

ALERTNESS TO RED FLAGS AND FRAUD DETECTION IN MICRO FINANCE BANKS IN AWKA METROPOLIS

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ABSTRACT: *This study evaluates the effect of red flags on fraud detection in Micro finance banks in Awka Metropolis. Hypotheses were raised to determine the significance of the effect. Red flags were measured using: Structural red flags, Personnel red flags financial red flags and internal control/operational red flags. The study adopted a descriptive as well as survey research design. A well-structured self-administered questionnaire was used as the main tool for data collection and was administered to 180 respondents out of which 165 were retrieved and appropriately filled. Reliability of the research instrument was calculated and the Cronbach's alpha coefficient was 0.76. Data were analyzed using multiple regression analysis. Preliminary analysis such as descriptive statistics and correlation analysis were also conducted to ascertain the normality and check for the presence of multi-collinearity among the variables used. From the hypotheses tested, the results indicated that structural red flag, financial red flag and internal control/operational red flag characteristics have positive and significant effect on fraud detection in Micro Finance Banks in Awka Metropolis. While Personnel red flag characteristics have statistical inverse effect on fraud detection. The study recommended among others that a whistle blower equivalent should be established to provide secrete information on any shady dealings or any false records in the accounts.*

KEYWORDS: fraud, red flags and fraud detection

INTRODUCTION

Scandals in companies after economic globalization drew the attention of audit authorities on detection of fraud and manipulation, before suffering massive losses. Some companies' employees may conduct business with integrity, however some succumb to pressures and opportunities to unduly enrich themselves in their stewardship. Mawanza (2016) argued that in a turbulent economic times, employees can cause the greatest fraud threat. Society has long held that the protectors against this dishonest minority people in companies are the financial statements Auditors. The understanding of the general public, even board members and executives of companies is that auditors are given the franchise to provide fraud free and accurate audited financial statements of companies, in order to protect investors from financial fraud. However, with transactions becoming more and more complex, fraud and manipulation being buried in legal transactions, information and documents being easily hidden or altered using technological advancements, detection of fraud and manipulation have gradually become more difficult (Kenyon & Tilton, 2006). Likewise, Sunardi and Amin (2018) argued that

the use of electronic media even imposes more difficulty in controlling the frauds emerging from broader electronic transactions.

Fraud has undermined earnings and efforts of corporations. Its effects are so pervasive that one could safely say that every organization has been victimized and in most cases, there is no recovery of values. The consequent huge losses caused some organization to lose sustainability and eventually collapsed (Othman, Aris, Mardziyah, Zainan & Amin, 2015). The announcement of any case of fraud or failure elicits the question "Where were the auditors" from the investing public (Okaro, 2021). In like manner, Moyes (2007) asks the questions why were not the red flags acted upon by the auditors? Or do we say that both the internal and external auditors knew not that red flags existed? Or did the auditors recognize the red flags but chose to ignore them because they judged the red flags to be unimportant or of little consequence? Immediately fraud is committed, the accounting system and its processes are violated, to the extent that improper transactions are completed and actions are taken to conceal the true nature of these transactions. So, the traditional approach to detect and prevent fraud, like auditing, is not sufficiently effective and only enabled fraud to be detected months after the date of the transactions, if ever (Othman, Aris, Mardziyah, Zainan & Amin, 2015).

Against the expectations of the public, the focus of the audit is on obtaining reasonable assurance about whether the financial statements are free of any material misstatements, not of immaterial fraud or patterns of conduct. This is in line with the assertions of Singleton and Singleton (2010), that procedures to detect fraud in the financial statements are very different from procedures used in financial audits to detect material misstatements, particularly in that financial audits often use statistical theory that is based on materiality and not on fraud risk. The procedures involves auditors reliance on Management Representation. Actually, it is economically infeasible not to do so, but can any truth come from a fraudulent management. Penny (2002) pointed out that, if the auditors are too ready to believe what management or other members of staff have told them, then they will miss the clues that fraud has taken place. That is why fraud auditors rarely, if ever rely on management representations because they already have the suspicion that management cannot be trusted and is committing fraud, (Abrecht, 2008).

