

The Fraud Diamond Theory which was an improvement over the Fraud Triangle theory underpins this study. The justification are principally the two elements of the theory viz Opportunity and Capacity that emphasizes the lack of relevant preventive controls in organisations which allows for perpetration of fraud by individuals with the knowledge and skill to commit fraud.

Definition and Importance of SMEs in Developing Countries

As with any other component of an economy, the size and importance of the SME sector varies from country to country; the last few decades have seen an increasing recognition of the role it plays in industrial countries, something already more obvious for developing nations from the 1970s or so. SMEs are important to almost all economies in the world, but especially to those in developing countries (Berry, 2007). There is considerable interest in SMEs in developing countries. There are probably two main reasons for this. One is the belief that SME development may prove to be an effective antipoverty programme. The second is the belief that SME development is one of the building blocks of innovation and sustainable growth. These two reasons are of course linked because most of the international evidence says that growth and real poverty reduction go hand in hand. If SME development helps growth, more than likely it helps reduce poverty as well (Warner, 2001: 61)

SMEs contribute substantially to a stable economic environment and to the development of the economy. To achieve stable economic development the business of SMEs must be supported. They need especially financial and consulting services which help them to overcome difficulties during the start-up phase or to carry out their normal business activities. (Güttler, 2001:89)

Developing countries without substantial SME sectors (hence often described as having—missing middle in their firm size structure) tend not only to have capital and the income from it concentrated in the larger firms but also to have a —labour elite in that sector, able to bargain for wages much higher than else where in the economy.

SMEs definitions can be based on number of employees, capital, investment, product or service turnover, networth, sales volume, range of markets, or amount and type of energy used in production (Buyukcban & Unkaya, 2016)

Definition and Types of Fraud

Fraud is an intentionally deceptive action designed to provide the perpetrator with an unlawful gain or to deny a right to a victim. It is a generic term used to describe any deliberate act to deceive or mislead another person, causing harm or injury (Razae, 2002). Types of fraud include tax fraud, credit card fraud, wire fraud, securities fraud, and bankruptcy fraud. Fraudulent activity can be carried out by one individual,

multiple individuals or a business firm as a whole. Fraud involves the false representation of facts, whether by intentionally withholding important information or providing false statements to another party for the specific purpose of gaining something that may not have been provided without the deception.

Often, the perpetrator of fraud is aware of information that the intended victim is not, allowing the perpetrator to deceive the victim. At heart, the individual or company committing fraud is taking advantage of information asymmetry; specifically, that the resource cost of reviewing and verifying that information can be significant enough to create a disincentive to fully invest in fraud prevention. Fraud thus entails concealment, nondisclosure and misrepresentation.

Researchers often divide fraud into two main categories: financial statement and occupational fraud. Financial statement fraud is the deliberate misrepresentation of a company's financial statements, whether through omission or exaggeration, to create a more positive impression of the company's financial position, performance and cash flow. On the other hand, The Association of Certified Fraud Examiners (ACFE) defines occupational fraud as "using one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets."

Main causes of SME Fraud

Some researchers (Alkali et al., 2012; Ekechi, 1990; Ovuakporie; 1994) have confirmed that some factors such as poor internal control, poor hiring practices, lack of accountability, poor ethical values and poor physical security trigger employee fraud within Nigerian SMEs (Hamilton and Gabriel, 2012). However, Wells (2005) posited that the main causes of fraud are pressure, opportunity and rationalization. Wells submitted that if all three of these elements are present, it is highly possible that an individual will commit fraud. Opportunity refers to a situation where a loophole in a system is exploited by someone to carry out and conceal a fraudulent act. Three actions are however required to constitute an opportunity for fraud. These include:

- Occupation of a position of power.
- Clear understanding of the control system of the organization thus able to circumvent it.
- Access to the assets of the business often resulting from the lack of adequate internal controls that typifies many SMEs (Romney & Steinbart, 2003).

Rationalization refers to an individual's justification for committing fraud. Examples of common rationalizations that fraud committers use include:

- "They treated me wrong" An individual may be spiteful towards their manager or employer and believe that committing fraud is a way of getting payback.
- "Upper management is doing it as well" A poor tone at the top may cause an individual to follow in the footsteps of those higher in the corporate hierarchy.
- "There is no other solution" An individual may believe that they might lose everything (for example, losing a job) unless they commit fraud.

