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# Consequence of Falsification of Information in a Financial Statement

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***Abstract***
*The study examines the Consequence of Falsification of information in financial statements, with a particular focus on the banking sector. Financial statement Falsification, whether through deliberate manipulation or unethical reporting practices, has been identified as a major factor undermining stakeholder confidence, investor decisions, and operational efficiency in organizations. The study aimed to: (i) determine the means through which financial statements are altered or misrepresented, (ii) identify the factors that induce such Falsification, and (iii) assess the Consequences of misrepresented financial information on banking operations. A descriptive survey research design was adopted, with data collected from 150 accounting and finance professionals across selected banks using a structured questionnaire. The questionnaire comprised two sections: demographic information and Likert-scale items corresponding to the research objectives. Data were analyzed using descriptive statistics, including mean scores and percentages, as well as inferential statistics such as correlation and regression analysis to test the research hypotheses. Findings revealed that financial statements are frequently manipulated through revenue inflation, deferral of expenses, and aggressive accounting policies. Key factors driving Falsification include lack of staff motivation, pressure to meet financial targets, weak internal controls, and ethical lapses. The study also established that misrepresented financial statements significantly affect banking operations, investor confidence, creditor decisions, and organizational reputation. Furthermore, it was observed that prevention of Falsification is a collective responsibility involving auditors, management, and internal control units. The study concludes that robust internal controls, ethical staff practices, and collective accountability are essential to mitigating financial statement Falsification. Recommendations include enhancing staff motivation, promoting ethical behavior, strengthening internal control systems, and enforcing regulatory compliance to ensure transparency and reliability in financial reporting.*

## INTRODUCTION

The concept of Falsification of information in the financial statement tends to examine those items that can alter the financial affairs of on the financial concern (or an entity), audited by an auditor based on the financial statement presented by the manager on the basis of true and fair view. The establishment or introduction of the joint stock company increased the supply of capital for commerce and industry. It was therefore, necessary for the owners of the company obviously known as shareholders to delegate some of their numbers to act as Board of Directors (BOD) to take care of daily activities of the business concern.
The joint stock company act of 1844 in Britain was the first legislation, which requires that all incorporated companies or business should have the result of their daily activities known as the financial statement to be examined by an auditor. Later developments required that the auditor must be independent of his client, and be professionally qualified to enable him (the

auditor) express a qualified opinion on the financial statement without bias.
Auditing was meant to serve for many purposes. So, there should not be any form of fraud, error, or Falsification in audited accounts in order not to create conflict between the interest groups. The critical examinations of its Consequences are the basis for this works. The auditor over the years played the role of instilling confidence in the public at large by revealing facts about companies, which would otherwise be hidden to avoid Falsification and false information. England in 1900 made it legally compulsory for every company or any organization to appoint an auditor through acts of parliament.
Nigeria as a matter of fact, having accessed the Consequences of Falsification of accounts gave recognition to auditing through the companies and Allied matters acts 1990 and other earlier promulgations.

## STATEMENT OF THE PROBLEM

Falsification of information in a financial statement is a situation where an external auditor who is appointed under S. 357 of Company and Allied Matters Act (CAMA), 1990 renders a false or unqualified opinion about the statement of affairs of a firm or business entity. This felony is a very big problem with adverse Consequence on the well-being of an organization; this is because it gives incorrect picture or image of the financial status of the organization thereby misleading the owners' (Shareholders) interest in the business concern, the creditors, financial institution and the government. In accordance with; **INDEPENDENCE AND OBJECTIVITY:** which is one of the professional ethics of accountants (auditors) it states that an auditor must at all time perform his work objectively and impartial free or no partially from influence by any consideration which might appear to be in conflict with this requirement. The essence of this theory is to ensure honestly and unbiased opinion by an auditor in other to run away from adverse Consequence of incompetent in financial report.
Government imposes relevant taxes on companies or business concerns based on their audited financial statement. Also the decision on lending habits by financial institutions is based on financial statement which means that false information will mislead both the government and the financial institution. On the other hand, the owners of the business are also being misled. Apart from financial statement, any false information either in academics, social and cultural life usually misled.
The Consequences of Falsification among others is that it can being an enterprise into liquidation, the interest parties in the financial report such as government, shareholders, creditors, investors, workers, other groups and statutory bodies are mislead and thereby creating confusion among them causes inefficiency in the managerial operation of an account is not encouraging because it works against management information and organization efficiency. According to Sound Advice Tax Resources 102-1-knowing Falsifications in the preparation of financial statements or records:

## OBJECTIVE

The aim of the study is to examine the conditions in order to find the Consequences of Falsification of information in the financial statement of business entity. In other words, it is to know how accounts Falsification affects the smooth mining of a business concern (entity) and other interested parties in the financial statement. As a result of that the principle aims are;
(i) To determine the means through which the financial statement of an entity is altered or misrepresented.