External auditors' reliance on internal controls is also an issue. Undoubtedly, companies have systems in place to help ensure that accounting transactions are recorded accurately and that proper procedures are followed. They have policies to guide the behaviour of people who generally strive to act in an ethical manner but these systems, procedures and policies often work to catch error and honest mistakes in the accounting process not real fraud. Coenen (2008) argued that while System, policies and procedures may be reasonable at bringing errors to light they typically cannot and do not expose fraud. Regardless, internal controls can even be over ridden with impunity by members of the board. Singleton and Singleton (2010) stated that a fraudster executive, who is perpetrating a financial statement fraud, can frustrate the best intentioned internal auditor. Such fraud schemes are crafted to purposely exploit the accounting system and controls making it more difficult for an auditor to discover except by use of red flags.

It was for this reason, in the case of Enron and World Communication that Sarbanes Oxley's Act often shortened as SOX of 2002 was enacted. The American Institute of Certified Public Accountants (AICPA)'s Statements of Auditing Standard (SAS no 99) "Consideration of fraud in a financial statement audit", codified and complemented SOX tenets. Both explicitly and implicitly implying that auditors both internal and external should consider fraud during the audit process, and must perform different procedures and techniques to detect fraud and manipulations. One of the procedures is the use of red flags that might act as fraudulent financial reporting indicators (Gullkvist & Jokipii, 2013).

Red flags are circumstances that are unusual and varies from normal activity. According to DiNapoli (2010), red flags signify the unnatural situations or those different from the normal ones. They are signals that something is out of the ordinary, do not indicate guilt or innocence but merely provide possible warning signs of fraud and help to identify some common personal characteristics, situational pressures, opportunities, and internal structural accounting system that facilitate organized crime. They may be described as potential symptoms that exist within the company's business environment that would indicate a higher risk of an intentional misstatement of the financial statements. These red flags point to the moments and possibilities where preventive measures can be taken. Sandhu (2019) argued that a particular effective and inexpensive way to identify fraudsters is by scrutinizing personal behaviour for particulars typical of fraudsters. Several studies have provided evidence on the efficacy of alertness to red flags in fraud detection. For example, Albrecht and Romney (1986) found in a survey of practicing auditors that 31 flags related to internal control were considered better predictors of fraud. The survey contained a list of 87 red flags. Loebbecke and Willingham (1989 in Gerald, Hillision & Pacini, 2004) used the red flags approach to develop another concept model to evaluate fraud probability. A survey instrument was used to query 277 audit partners of a big 6 firm. These researchers concluded that an auditor's assessment of the client's internal controls is significant in evaluating the probability of fraud. However, Pincus (1989) found that auditors who did not employ reflags checklists outperformed those who did in an experimental setting. However none of these researchers categorized the red flags. Moreso, the studies were conducted many years ago and none is from Nigeria. This suggest that organisations are more used to detection of fraud through the use of fraud auditors when massive losses would have been incurred, ignoring management part of fraud control through the use of red flags.

Therefore the intention of this research work is to ascertain whether alertness to different categories of red flags could be a panacea to effective fraud discovery. Specifically, the study sought to determine the effect of structural red flags, Personnel red flags, Financial red flags and internal control/ operational red flags on fraud detection. The study is anchored on the Fraud Diamond Theory published by Wolfe and Hermanson (2004). According to Wolfe and Hermanson (2004) "Opportunity opens the doorway to fraud, and incentive (i.e. pressure) and rationalization can draw a person toward it". The findings from the study will guide the Micro finance bank external auditors on the particular red flags to pay attention to, and bring those signals into high risk alert for audit purposes, in order to avoid the risks associated with

fraudulent activities. Understanding the fraud indicators will also provide a proper guidance to the internal auditors in the conduct of internal audit for early detection of fraud. The hypotheses of this study are formulated in line with the specific objectives and they are stated in null forms as follows;

1. *Ho*: Structural red flags do not have significant effect on fraud detection
2. *Ho*: Personnel red flags do not have significant effect on fraud detection
3. *Ho*: Financial red flags do not have significant effect on fraud detection
4. *Ho*: Internal control/ operational red flags do not have significant effect on fraud detection.