An act of fraud typically involves not only the commission of the scheme itself, but also efforts to conceal the misdeeds. According to ACFE report (2018) top concealment methods used by fraudsters are:

- Creation of fraudulent physical documents
- Altered physical documents
- Creation of fraudulent transactions in the accounting system
- Alternation of electronic documents or files

- Destruction of physical document
- Creation of fraudulent journal entries.

Fraud atmosphere prevalent in developing countries SMEs

While fraud is a general phenomenon in corporate world, the formal structural and business process inadequacies prevalent in developing countries SMEs serves as catalyst. These include the following among others:

- Record keeping
- Segregation of duties or independent checks
- Job applicant screening
- Oversight of senior management expenditure
- System of authorization and approval of transactions
- Timely and appropriate documentation of transaction
- Timely reconciliation of assets
- Internal control by management
- Transactions authorizations

Effect of Fraud on SMEs

Fraud in whatever form has dire consequences on the potential going concern of any business. It is a silent and sudden killer of businesses and any system including the sociopolitical system. Fraud is therefore highly destructive to both small business owners and employees.

The work Aladejebi O and Oladimeji A (2019) captured the following opinion of researchers on the effects of fraud generally but well applicable to SMEs:

- Deceitful business practices affect all stakeholders of the organization including community, vendors, customers and others (Jackson, Holland, Albrecht, & Woolstehulme, 2010).
- The effect of occupational fraud is greater on SMEs compared to big businesses (Jackson, Holland, Albrecht, & Woolstehulme, 2010).
- Employee's theft is a serious threat to the success of small business, which often have a meagre profit (Moorthy, Seetharaman, Somasundaram, & Gopalan, 2009).
- KPMG (2013) asserted that financial loss is the ultimate result of fraud to any fraudulent activities
- have a significant impact on businesses
- (Omar, 2012). Organizations of all nature and size are not immune to fraud, from SMEs to large corporations, either profit or non-profit oriented organizations (Rahman & Anwar, 2014; Lowers, 2014)
- Fraud is assumed to be more severe on small companies than larger one (Bierstaker, Brody, & Pacini, 2006; CIMA, 2008).
- Losses at small companies can be hundred (100) times greater than that of larger companies, on the basis of per employee (Bierstaker et al, 2006; CIMA, 2008).
- Fraud is extremely destructive for small businesses, given that it accounts for a considerable proportion of failures (Jackson et al, 2010).
- Regardless of the size, Gupta and Gupta (2015) assert that fraud leads to the untimely closure of businesses and destroys investor
- Bierstaker et al; (2006) note that fraud can cause harm to external relationships with various stakeholders, reduction of employee morale, tarnish organizations reputation, hinder the effectiveness of organizational branding.

RESEARCH DESIGN

The paper adopted a cross-sectional research design which is a type of observational study design. This is used for population-based surveys and the studies can usually be conducted relatively faster, inexpensive and can provide a useful springboard to further research. The research design was used to measure forensic accounting and fraud prevention in owner – managed small and medium enterprises (SMEs) in Ogun State of Nigeria. The use of questionnaire administered on selected 165 respondents (middle and senior level staff of Accounting, Finance, Logistics, and Human Resources) in 26 selected small and medium enterprises managed by the owners/family members in Abeokuta metropolis, Ogun State of Nigeria constitutes the primary sources of data.

Population of the Study

The population of study consists of middle and senior accounting and administrative staff of owner managed SMEs in Ogun State. In view of the experience and skill levels/knowledge of these staff, this accessible population was used.

Method of data analysis

Simple percentage and frequency tables were used to analyse the distribution of responses. A summary of responses from the questionnaire was designed in the five-response option of Likert-scale and administered from 165 personnel of SMEs, and data are analysed through descriptive statistics and One Sample T-Test using IBM's SPSS Statistics 22. Alpha level of 5% was set at a degree of freedom of (n-1). The formula for One sample T-Test is stated as

$$t = \frac{\bar{x} - \mu}{\frac{s}{\sqrt{n}}}$$

Where,

t = calculated value of t

s = standard deviation whose formular is

$$s = \sqrt{\frac{\sum X^2 - \frac{(\sum X)^2}{N}}{N - 1}}$$

\bar{X} = sample mean whose formular is

$$\frac{\sum X}{N}$$

μ = population mean which is unknown.