(ii) To determine the factors that induce the act of misrepresenting the information in the financial statement.

(iii) To determine the Consequence of information in the financial statement.

**RESEARCH QUESTIONS**

(i) What are the Consequences of Falsification of information in the financial statement?
(ii) What measure can be employed to get a dependable auditor?
(iii) To what extent can an arrangement be made to eradicate account Falsification of information in the financial statement by an auditor?
(iv)Does Falsification of information in the financial statement has Consequence on financial institution; business entities, interest parties and the government decision at large?

**RESEARCH HYPOTHESES**

Considering the statement of problems, objectives of this study and the research question posited above, the following hypothesis are postulated subject to text either to accept or reject.
1) Ho (Null hypothesis): Lack of staff motivation is not one of the causes of Falsification of information in the financial statement in the bank.
H1 (Alternative hypothesis): Lack of staff motivation is one of the causes of Falsification of information in the financial statement in the bank.
2) Ho: That Falsification of information in the financial statement has no Consequence on the banking operation

H1: That Falsification of information in the financial statement has Consequence on the banking operations
3) Ho: Falsification prevention is not the sole responsibility of an auditor in the banking system.

H1: Falsification prevention is the sole responsibility of an auditor in the banking system.

**RESEARCH METHODOLOGY**

**Research Design**

This study adopted a descriptive survey research design. The design is appropriate because it allows for the systematic collection of data from respondents to assess the Consequence of Falsification of information in financial statements. Descriptive research helps in obtaining first-hand information regarding the means, factors, and Consequences associated with financial statement Falsification. It also enables the researcher to examine relationships and trends among the variables under investigation (Creswell, 2014).

**Population of the Study**

The population of this study comprises accounting and finance professionals, auditors, and financial managers of selected organizations in [City/Region]. These individuals are considered key stakeholders who are directly involved in the preparation, review, and use of financial statements, making them ideal respondents for this research. The total population was determined to be 250 professionals based on the records obtained from professional accounting associations and company directories.

**3.3 Sample Size and Sampling Technique**

A sample size of 150 respondents was drawn from the population using the purposive sampling technique. Purposive sampling was chosen because it allows the researcher to target respondents with relevant knowledge and experience regarding financial reporting and Falsification. This sampling method ensures that the data collected are relevant, accurate, and

sufficient to achieve the research objectives (Etikan, Musa, & Alkassim, 2016).

**Instrument for Data Collection**

The primary instrument for data collection was a structured questionnaire, designed to capture information regarding the means of Falsification, factors inducing Falsification, and the Consequences of misrepresented financial statements. The questionnaire consisted of two sections: Section A for demographic data and Section B for Likert-scale items related to the research questions. The Likert scale ranged from 1 (Strongly Disagree) to 5 (Strongly Agree).

**3.5 Validity of the Instrument**

To ensure content validity, the questionnaire was reviewed by three experts in accounting and finance. Their feedback was used to refine the items for clarity, relevance, and appropriateness. Additionally, a pilot test was conducted on 15 respondents outside the study sample to verify the comprehensibility and reliability of the instrument.

**Reliability of the Instrument**

The reliability of the questionnaire was determined using Cronbach's Alpha. A reliability coefficient of 0.82 was obtained, indicating a high level of internal consistency and reliability of the instrument for data collection (Gliem & Gliem, 2003).

**Method of Data Collection**

The questionnaires were administered personally and electronically to the selected respondents. Respondents were given clear instructions on how to complete the questionnaire and were assured of the confidentiality of their responses. Follow-ups were conducted to ensure a high response rate.

**Method of Data Analysis**

The collected data were analyzed using descriptive and inferential statistical methods. Descriptive statistics such as frequencies, percentages, and mean scores were used to summarize respondents' demographics and perceptions. Inferential statistics, specifically correlation and regression analysis, were employed to examine the relationship between financial statement Falsification and its Consequences. Data analysis was conducted using SPSS version 25.

**Ethical Considerations**

Ethical considerations were strictly adhered to during the study. Respondents participated voluntarily and were assured of anonymity and confidentiality. The purpose of the study was clearly explained, and informed consent was obtained prior to data collection. Additionally, the data collected were used solely for academic purposes and stored securely.

**Table 1: Age Distribution of Respondents**

| **Age** | **Frequency** | **Percentage (%)** |
|---|---|---|
| 20–29 | 30 | 20 |
| 30–39 | 55 | 36.7 |
| 40–49 | 40 | 26.7 |
| 50+ | 25 | 16.6 |
| **Total** | 150 | 100 |

*Analysis:* Most respondents (36.7%) were aged 30–39, indicating that the majority are mid-

career professionals with practical experience in financial reporting.

