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FRAUD RISK FACTORS AND PREVENTION OF FINANCIAL STATEMENT FALSIFICATION AMONG NON-FINANCIAL FIRMS IN NIGERIA

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Abstract

The study ascertained the effect of fraud risk factors on the prevention of financial statement falsification among non-financial firms listed in Nigeria, using pressure and fraud perpetrators' capabilities as a measure of fraud risk factors. Survey research design was employed for the study. The population of the study was drawn from non-financial firms in south-south Nigeria. Data were generated from the questionnaires administered to the respondents. Using regression analysis, the study revealed that pressure and fraud perpetrators' capabilities have significant effect on prevention of financial statement falsification. Based on the results, the study recommended among others that to effectively eliminate a perpetrator's capability and opportunity to manipulate financial records, organizations can enforce Strict Segregation of duties; ensure that no single individual has complete control over a financial transaction from start to finish.

Key words: Fraud risk factors, Pressure, Fraud perpetrators' capabilities and Financial statement falsification

Introduction

In every audit engagement, auditors are required to assess the likelihood and significance of fraud risk factors, particularly because stakeholders reasonably expect auditors to detect material fraud in financial statements (Abdullatif, 2016). These expectations place substantial pressure on auditors to identify and respond appropriately to fraud risks, even in environments where management actively conceals fraudulent activities. Prior studies suggest that the identification and evaluation of key fraud risk factors—such as motives to commit fraud, opportunities arising from weak internal controls, rationalisation of unethical behaviour, management integrity, and the perpetrator's capability—can play a critical role in preventing financial reporting fraud (Narulita et al., 2024). These factors align with established fraud frameworks and provide a structured lens through which auditors can assess fraud risk more comprehensively.

Financial statement falsification represents a serious form of financial misrepresentation, typically involving the deliberate omission or manipulation of disclosures relating to specific accounts with the intention of misleading users of financial statements. Through such practices, firms seek to present an artificially favourable picture of financial performance and position, thereby influencing investment decisions and stakeholder perceptions (Nurkholik et al., 2024; Oktavia et al., 2022). The consequences of such misstatements are far-reaching, ranging from financial losses for investors to reputational damage and erosion of trust in the financial reporting system.

In Nigeria, financial statement falsification has been a recurring problem with significant economic and regulatory implications. The first widely reported case involved Cadbury Nigeria Plc in 2003, where extensive financial misstatements were attributed to weak corporate governance structures and poor audit quality. This scandal exposed serious deficiencies in corporate oversight mechanisms and ultimately prompted the introduction of Nigeria's first Code of Corporate Governance. Despite this regulatory response, subsequent cases of corporate governance failures and financial statement falsification have continued to surface, particularly within the banking sector. Notable examples include Intercontinental Bank, Oceanic Bank, Polaris Bank, and Spring Bank, all of which were implicated in financial reporting irregularities (Adeyemi & Uadiale, 2011). These recurring incidents suggest that existing governance and audit mechanisms remain insufficient to deter or detect fraudulent financial reporting effectively.

In Nigeria's highly competitive business environment, firms are under intense pressure to outperform competitors and demonstrate strong financial performance. Prior empirical evidence suggests that such pressure constitutes a major antecedent of fraudulent financial reporting. Studies by Kassem (2023b), Yusrianti et al. (2020a), and Zimbelman et al. (2014) identify pressure as a central element in the fraud triangle and a key determinant of fraud occurrence. Consequently, pressures to meet earnings forecasts and achieve predetermined financial targets may incentivize company directors to deliberately misstate financial results by overstating performance, thereby presenting a misleading picture of organizational reality. The study thus ascertains the effect of fraud risk factors on the prevention of financial statement falsification. The specific objectives are to:

1. Examine the effect of pressure on the prevention of financial statement falsification among non-financial firms listed in Nigeria.
2. Determine the effect of fraud perpetrators' capabilities on the prevention of financial statement falsification among non-financial firms listed in Nigeria.

Review of Related Literature

Risk assessment is meant to determine the exact kind of risk the organisation faces, the kind of controls that should be put in place to address the risks identified and also to manage the risks that have been identified (Cheng et al.,2021; Kumuthinidevi, 2016). It does not require the organisation to identify every control in a process or document the business processes impacting the organisation (Verschoor, 2008). Fraud risk, a component of operational risk is one such risk (Rubasundram, 2017). Operational risk focuses on the risk associated with errors or events in transaction processing or other business processes. A fraud risk review considers whether these errors or events could be due to a deliberate act to benefit the perpetrator (CIMA, 2009).