The One Sample T-Test was computed around this expected mean and the result compared with p-value at alpha level of 5% and degree of freedom. The use of One Sample T-Test is justified in this case because the population standard deviation is unknown. A z-test in this instance will need to use the sample standard deviation to estimate population standard deviation. This will result in a little loss of accuracy when compared with the T-Test. However, since the sample size is large (n>30) the two test statistics will in this instance give the same result

Decision Rule

1. Accept the null hypothesis (H0) if $t\text{-cal} < t\text{-tab}$, this implies that the alternative hypothesis (H1) will be rejected.
2. Reject the null hypothesis (H0) if $t\text{-cal} > t\text{-tab}$, this implies that the alternative hypothesis (H1) will be accepted.

Reliability test of research instrument

This was done using Cronbach Alpha at 5% level of significant. Cronbach’s alpha is the most common measure of internal consistency (‘reliability’). It is most commonly used when you have multiple Likert questions in a questionnaire that form a scale and one wish to determine if the scale is reliable.

Cronbach’s basic equation for alpha

$$\alpha = \frac{n}{n - 1} \left(1 - \frac{\sum v_i}{V_{test}} \right)$$

n = number of questions

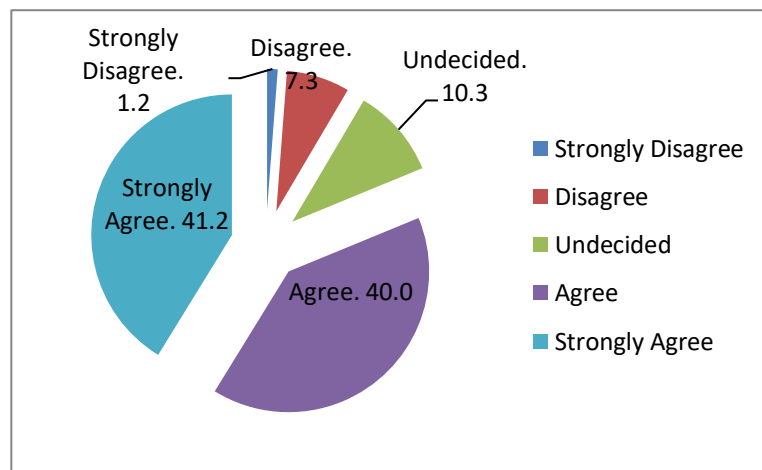
Vi = variance of scores on each question

Vtest = total variance of overall scores on the entire test.

ANALYSIS AND RESULTS

Table 4.1: Analysis of average cumulative frequency: Examining the need for proactive rather than reactive application of forensic accounting for preventing fraud in Owner Managed SMEs in Nigeria.

	Frequency	Percent
Strongly Disagree	2	1.2
Disagree	12	7.3
Undecided	17	10.3
Agree	66	40.0
Strongly Agree	68	41.2
Total	165	100