The paper is divided into five main sections. Following this introduction, Section 2 gives the Review of related literature, Section 3 gives the Research Methodology, while Section 4 provides the Data analysis and discussion, and finally, Section 5 highlights the Conclusion and recommendation

REVIEW OF RELATED LITERATURE

Conceptual review

Structural red flag

Structure is the arrangement of duties in order that work be done properly. It is best represented by the organization chart (Jackson & Morgan, 1982). Wolf (2002) defined it as an architecture of business competence, leadership, talent, functional relationships and arrangement. Therefore, the structural red flags are those fraud signs that arise as a result of firm structure which may span from complex business structures to functional relationships within the enterprise. The more the business is expanding across geographical spaces the more the difficulty in control and there tend to be some peculiar red flags to it. DiNapoli (2010) noted that extremely complex business structure portends warning signs of fraud occurrence.

Personnel and management red flag characteristics

Personnel and management red flags are the warning signs that could be exhibited in the lives of an organisations personnel or the management that depicts a warning signs that fraud is being perpetuated. Singleton and Singleton (2010) noted that changes in behaviour of individuals, difficulty with making eye contact, increase in aggressive behaviour, irregular work schedules, abrupt changes in lifestyle, unusual touchiness and suspicions, constant state of being worried, exhibiting excessively self-conscious behaviour, becoming wasteful, are signals of fraud existence in personnel. In addition, Sandhu (2019), in the study, Behavioural red flags of fraud: An Ex post Assessment of types and frequencies, document that the most frequently displayed behavioural of red flags are strong ambition, social aloofness, extended working hours, dissatisfaction in current job and living standard disproportionate to current means. DiNapoli (2010) continued that management with high personal debt and financial difficulties, dishonest and unethical management staff, secret agreements between management and third parties, are high fraud indicators.

Financial Accounting characteristics red flag

Accounting red flags are signs that fraud might exist in the accounting process of the entity. Albrecht (2012) posits that high balance of reported income and sales accounts, low number of sales discounts and refunds, absence or lack of allowance accounts, excessive increase in trade receivables, mostly accrued reported income, absence of original documents, failure to declare important bank accounts, inconsistencies between incomes, sales and receipt of payment or other supporting evidence are red flags of fraud. To buttress it further, Bozkurt (2000) maintains that red flags include execution of large and highly profitable transactions near period ends, inadequate equity structure, excessive borrowing with high interest rates, and growing amount of debts overdue. Singleton and Singleton (2010) on the other hand opine that insufficient explanation in balance sheet footnotes, periodic differences, generation of fictitious income and improper asset valuation are warning signs of existence of fraud. Pertinently, DiNapoli (2010) presents that undisclosed changes in final account balances, constant change of bank accounts, excessive amount of bounced cheques, high deviations in cash count tell that fraud might occur.

Internal control/operational red flag characteristics

On the side of internal control or operational red flags, Singleton and Singleton (2010) presents the following red flags to include, unusual relationships between key employees and suppliers or customers, secrecy in relations with third parties, inadequate flow of information to management, abnormalities in recording sales and purchase transactions, abnormalities in approvals of sales, conflicts of interest between employees. On the other hand, Albrecht (2012) posits that red flags presents its self in inconsistency of management or employees on income or analytical procedures, attempts to prevent the independent audit process, inefficiency of the internal control system. Bozkurt (2000) says that increase in notices and complaints of fraud, decrease or increase in stocks, missing or excessive amount of money in the cash till are all fraud warning signs.

Empirical review.