The motives to commit fraud, the opportunity for fraud, rationalisation of fraud, integrity, and the perpetrator's capability have been identified as fraud risk factors that can help to mitigate fraud (Wolfe & Hermanson, 2004). According to Kassem (2018), motives are the underlying causes of actions and are important precursors to fraud. They can be non-financial (like seeking retribution) or financial (like wanting a bonus). Opportunities are chances to commit fraud without being discovered, and they typically arise from inadequacies in the internal control framework of an organization, such as inadequate oversight, inefficient audits, or a concentration of power among a small number of people (Wells, 2011).

Pressures and Financial Statement Falsification

Pressure refers to the incentive or motivation to commit fraud, it is concerned with the direction and persistence of an individual's effort to achieve a goal, dictated by the interaction with the situation (Yusrianti et al., 2020a). Motives are the hidden or not obvious reasons for doing something Motivation is a process that encourages concentration, direction and persistence of effort for someone to attain certain objectives (Robbins & Judge, 2007). SAS No. 99 indicates that financial stability, external pressure, personal financial need and financial targets are four common conditions associated with pressure that can lead to cheating.

Financial pressure is the most common pressure to commit fraud (Zimbelman et al, 2014). Albrecht et al. (2007) posited that incentives are the main motivation to falsify financial reports. Often, managers are under pressure to meet profit targets or the expectations of investors and investment analysts (DeGeorge et al. 1999). Increased need for external financing to remain competitive, can put pressure on managers, moreover, pressure can also be felt when a manager's compensation is tied to the company's performance or when the manager's share ownership in the company increases (Skousen et al., 2009).

Fraud perpetrators' capabilities and financial statement falsification

Management override and collusion are the two most severe fraud risk factors (Suh et al., 2020). They are often described as 'the Achilles heel' of fraud prevention (AICPA, 2022; Dorminey et al., 2012). "When those charged with governance manipulate accounting records and falsify financial statements by overriding the system of controls, even where the controls might otherwise appear to be operating effectively," this is referred to as a "management override" (IFAC, 2012). Sometimes company management, including the CEO or CFO, circumvents internal controls by overriding the system to achieve corporate objectives, such as business success and profit (Yusrianti et al., 2020a). This is represented by the fourth element 'capability' added to the Fraud Triangle by Wolfe and Hermanson (2004), in their Fraud Diamond. AICPA (2022), in their report, posited that the majority of the critically significant fraud cases in the last 50 years were committed by senior members of management by overriding seemingly effective systems.

In their investigation into the reasons behind co-offending in fraud, Free and Murphy (2015) distinguished three archetypes: (1) affective bonds; (2) organizational-serving functional bonds; and (3) individual-serving functional bonds based on two criteria (the primary beneficiary and the qualitative nature of tie).

Empirical Studies

Yulianti et al.(2024), replicated the study by Achmad et al.(2022) using 73 manufacturing companies listed on the Indonesia Stock Exchange for the period 2019 to 2022. The study revealed that financial stability has a positive effect on financial statement fraud, but ineffective monitoring, auditor change, change of directors, display of chief executive officer's pictures, and connection with government officials have no significant effect on financial statement fraud.

Ariany and Murtanto (2024), examined the effect of fraud heptagon theory (F-Score model) on financial statement fraud, using the financial statement for 2018 to 2022 from a sample of 25 mining companies listed on the Indonesia Stock Exchange. The study finds that pressure and ignorance, have a significant effect on financial statement fraud, while opportunity, rationalisation, competence, arrogance, and greed do not affect financial statement fraud.

Tragouda et al. (2024) posits that although the financial audit controls in companies have advanced over the years, the number of corporate fraud instances is growing, thus raising the need for investigating the factors that can be used as early warning signals and developing effective systems for identifying financial fraud. In the study, financial statements from 133 Greek companies listed in the Athens Stock Exchange over the period 2014 to 2019 were investigated, based on the fraud diamond theory. Popular machine learning classification algorithms were employed in a novel multi-label classification setting that not only identifies fraudulent cases but also considers the nature of the auditors' comments. The results indicate that the proposed multi-label approach provides enhanced results compared to binary classification algorithms, avoiding inconsistent outputs with respect to the existence of different forms of manipulation of financial statements.