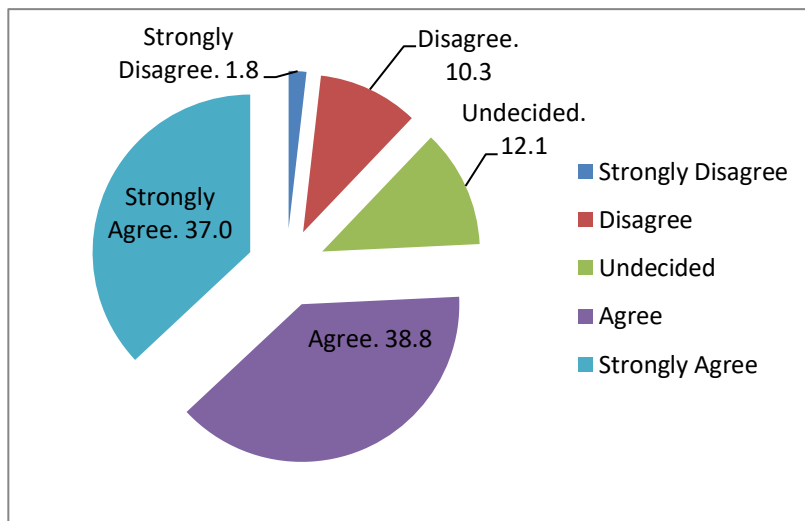


Source: Field Survey, 2023

Table 4.1 shows the average cumulative frequency of each respondents, 7.3% of the respondents choose disagree, 1.2% choose strongly disagree, 10.3% choose undecided, 40% choose agree and 41.2% choose strongly agree. This indicates that majority of the respondents strongly agree with the above that proactive rather than reactive application of forensic accounting will prevent fraud in owner managed SMEs in Nigeria

Table 4.2: Analysis of response – average cumulative frequency: evaluating the need for formal structures and business processes necessary for forensic accounting towards fraud prevention in owner managed SMEs.

	Frequency	Percent
Strongly Disagree	3	1.8
Disagree	17	10.3
Undecided	20	12.1
Agree	64	38.8
Strongly Agree	61	37.0
Total	165	100

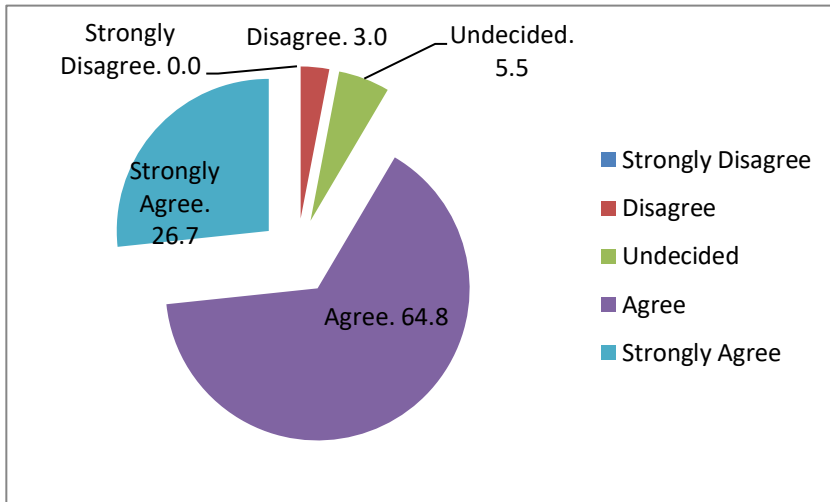


Source: Field Survey, 2023

Table 4.2 shows the average cumulative frequency of each respondents, 10.3% of the respondents choose disagree, 1.8% choose strongly disagree, 12.1% choose undecided, 38.8% choose agree and 37% choose strongly agree. This indicates that majority of the respondents strongly agree with need for existence of formal structures and business processes necessary for forensic accounting towards fraud prevention in owner managed SMEs.

Table 4.3: Analysis of response -average cumulative frequency: Utilization of forensic accounting tools effectively serves to prevent fraudulent, financial and non-financial malpractices in owner managed SMEs.

	Frequency	Percent
Strongly Disagree	0	0.0
Disagree	5	3.0
Undecided	9	5.5
Agree	107	64.8
Strongly Agree	44	26.7
Total	165	100



Source: Field Survey, 2023

Table 4.3 shows the average cumulative frequency of each respondents, 3% of the respondents choose disagree, 5.5% undecided, 64.8% choose agree and 26.7% strongly agreed. This indicates that majority of the respondents agreed that the utilization of forensic accounting tools effectively serves to prevent fraudulent, financial and non-financial malpractices in owner managed SMEs.

Reliability Test

Cronbach’s Alpha is used for measuring the internal consistency of the questionnaire. A total number of questions in the questionnaire is 31 including 25 testing variable and 6 related to demographic information. Hence a number of questions in the below Cronbach’s Alpha test are 25.

Table 4.4: Cronbach’s Alpha Reliability Test

Cronbach’s Alpha	No of Items
0.647	25

Source: Researcher’s computation using IBM SPSS Statistics 22

The above Cronbach’s Alpha reliability test resulted in an overall score of 0.647 indicating that the scales and the questions show a good measure of internal consistency.