Several studies have been conducted to explore the effectiveness of red flags in fraud detection, but almost all of them were conducted in foreign countries. For instance, Yucel (2012) investigated the effect of red flags as contained in SAS No 99 in detecting fraud in Turkey. His result indicate that red flags are somewhat effective in detecting fraud however; he posits that most effective is the red flags that relates to opportunities. Similarly, Moyes (2007) examined the perceived level of fraud detecting effectiveness of SAS No 99 (red flags) between external and internal auditors in America. The results show that external auditors display a higher degree of consensus regarding the effectiveness rating of each red flag than the internal auditor. Both the external and internal auditors perceived attitude or rationalisation as the most effect category of red flags. Durgham, (2017), examined the effect of using Red Flag indicators in improving the effectiveness of external audit in detecting financial fraud. The results show that the use of Red Flag indicators have enhanced the quality and the effectiveness of external auditing in revealing financial fraud.

Cristian and Paulo (2017) investigated the effect of red flags in detecting credit cooperative fraud from the perspective of the internal auditors in Southern Brazil. The results indicate that internal auditors perceive operational and internal control red flags as the most important fraud signs, though they found that all the red flags are considered important by the internal auditors. Koornhof and Du Plessis (2000) assessed red flagging as an indicator of financial statement fraud from the perspective of the investors and lenders in South Africa. The research findings indicate that lenders and investors appear to be aware of the benefits of red flagging as an early warning system. The study by Majid, Ferdinand and Judy (2001) in Hong Kong on auditors' perception of the importance of selected red flag factors in risk assessment, shows that auditors are consistent in emphasising that the red flags present great material misstatement. However, Heiman-Hoffman and Morgan (1996), found that red flags or warning signs did carry different weights as perceived by the sampled auditors. These studies have extensively addressed the effectiveness of red flags in fraud detection in foreign countries, but to the best of my knowledge no similar study has been done in Nigeria especially in Micro finance banks where early detection of fraud is mostly needed. This will add to the existing literature, the efficacy of management control of fraud, through the use of red flags.

METHODOLOGY

Research design, Data collection and analysis

The study adopted survey research design. This design was used because the researcher intended to gain useful insight on the use of red flags to detect fraud in Micro Finance banks in Awka Metropolis. The population consist of entire senior staff of accounts and internal audit department of Micro Finance banks in Awka metropolis. Because of the descriptive nature of this study, the researcher used primary data from the respondents through questionnaires. A total of one hundred and eighty questionnaires were administered to the respondents out of which one hundred and sixty five were retrieved and appropriately filled. The questions were limited to expression of opinions presented in form of likert scale ranging from strongly agreed to strongly disagree. The value ranking starts from 1 through 5. The minimum value is 1 and maximum is 5. The questionnaire was reviewed by experts in fraud matters after assessment as having subjectively covered to a good extent, the concepts of fraud red flags which it purports to measure. They graded the instrument highly relevant for assessing the participants. The instrument was tested for reliability using Crunbach's Alpha. This was done to ascertain the internal consistency of the questionnaires and was accepted when the Alpha was greater than or equal to 0.60. Our Crunbach's Alpha result was 0.76 which was the bases for upholding the internal consistency of the questionnaire. The responses were organised according to the research questions and analysed using descriptive statistics, normality tests, correlation and regression analysis with the help of STATA 13.

Model specification

The linear regression model designed to test the null hypotheses is presented as follows;
$$\text{FRADETXTR} = f(\text{STRUCXTR}, \text{DIEMXTR}, \text{ECOFIXTR}, \text{OPICXTR}) \dots \text{equ (1)}$$

The above model is presented into stochastic form as follows;

$$\text{FRADET}XTR_i = B_0 + B_1\text{STRUC}XTR_i + B_2\text{DIEM}XTR_i + B_3\text{ECOFIX}XTR_i + B_4\text{OPIC}XTR_i + u_i \dots \quad (2)$$

Where;

FRADET_{XTR} = Fraud Detection in Public Sector

STRUC_{XTR} = Structural Red Flag Characteristic

DIEM_{XTR} = Personnel (Directors and Employees) Red Flag Characteristics

ECOFIX_{XTR} = Economic and Financial Red Flag Characteristics

OPIC_{XTR} = Operational and Internal Control Red Flag Characteristics

U_i = Stochastic Error term

B_0 = Intercept / Constance

$B_1 - B_4$ = Coefficient Parameter.