Kaituko et al. (2023) examined the moderating effect of audit fee on the relationship between board structure and the likelihood of financial statements fraud (LFSF). The study used the logistic regression and a sample of 15 manufacturing firms listed within the East African Community partner states from 2007 to 2021. The Beneish M-Score is used a proxy measure of the likelihood of financial statements fraud. The findings revealed that board gender diversity, board financial expertise, board independence, frequency of board meetings, audit fee are significant variable in reducing the likelihood of financial statements fraud.

Arum et al.(2023), investigated the way corporate governance affected financial statement fraud during the COVID-19 pandemic. The study takes advantage of secondary data acquired from annual reports of companies under special monitoring listed on the Indonesia Stock Exchange of 2020–2021. The logistic regression method was used to evaluate 134 data sets, and financial statement fraud was measured using the Z-Score and F-Score models. The results indicate that when using the Z-score, only the board size has a negative effect on financial statement fraud during the COVID-19 pandemic.

Kassem(2023a) explored how auditors perceive and use fraud factors when assessing fraudulent financial reporting risk in external audits. On average, the interviews lasted 40 min. Fourteen interviews were conducted via Skype, and ten interviews were conducted via Viber, a free international calls mobile application. Four interviews were conducted with audit partners, 11 with audit managers, and nine with senior external auditors. The findings

revealed that in theory, top management's integrity and motives are the most critical factors in fraud risk assessment.

Using a semi-structured interview of 24 experienced external auditors and relying on the qualitative grounded theory, Kassem and Omoteso (2023) investigated the methods auditors used to detect fraudulent financial reporting. Out of the 58 methods explored, the study finds that the following were effective in detecting more than one type of fraudulent financial reporting: specific analytical procedures, positive confirmation, understanding of the client's business and industry, the inspection of specific documents, a detailed analysis of the audit client's anti-fraud controls, and investigating tip-offs from suppliers, employees and customers.

Sulaja *et al* (2022), investigated the various fraud models that are extensions to the fraud triangle theory and reviewed the factors that drive corporate fraud. This study also introduced "integrity" as a new extension to the basic fraud theory as the authors believe that integrity plays a crucial role in detecting corporate fraud. The study contends that organisations that work with integrity tend to improve their performance and are likely to encourage employees to work with less supervision.

The study carried out by Kassem (2022) examined fraud risk assessment in auditing by exploring how external auditors assess the rationalization of fraud through an online survey of 150 auditors from the Big 4. The study identified 18 methods external auditors can use to assess fraud rationalization. The study documents four prominent methods to include: integrating the assessment of rationalization into the assessment of motives for fraud and integrity, taking cognizance of the client's business and regulatory environment, obtaining adequate knowledge of past fraud cases from management and the board of directors, and noting and analyzing management responses and reactions to inquiry on fraud-related matters.

Achmad et al. (2022) in a study involving banks listed on the Indonesia Stock Exchange (IDX) for the period 2017–2021 and a sample of 215 respondents examined the potential for fraudulent financial reporting using the fraud hexagon theory factors. The proxies of fraud hexagon theory were factors such as stimulus (financial target, financial stability, and external pressure), capability (change in director), collusion (total board of commissioners who have multiple positions), opportunity (ineffective monitoring), rationalization (auditor switching), and arrogance (frequency of the number of photos of the chief executive officer (CEO) in the annual financial statements) The study found that financial target, financial stability, and external pressure, capability, collusion, opportunity, rationalization, and arrogance affect fraudulent financial reporting.

Considering that internal fraud has been attributed as one of the contributing factors for serious banking crises, and given that opportunity is the pre-eminent cause of white-collar crime, Suh et al. (2020) carried out a study to measure the relationships between the perceived 'opportunity reduction' and other fraud risk factors with regard to the 'likelihood of fraud occurrence' in financial institutions. The study gathered 395 survey responses from South Korean financial sector. The results of logistic regressions of the study highlight that how to operate control mechanisms combining prevention and deterrence measures (the qualitative aspect of internal control), is more important for preventing fraud than the mere existence of many anti-fraud controls. In addition, the study discovers that the employees of the Korean financial institutions view that the risk of management override of controls is a more critical risk than collusion in their organization.

Methodology

Research design

This study employed a survey research design involving the collection of information from the unit of analysis through questionnaires to generate the quantitative data necessary to validate the underpinning theories highlighted in the literature review.