Statistical Significance and Testing of Hypothesis

The t-statistics and associated probabilities are summarized in the table 4.5.1 below. Decision on the relevant hypothesis to adopt in each case is based on the t-statistic and associated probability as stated in the decision criteria under the methodology.

Testing of Hypothesis (H0)

Research Objective: Examine the significance of forensic accounting in the prevention of fraud in owner – managed small and medium enterprises (SMEs).

Research Question: Is forensic accounting effective in preventing fraud of owner managed SMEs in Nigeria?

Research Hypothesis: There is no significant relationship between forensic accounting and fraud

prevention in Owner-Managed Small and Medium Enterprises (SMEs) in Nigeria

Table 4.37: One-Sample Test						
	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Q1	71.912	329	.000	4.012	3.90	4.12
Q2	135.185	329	.000	4.452	4.39	4.52
Q3	30.980	329	.000	4.109	3.85	4.37
Q4	74.529	329	.000	4.042	3.94	4.15
Q5	82.889	329	.000	3.985	3.89	4.08

Source: Researcher’s computation using IBM SPSS Statistics 22

Interpretation

From the above computation, “Q1” has one-sample t-test value $t(329) = 71.912$, $p=0.000$, “Q2” has one-sample t-test value $t(329) = 135.185$, $p=0.000$, “Q3” has one-sample t-test value $t(329) = 30.980$, $p=0.000$, “Q4” has one-sample t-test value $t(329) = 74.529$, $p=0.000$, “Q5” has one-sample t-test value $t(329) = 82.889$, $p=0.000$ respectively. Since the p-value of 1 to 5 items is less than 0.05, we reject the null hypothesis. By this decision, research question has been answered, and objective achieved.

SUMMARY

The research work examined effectiveness forensic accounting at fraud prevention in small and medium enterprises (SMEs) with emphasis on owner – managed in Ogun State, Nigeria. Fraud is a global challenge that has remained a never ending battle notwithstanding more governments across the world introducing and enforcing anti-corruption laws and fighting frauds. Nigeria, like other developing countries has been negatively impacted by economic and financial frauds over the years. The sophistication and rapidly growing incidence of fraud cutting across all facet of life in the country is not without its attendant negative effects on Nigeria’s economic growth and development. SMEs, expectedly the engine of growth of the economy have been badly affected by the preponderance of fraud with its negative attendant consequences. Fraud has terminated the going concern status of a lot while those SMEs still operating are merely struggling to survive the harsh global economic environment coupled with the growing and sophistications incidences of fraud.

Unfortunately, vast majority of owner managers of SMEs have failed to embrace global best practices necessary for survival and growth of their entities. Such practices includes right attitude of SMEs owner managers, well defined business processes, investment in IT, controls and enhanced training of staff among others. Owner managers of SMEs are yet to align with these best practices and oftentimes scared of the cost but rather suffer operational consequences of fraud at high degree negatively affecting their growth.

This paper thus found the need for SMEs to proactively deploy forensic accounting tools aimed at prevention of all form of frauds in their organisations. This preventive measure is the primary focus of this paper.

RECOMMENDATIONS

From the results of the study, the following recommendations are proffered in line with the findings of the study:

1. It is imperative that owner managers must imbibe the culture of leadership by example. There must be high ethical culture flowing from the top worthy of emulation by staff across rank and files in the organization.
2. There must be codified policy or procedure (code of conduct) geared towards addressing any form of unethical breach by employees.
3. Prompt and decisive actions in line with policy must be taken in response to any case of fraud
4. Owner managers must put in place and ensure that all employees participate in fraud awareness programs. Fraud awareness training enhances the consciousness of employees and helps to prevent fraud.
5. Management of these entities should as a matter of policy, conduct background investigations on potential employee in order to minimize the chances of employee with low levels of honesty
6. Promotion of ethical behavior among employees vide good working environment.
7. Management should establish and monitor all aspects of the entities' fraud risk assessment and prevention activities
8. Entities should identify the processes, controls, and other procedures that are needed to mitigate the identified risks.

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