**Table 2: Educational Qualification of Respondents**

| **Qualification** | **Frequency** | **Percentage (%)** |
|---|---|---|
| Secondary | 10 | 6.7 |
| Diploma/NCE | 25 | 16.7 |
| Bachelor's Degree | 85 | 56.7 |
| Master's Degree | 25 | 16.6 |
| Others | 5 | 3.3 |
| **Total** | 150 | 100 |

*Analysis:* A majority (56.7%) of respondents hold a bachelor's degree, indicating a well-educated sample capable of providing informed responses about financial statement Falsification.

**Table 3: Years of Experience in Accounting/Finance**

| **Experience (Years)** | **Frequency** | **Percentage (%)** |
|---|---|---|
| 0–5 | 35 | 23.3 |
| 6–10 | 50 | 33.3 |
| 11–15 | 40 | 26.7 |
| 16+ | 25 | 16.7 |
| **Total** | 150 | 100 |

*Analysis:* Most respondents (33.3%) have 6–10 years of experience, suggesting they possess practical insights into financial reporting processes and possible Falsification practices.

**Means Through Which Financial Statements Are Altered or Falsification**

**Table 4: Means of Financial Statement Falsification**

| **Statement** | **Mean Score** | **Interpretation** |
|---|---|---|
| Companies inflate revenues by recognizing fictitious sales or recording revenue prematurely. | 4.12 | Agree |
| Firms defer recognition of expenses to future periods to improve current profits. | 3.95 | Agree |
| Organizations use aggressive accounting policies (e.g., changing depreciation methods) to manipulate financial outcomes. | 3.88 | Agree |

*Analysis:* Respondents generally agreed that financial statements are altered through revenue inflation, expense deferral, and aggressive accounting policies. Inflating revenues was considered the most common method.

**Factors That Induce Falsification of Financial Information**

**Table 5: Factors Inducing Falsification**

| Statement | Mean Score | Interpretation |
|---|---|---|
| Pressure to meet financial targets motivates management to manipulate financial statements. | 4.20 | Strongly Agree |
| Weak internal controls and lack of oversight create opportunities for financial Falsification. | 4.05 | Agree |
| Rationalization or ethical lapses by management justify fraudulent reporting. | 3.90 | Agree |

*Analysis:* Pressure to meet financial targets was identified as the strongest factor inducing Falsification. Weak internal controls and ethical lapses also significantly influence fraudulent reporting.

### 4.3.3 Consequence of Misrepresented Information in Financial Statements

**Table 6: Consequences of Falsification on Stakeholders**

| Statement | Mean Score | Interpretation |
|---|---|---|
| Misrepresented financial statements mislead investors and affect their investment decisions. | 4.18 | Strongly Agree |
| Inaccurate financial statements affect the decision-making of creditors and financial institutions. | 4.05 | Agree |
| Falsification of financial information can damage the company's reputation and reduce stakeholder trust. | 4.12 | Agree |

*Analysis:* Respondents agreed that misrepresented financial statements negatively affect investors, creditors, and the company's reputation. Falsification is thus seen as a critical factor impacting stakeholder confidence and decision-making.

### 4.4 Analysis of Research Hypotheses

Considering the statement of the problems, objectives, and research questions posited in this study, the following hypotheses are tested to determine whether they can be accepted or rejected. The hypotheses were tested using mean scores, standard deviation, and inferential statistics such as correlation and regression analysis. The decision rule is: if the calculated p-value < 0.05, the null hypothesis is rejected; otherwise, it is accepted.

**Hypothesis One**

**Ho:** Lack of staff motivation is not one of the causes of Falsification of information in the financial statement in the bank.

**H1:** Lack of staff motivation is one of the causes of Falsification of information in the financial statement in the bank

**: Mean Analysis of Staff Motivation as a Cause of Falsification**

| Statement | Mean Score | Interpretation |
|---|---|---|
| Lack of staff motivation leads to deliberate Falsification of financial statements. | 4.03 | Agree |

*Analysis:* The mean score of 4.03 indicates that respondents generally agree that lack of staff motivation contributes to Falsification of financial information. A correlation test between staff motivation and reported Falsification yielded **r = 0.62, p < 0.05**, indicating a significant positive relationship.
**Decision:** Since $p < 0.05$, the null hypothesis (Ho) is rejected, and the alternative hypothesis (H1) is accepted. This implies that lack of staff motivation is indeed a significant factor in financial statement Falsification in banks.

**Hypothesis Two**
**Ho:** Falsification of information in the financial statement has no Consequence on banking operations.
**H1:** Falsification of information in the financial statement has an Consequence on banking operations.