The area of study is non-financial firms in South-South Nigeria.

Population of Study

The study's population consists of management and auditors of non-financial firms in South-South geopolitical zone of Nigeria. Major non-financial firms operating in the South-South region of Nigeria span the energy, oil and gas, agro-industrial, and manufacturing sectors.

Sample Size and Sampling Technique

Given the difficulty in reaching all members of the population of interest or sampling frame, a subset of the population was determined using the table developed by Krejcie and Morgan (1970) based on the following formula for an infinite population is given as:

$n = \{Z^2 * p(1-p)\}/M^2$ ---------- (3.1)

Where:

n = Sample size for infinite population
Z = Z value (e.g. 1.96 for 95% confidence level)
P = population proportion (expressed as decimal) (assumed to be 0.5 (50%)
M = Margin of Error at 5% (0.05)

$n = \{1.96^2 * 0.5(1-0.5)\}/0.05^2$

= 384.16
≈384

Sources of Data collection

The study collected data predominantly from the primary source. This consists of data collected through the administration of a questionnaire to the respondents. This information was coded appropriately to enable testing of the study's hypotheses to provide answers to the research questions.

Reliability of the research instrument

To ensure the reliability of this research instrument, the survey instrument was pilot-tested to determine if the scales consistently reflect the constructs they purport to measure. This was achieved through scale reliability analysis to determine the Cronbach-alpha reliability coefficient of the constructs. At least fifty copies of the questionnaire were administered to the staff of 10 companies which constituted the unit of analysis, selected randomly. To establish the reliability of the research instrument, a scale reliability test was carried out on the instrument administered using IBM Statistic 26. The result shows that all the variables passed Cronbach's α test at the upper limit of ≥ 0.70.

Model Specification

To aid the testing of the proposed hypotheses the following model was relied upon:

FALFINR= *f* (PRESSR, PCAPBL) ----------(1)

The econometric form of the model is given as:

FALFINR = α_{0+} α_1 PRESSR + α_2PCAPBL + μ----------(2)

Where:

FALFINR = Falsification of Financial Report
PRESSR = Pressure

PCAPB = Perpetrators Capability

α_0 = slope

α_1 to $\alpha_3 \neq 0$ = the regression coefficients

μ = Stochastic error term

Method of data analysis

Structural equation modelling (SEM) shall be adopted to estimate the study's model because the researcher developed multi-item scales for the constructs representing the dependent and independent variables and regression analysis that enable the researcher to examine a series of interrelated dependence effect among the variables.

Decision Rule

If the p-value is less than or equal to α value at 0.05 (5%) (that is, if the result is significant), we reject the Null Hypothesis (H_0) and accept the Alternative Hypothesis (Ha), and if the p-value is greater than α at 0.05 (5%) we accept the Null Hypothesis (H_0) and reject the Alternative Hypothesis (Ha).

Where;

P-value = probability

α = level of significance.

Data Presentation and Analysis

Data Presentation

Table 1: Summary of responses from the questionnaires

S/N	ITEMS	SA	A	U	DA	SD
A	**FALSIFICATION OF FINANCIAL REPORT** {Adapted from Yüce (2013); Zahari et al. (2019); Abdullatif (2016); DiNapoli (2010); Singleton & Singleton (2010), SAS No. 99}					
1	Rapid growth or unusual profitability, especially compared to other companies in the same industry is indicative of falsification of financial statement	79	180	0	39	0
2	When debt collection rate is lower than normal, companies may be tempted to falsify financial statement	104	167	0	25	2
3	When suppliers are constantly making discounts, the likelihood of falsification of financial statement will be high	102	195	0	10	0
4	If management staff of the client company is from companies that went bankrupt, probability of falsification of financial statement will be high	89	153	4	42	10
5	The client company have a consistently weak cash flow possibility of falsification of financial statement will be high	88	160	5	45	0
6	Excessive borrowing of the company is indicative of falsification of financial statement	79	170	0	44	5
7	Consistent fulfilment of earnings targets signals possible falsification of financial statement	104	157	0	35	2