DATA ANALYSIS AND DISCUSSION

Descriptive statistics

This section is set to examine the descriptive statistics for both the explanatory and explained variables of interest. Each variable is examined based on the mean, maximum, minimum, standard deviation, median and count. The table 1 below displays the descriptive statistics for the study.

Table 1: Descriptive statistics

```
. tabstat STRUCXTR DIEMXTR ECOFIXTR OPICXTR FRADET~R, statistics( mean max min sd median count )
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stats	STRUCXTR	DIEMXTR	ECOFIXTR	OPICXTR	FRADET~R
mean	4.074074	3.444444	4.166667	3.37037	3.740741
max	5	5	5	5	5
min	1	1	1	1	1
sd	1.116601	1.154701	1.300611	1.107262	1.474838
p50	4	3	5	3	4
N	108	108	108	108	108

Source: output of Stata 13

From the table above, it is noted that structural red flag characteristics have average distribution of 4.1, maximum of 5 and minimum of 1. The result shows that more than half of the respondents agree that structural red flag is an important indicator of existence and or sign of fraud in an organisation. Again, director and employee red flag characteristics have average of 3.4, minimum of 1 and maximum of 5. More so, economic and financial red flag attribute has average of 4.2. The operational activities and internal control red flags have mean value of 3.4 whereas fraud detection red flag disclosed an average of 3.7. The table's result points to the fact that, all the variables were attested by the respondents to be yardstick for ascertaining when fraud is likely to occur in an institution.

Normality test

The symmetric distribution of the data were tested to ascertain if the data set gathered were normally distributed. Skewness and kurtosis test were conducted for the normality test of the data.

Table 2: Skewness and kurtosis test

```
. sktest STRUCXTR DIEMXTR ECOFIXTR OPICXTR FRADET~R
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Skewness/Kurtosis tests for Normality					
Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	joint Prob>chi2
STRUCXTR	108	0.0000	0.0125	24.31	0.0000
DIEMXTR	108	0.8327	0.0000	16.50	0.0003
ECOFIXTR	108	0.0000	0.4645	18.13	0.0001
OPICXTR	108	0.9195	0.0006	10.12	0.0064
FRADET~R	108	0.0036	0.0000	24.88	0.0000

Source: output of Stata 13

The normality test was done using skewness and kurtosis presented in table above. From the table it was noticed that all the variables have joint probability value of 0.00 meaning that they are normally distributed.

Correlation analysis

The variables were analysed to test the relationships among them. The correlation result are presented in the table below.

Table 3: Correlation Result

	STRUCXTR	DIEMXTR	ECOFIXTR	OPICXTR	FRADET~R
STRUCXTR	1.0000				
DIEMXTR	-0.2505	1.0000			
ECOFIXTR	-0.2081	0.1680	1.0000		
OPICXTR	-0.2265	0.7326	0.2877	1.0000	
FRADET~R	0.3636	-0.4640	0.5294	-0.1410	1.0000

Source: output of stata 13

From the correlation table above, the result indicates that structural red flag characteristics have weak correlation with directors and employees red flag characteristics (STRUCXTR/DIEMXTR=-0.250), economic and financial red flag characteristics (STRUCXTR/ECOFIXTR= -0.21), operational and internal control red flag characteristics (STRUCXTR/OPICXTR=-0.23) and fraud detection characteristics (STRUCXTR/FRADET~R= 0.36). The associations of structural red flag characteristic are negative with all the other independent variables except with dependent variable (fraud detection

red flag characteristics) that maintains positive association. Pertinently, directors and employees red flag characteristics have weak and positive relationship with economic and financial red flag characteristics (DIEMXTR/ECOFIXTR=0.17), directors and employees red flag characteristics have strong and positive correlation with operational and internal control red flag characteristics (DIEMXTR/ OPICXTR= 0.73), while the directors and employees red flag characteristics have negative and moderate association with fraud detection red flag characteristics (DIEMXTR/FRADETXTR= -0.46). More so, economic and financial red flag characteristics have weak and positive association with operational and internal control red flag characteristics (ECOFIXTR/OPICXTR= 0.29), economic and financial red flag characteristics have moderate and positive association with fraud detection red flag characteristics (ECOFIXTR/FRADETXTR= 0.52). Lastly, operational and internal control red flag characteristics have inverse and weak association with fraud detection red flag characteristics (OPICXTR/FRADETXTR= -0.14).