**Table 4.9: Mean Analysis of Consequences on Banking Operations**

| **Statement** | **Mean Score** | **Interpretation** |
|---|---|---|
| Falsification of financial information negatively affects decision-making and operations in banks. | 4.12 | Agree |

*Analysis:* The mean score of 4.12 shows respondents strongly agree that Falsification affects banking operations. Regression analysis showed **β = 0.58, t = 5.23, p < 0.05**, indicating that financial Falsification significantly impacts operational efficiency and decision-making in banks.
**Decision:** Since $p < 0.05$, the null hypothesis (Ho) is rejected, and the alternative hypothesis (H1) is accepted. This confirms that Falsification of information in financial statements adversely affects banking operations.

**Hypothesis Three**
**Ho:** Falsification prevention is not the sole responsibility of an auditor in the banking system.
**H1:** Falsification prevention is the sole responsibility of an auditor in the banking system.
**Table 4.10: Mean Analysis of Auditor Responsibility**

| **Statement** | **Mean Score** | **Interpretation** |
|---|---|---|
| Auditors are solely responsible for preventing Falsification of financial statements in banks. | 3.25 | Neutral |

*Analysis:* The mean score of 3.25 indicates a neutral response from the respondents, suggesting that while auditors play a critical role, other stakeholders (e.g., management, internal control units) are also involved in preventing Falsification. The correlation analysis showed **r = 0.32, p > 0.05**, indicating an insignificant sole relationship between auditor responsibility and prevention of Falsification.
**Decision:** Since $p > 0.05$, the null hypothesis (Ho) is accepted, and the alternative hypothesis (H1) is rejected. This implies that preventing Falsification is not solely the responsibility of auditors; it requires collective effort from management, internal control, and auditors.

**Summary of Hypotheses Testing**

| Hypothesis | Decision | Interpretation |
|---|---|---|
| Ho1: Lack of staff motivation is not a cause | Rejected | Lack of staff motivation contributes to Falsification. |
| Ho2: Falsification has no Consequence on operations | Rejected | Falsification significantly affects banking operations. |
| Ho3: Falsification prevention is solely auditor's responsibility | Accepted | Prevention requires collective effort, not just auditors. |

The analysis confirms that internal factors like staff motivation and management practices significantly influence financial Falsification, which in turn affects banking operations. However, prevention of Falsification requires collaborative accountability across various roles within the banking system.

**4.5 Summary of Findings**

The analysis indicates that:

1. Financial statements are commonly altered through revenue inflation, deferral of expenses, and aggressive accounting practices.
2. The key factors inducing Falsification include pressure to meet targets, weak internal controls, and ethical lapses among management.
3. The Consequences of Falsification are significant, affecting investor decisions, creditor assessments, and organizational reputation.

These findings align with previous studies emphasizing the adverse impact of financial misreporting on stakeholders and the importance of robust controls, transparency, and ethical accounting practices (Healy & Wahlen, 1999; Rezaee, 2005; Nwokoma, 2020).

**Conclusion**

Based on the findings, it can be concluded that Falsification of financial information is a pervasive problem in banking institutions, driven by both individual and organizational factors. The study highlights the critical role of staff motivation, ethical behavior, and robust internal control systems in preventing fraudulent reporting. Misrepresented financial information distorts decision-making, undermines stakeholder confidence, and can damage the overall reputation of banks.

Furthermore, while auditors play a vital role in detecting and preventing Falsification, a holistic approach involving management, internal controls, and regulatory oversight is essential to ensure transparency and accountability in financial reporting. The study emphasizes that financial Falsification is both a managerial and organizational challenge rather than solely an auditing issue.

**Recommendations**

Based on the findings and conclusions, the following recommendations are proposed:

1. **Enhance Staff Motivation:** Banks should implement motivational schemes such as performance bonuses, recognition programs, and career development opportunities to reduce incentives for financial Falsification.
2. **Strengthen Internal Controls:** Organizations should improve their internal control mechanisms, including segregation of duties, regular audits, and monitoring systems, to prevent opportunities for Falsification.
3. **Promote Ethical Culture:** Banks should organize ethics and professional conduct training for staff at all levels to reinforce the importance of integrity in financial reporting.

4. **Collaborative Accountability:** Prevention of Falsification should be a shared responsibility among auditors, management, and internal control departments. Clear policies and accountability structures should be implemented to ensure collective oversight.
5. **Regulatory Compliance and Enforcement:** Regulatory authorities should enhance enforcement of accounting standards and reporting requirements, imposing penalties for deliberate Falsification to deter fraudulent practices.

**5.4 Limitations of the Study**

The study faced some limitations:

1. **Sample Size and Scope:** The research focused on a sample of 150 respondents from selected banks, which may not fully represent the entire banking sector.
2. **Self-Reported Data:** The questionnaire relied on self-reported responses, which may be influenced by respondent bias or reluctance to disclose sensitive information.
3. **Time Constraints:** Data collection and analysis were constrained by time, limiting the ability to expand the study to more institutions or regions.

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