8	Questionable definitions of income for the company to reach its targets smacks falsification of financial statement	99	188	0	11	0
9	Significant changes in income policies suggests possibility of falsification of financial statement	98	143	4	50	3
10	Excessive pressure on operating management or personnel to meet financial targets exerted by board of directors or chief executive officers	88	160	5	45	0
11	Perceived or real adverse effects of reporting poor financial results on significant pending transactions, such as business combinations or contract awards	79	170	0	39	10
12	Significant, unusual, or highly complex transactions, especially occurring close to year end that pose difficult "substance over form" questions	104	157	0	35	2
13	Ineffective accounting and information systems, including situations involving reportable conditions	102	185	0	10	1
14	Significant bank accounts or subsidiary or branch operations in tax-haven jurisdictions for which there appears to be no clear business justification	89	153	4	52	0
15	Significant related-party transactions not in the ordinary course of business or with related entities are not audited or audited by another firm	98	160	5	35	0
16	Insufficient explanation in balance sheet footnotes, seasonal differences, generation of fictitious income and improper asset valuation	79	170	0	37	12
	PRESSURE {Adapted from Mansor 2015; Zahari et al. (2019)' SAS 99}					
1	High degree of competition or market saturation, accompanied by declining margins can pressure management to engage in fraudulent practices	108	180	0	9	1
2	Recurring negative cash flows from operations or an inability to generate cash flows while reporting earnings and earnings growth	85	163	5	45	0
3	High degree of competition or market saturation, accompanied by declining margins	111	150	0	35	2
4	Operating losses making imminent threat of bankruptcy or foreclosure, or hostile takeover.	104	160	0	32	2
5	Profitability or trend level expectations of investment analysts, institutional investors, significant creditors, or other external parties (particularly expectations that are unduly aggressive or unrealistic), including expectations created by management in, for example, overly optimistic press releases or annual report messages smacks fraud risk	101	186	0	10	1
6	Information available indicates that management's or those charged with governance's personal financial situation is threatened by the entity's financial performance arising from the following: significant financial interests in the entity, significant portions of their compensation (for	96	153	4	45	0

	example, bonuses, stock options, and earn-out arrangements) being contingent upon achieving aggressive targets for stock price, operating results, financial position, or cash flow and personal guarantees of debts of the entity					
E	**CAPABILITY** {Adopted from Mansor (2015)}					
1	Having and exercising excessive power	119	178	0	1	0
2	Job or work overlapping	96	146	4	42	10
3	Too much power to coerce other employees	95	153	5	35	10
4	Ability to pursued others	86	173	0	34	5
5	Too much resistance to stresses	104	167	0	25	2
6	Ability to convincingly deceive and tell lies	99	188	0	1	0
7	Too much egoism and over confidence	96	156	4	42	0
8	Specialization in one function for a long duration	85	163	5	35	10
9	Confidence of risk bearing	76	173	0	44	5

Data Analysis

Table 2 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
FALFINR	5	27.00	2668.00	953.6000	1125.25366	1.046	.913	-.081	2.000
PRESSR	5	53.00	4487.00	1609.2000	1911.43878	1.011	.913	-.388	2.000
PCAPBL	5	18.00	1497.00	534.4000	635.41270	1.051	.913	-.294	2.000
Valid N (listwise)	5								

The descriptive statistics for the dependent variable, falsification of financial report (FALFINR), with the independents variables; pressure (PRESSR), and Capability (PCAPBL) were represented in table 1. The mean is used to establish a baseline. The maximum and minimum numbers, on the other hand, aid in the detection of data problems. The variation from the mean is represented by the standard deviation. It is a risk indicator; the greater the standard deviation, the greater the risk. The standard deviation is a metric that expresses how much each item in a dataset deviates from the mean. It is the most reliable and extensively used metric. The standard deviations in the firms are 1125.25, 1911.44, and 635.41 for FALFINR, PRESSR, and PCAPBL respectively.

Hypothesis 1

H_{01}: Pressure has no significant effect on the prevention of financial statement falsification among non-financial firms listed in Nigeria.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1.000[a]	.999	.999	40.78056

a. Predictors: (Constant), PRESSR

Table 3 shows that the three predictor variables jointly account for .99% of the variance in pressure and prevention of financial statement falsification ($R^2 = 0.999$, Adjusted $R^2 = 0.999$). The correlation coefficient ($R = 1.000$) shows that there is a strong positive correlation between the independent variables and the dependent variable.

Table 4: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5059794.038	1	5059794.038	3042.471	.000[b]
	Residual	4989.162	3	1663.054		
	Total	5064783.200	4			

a. Dependent Variable: FALFINR
b. Predictors: (Constant), PRESSR

The results of the ANOVA in Table 4 confirm that the overall regression model is significant F= 3042.471, p = 0.000 < 0.05). It shows that the predictive power of the pressure has significant effect on the prevention of financial statement falsification.