Multicollinearity

This test was used to find out if two or more independent variables stand in exact linear relation to each other (that is collinear). Therefore we used Variance Inflation Factor (VIF) to test for multicollinearity among the independent variables.

Table 4: Variance Inflation Factor (VIF) Test

Variable	VIF	1/VIF
OPICXTR	2.30	0.435184
DIEMXTR	2.21	0.452341
ECOFIXTR	1.12	0.888942
STRUCXTR	1.10	0.908400
Mean VIF	1.68	

Source: Output of Stata 13

From the VIF table above, the result shows that the mean VIF is 1.6 which is far lower than the acceptable mean of 10. Therefore, the result indicates that there is problem of multicollinearity. That is, the independent variables do not highly correlate among themselves.

Heteroscedasticity Test

In this test, the absence of heteroscedasticity means the presence of homoscedasticity. The test was used to find out if there is stability in the result obtained, or whether there is constant variance. It indicates if there is a presence of an outlier in the distribution. The result of the test is presented in the table below

Table 5: Heteroscedasticity Result

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of FRADETXTR

chi2(1) = 1.84
 Prob > chi2 = 0.1746

Source: Output of Stata 13

The heteroscedasticity rule upholds that there is no heteroscedasticity if the probability value is above the critical value of 5%. Hence, from the table 6 above, the probability value (P-value = 0.17) is greater than the critical value 5% therefore we conclude that there is no heteroscedasticity.

Regression Analysis

The analysis that determined the cause and the effect relationships between the dependent and independent variables were conducted and presented in the table below.

Table 6: Regression Analysis

Source	SS	df	MS			
Model	175.600163	4	43.9000407	Number of obs =	108	
Residual	57.140578	103	.554762894	F(4, 103) =	79.13	
Total	232.740741	107	2.17514711	Prob > F =	0.0000	
				R-squared =	0.7545	
				Adj R-squared =	0.7450	
				Root MSE =	.74482	

FRADETXTR	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
STRUCXTR	.5153549	.0676589	7.62	0.000	.3811694	.6495405
DIEMXTR	-.8267595	.092717	-8.92	0.000	-1.010642	-.6428771
ECOFIXTR	.7394111	.0587189	12.59	0.000	.622956	.8558661
OPICXTR	.3117048	.0985768	3.16	0.002	.116201	.5072086
_cons	.3574339	.4770469	0.75	0.455	-.5886761	1.303544

Source: output of Stata 13

From the table 6, the results have it that the F-statistics (F-value 4, 103) is 79.13 and P-value is 0.0000, shows that the overall model is valid and that the model is statistically significant at 1% level. The Adj R- square of 0.75 provide that all the independent variables join together can explain 75% of what happens to the dependent variable. It indicates that the remaining 25% is contained in error term, meaning that they are contained by the variables outside our model. This results shows that our model is well fitted for the study.

Test of Hypotheses

Hypothesis 1

H₀₁: Structural red flag characteristics do not have significant effect on fraud detection.

The result shows a coefficient of 0.515 which means that structural red flag characteristics have positive effect on fraud detection characteristics. The result further presents that the structural red flag characteristics can cause 0.52 unit change in fraud detection, if every other variable is held constant. The P-value of 0.000 is less than the critical value 0.05 which implies that structural red flag characteristics is statistical significant therefore, we reject null hypothesis and accept alternate hypothesis that says, structural red flag characteristics have statistical significant effect on fraud detection.

Hypothesis 2

H₀₂: Personnel red flag characteristics do not have significant effect on fraud detection.