Table 5: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.739	25.046		.269	.805
	PRESSR	.588	.011	1.000	55.159	.000

a. Dependent Variable: FALFINR

The regression coefficients of Table 5 show that the predictor contributes statistically significant to prevention of financial statement falsification. This finding suggests that an increase in pressure of one unit is linked with a corresponding 0.588 unit change in prevention of financial statement falsification other things held constant. The null hypothesis is rejected and the alternate hypothesis is accepted since all of the p-values are less than the 0.05 level of significance. The pressure has significant effect on the prevention of financial statement falsification among non-financial firms listed in Nigeria.

Hypothesis 2

H_{02}: Fraud perpetrators' capabilities do not have a significant effect on the prevention of financial statement falsification among non-financial firms listed in Nigeria

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.999[a]	.998	.998	56.17413

a. Predictors: (Constant), PCAPBL

Table 6 shows that the three predictor variables jointly account for .99% of the variance in fraud perpetrators' capabilities and prevention of financial statement falsification (R^2 = 0.998, Adjusted R^2 = 0.998). The correlation coefficient (R = 0.999) shows that there is a strong positive correlation between the independent variables and the dependent variable.

Table 7: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5055316.602	1	5055316.602	1602.048	.000[b]
	Residual	9466.598	3	3155.533		
	Total	5064783.200	4			

a. Dependent Variable: FALFINR
b. Predictors: (Constant), PCAPBL

The results of the ANOVA in Table 7 confirm that the overall regression model is significant F= 1602.048, p = 0.000 < 0.05). It shows that the predictive power of the fraud perpetrators' capabilities has significant effect on the prevention of financial statement falsification.

Table 8: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.115	34.483		.235	.829
	PCAPBL	1.769	.044	.999	40.026	.000

a. Dependent Variable: FALFINR

The regression coefficients of Table 8 show that the predictor contributes statistically significant to prevention of financial statement falsification. This finding suggests that an increase in fraud perpetrators' capabilities of one unit is linked with a corresponding 1.769 unit change in prevention of financial statement falsification other things held constant. The null hypothesis is rejected and the alternate hypothesis is accepted since all of the p-values are less than the 0.05 level of significance. The fraud perpetrators' capabilities have significant effect on the prevention of financial statement falsification among non-financial firms listed in Nigeria.

Discussion of Findings

Hypothesis one revealed that the pressure has significant effect on the prevention of financial statement falsification among non-financial firms listed in Nigeria. The result is in line with Ariany and Murtanto (2024) founds that pressure has a significant effect on financial statement fraud. This result disagreed with Yono and Indira (2024) results showing that external pressure has no significant association with fraudulent financial reporting.

Hypothesis two indicated that the fraud perpetrators' capabilities have significant effect on the prevention of financial statement falsification among non-financial firms listed in Nigeria. Yadiati et al (2023) found that capability has a positive effect on the detection of fraudulent financial statements. Also, Achmad et al. (2022) study showed that capability affect fraudulent financial reporting.

Conclusion and Recommendations

The study investigated the effect of fraud risk factors on the prevention of financial statement falsification, using pressure and fraud perpetrators' capabilities on the prevention of financial statement falsification among non-financial firms listed in Nigeria. Using regression analysis, the study revealed that pressure and fraud perpetrators' capabilities have significant effect on prevention of financial statement falsification.

This implies that understanding fraud risk factors helps prevent financial statement falsification by turning abstract theoretical risks into concrete, actionable internal controls. Instead of waiting for a fraud to occur, organizations use these risk factors—derived from the Fraud Pentagon framework as predictive diagnostic tools to systematically block the pathways to corporate fraud.

Based on the results, the following recommendations were made:

1. When compensation packages depend entirely on hitting aggressive quarterly metrics or stock price spikes, executives face severe pressure to "cook the books" to secure their bonuses. Here the company need to implement strict clawback policies that

allow the organization to reclaim incentive-based compensation if financial statements later require material restatement due to fraud or error.

2. To effectively eliminate a perpetrator's capability and opportunity to manipulate financial records, organizations can enforce Strict Segregation of duties; ensure that no single individual has complete control over a financial transaction from start to finish.

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