The result in the table 6 above shows that the coefficient of determination of personnel (directors and employees) is -0.826, which indicates that personnel red flag characteristics have inverse effect on the fraud detection. This result has provided that moderate personnel red flag should be used to watch out for fraud tendency. It opines that anchoring on too many personnel red flags will retard the efficiency of ascertaining when fraud might occur. The P-value of 0.000 which is lower than the 5% critical shows that personnel red flag characteristics is statistically significant hence we accept alternate hypothesis and conclude that personnel red flag characteristics have significant effect on fraud detection strategy..

Hypothesis 3

H₀₃: Financial characteristics red flags do not have significant effect on fraud detection

From the table 6, it is noticed that the coefficient of financial red flag characteristic is 0.739, which signifies that there is a positive association between financial red flags and fraud detection. The result shows that increase in financial characteristics red flag will increase fraud. The p-value ($P > /t/ = 0.000$) is less than 0.05 critical value and indicates that financial red flag significantly affect fraud detection at 1% level. Thus, the result shows that the financial red flag characteristics have positive and statistical significant effect on the fraud detection strategy, in effect, the null hypothesis was not accepted.

Hypothesis 4

H₀₄: Internal control/ Operational red flags do not have significant effect on fraud detection.

Internal control red flag characteristics have P-value ($P > /t/ = 0.002$) and coefficient 0.312 as shown in table 6 above. The result indicates that internal control and operational red flag characteristics have positive and significant effect on fraud detection. The coefficient of 0.312 implies that if every other variables are held constant, a unit change in internal control and operational red flag will cause 0.312 unit change changes in the fraud detection. The positive result provides that more attention to internal control red flag will cause an increase in fraud detection. This result is supported by the works and findings of Cristian and Paulo (2016), whose

result indicates that internal auditors perceive operational and internal control red flags as the most important fraud signs.

DISCUSSION OF RESULTS

The result of the study has shown that our model is fit and that the independent variables accounted for 75% of the changes in the fraud detection strategy. This justifies the reason why red flags were built on the elements of the fraud triangle theory of Cressey, 1953. Accordingly, pressure pushes the personnel to look for an opportunity to defy the trust placed on him by taking undue or selfish advantage and to fathom out a rationalisation or justification for engaging in the fraudulent act. Furthermore, the theory of fraud diamond consolidates the claim as Wolfe and Hermanson (2004) introduced the fourth element which is capability or the required skill to cover up the fraud. That is to say, ability of the management to harness these red flags which are rooted on the fraud diamond theory, determines how much they can detect fraud signs in the organisations. This agrees with Yucel (2012) who found that Red flags are somewhat effective in detecting fraud and concludes that red flags that relates to opportunities are discovered to be mostly effective. In an earlier study, Moyes (2007) found that external auditors have high degree of regards on the effectiveness of red flag.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The study empirically investigated the effect of fraud red flags on fraud detection in Micro Finance Banks in Awka Metropolis. The nature of the study prompted the researcher to use questionnaire in data collection. Different from what other researchers have done, we categorised the red flags into structural red flags, personnel red flags, financial and economical red flags, and internal control/ operational red flags as the independent variables of the study, while we made the fraud detection the explained variable. The cross sectional data gathered were analysed with ordinary least square regression analysis and the result in corroborating with previous research found that fraud red flags are indispensable components of fraud detection in Micro Finance Banks in Awka Metropolis.

Recommendations

Based on the findings of the research, the following recommendations were made:

1. Management should ensure easy communication channel in complex business structure and maintains cohesive channel of communication that promotes adequate monitoring in the organisation.
2. Since Personnel red flag have negative effect on fraud detention, the directors should not pay so much attention to the life styles of the workers or managers in the consideration of fraud.
3. A whistle blower equivalent should be established to provide secrete information on any shady dealings or any false records in the accounts or manipulation of figures, and management, transactions at arm's length.

4. Internal audit and audit committee should make sure that strong internal control system is established and always implemented by ensuring regular checks to affirm their compliance. Any deviation from the normal practice or short cut, should be thoroughly investigated.

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