



# Perceived Ethical Climate and Forensic Accounting Services: Evidence From the Nigerian Public Sector

Nnedu Stanley Chinonso<sup>1</sup>, Aggreh Meshack<sup>2</sup>

<sup>1</sup>Accounting Department, Veritas University, Abuja, Nigeria

<sup>2</sup>Accountancy Department, Nnamdi Azikiwe University, Awka, Nigeria

nnedus@veritas.edu.ng, aggrehmeshack@gmail.com

**Abstract:** *It has been maintained that no matter the level of professional forensic accountants' expertise, they would not achieve the goals of detecting and preventing fraud without the necessary supportive ethical climate. Therefore, this study investigated the effect of perceived ethical climate and the use of forensic accounting services for the detection and prevention of fraud in the Nigerian public sector. The study used data collected from the responses of 133 senior staff in the finance and accounts department of the six-area council in Abuja. The method of data analysis technique adopted for this study is multiple regression analysis with the aid of Statistical Package for Social Sciences (SPSS). The study found that perceived ethical climate (principle ethical climate and benevolence ethical climate) has a positive and significant effect on the application of forensic accounting services in the selected public sectors of Nigeria. The study concluded that one of the key elements influencing the use of forensic accounting services in the public sector is the perceived ethical climate. This study recommends that professional accountants should eschew the temptation to mislead and manipulate financial information, even while inaccuracies or differences of opinion regarding the applicability of forensic accounting services laws do exist.*

**Keywords:** *Perceived ethical climate; forensic accounting services; fraud detection and prevention; Nigerian public sector*

## I. Introduction

The impact of Global economic crisis has increased the opportunities for fraudulent practices. In this regard, it is widely believed in Nigeria that government Ministries, Departments, and Agencies (MDAs) are among the most susceptible sectors to fraudulent practices due to lax anti-corruption management (Ewa, Adesola, & Kankpang, 2019). The increasing rate of fraud (i.e., bribery and extortion and fund embezzlement) in the Nigerian public sector has caused grave concern to all stakeholders. Recently in the public sector, the Economic and Financial Crimes (EFCC) uncovered a high-profile fraud involving the suspended Accountant General of the Federation (AGF), Ahmed Idris, and three others in connection with an alleged N109 billion fraud case.

The prevalence of public sector fraud has been having negative consequences on the nation's growth and development. Evidence abounds that high-level audit expertise is needed in the detection and prevention of fraud in this current complicated financial system era amidst global financial fraud and white-collar crimes (Sulistyowati & Supriyati, 2015; Lannai & Muslim, 2021; Agustina, Nurkholis & Rusydi, 2021). The fundamental responsibility of auditors is to offer reasonable assurance that accounting records are presented in conformity with accounting and audit standards, despite the fact that their function is wrongly connected

with fraud detection and prevention (Othman et al., 2015; Samimi, Badavar & Mottaghi, 2022).

Forensic accounting services became important in the fight against corporate fraud because of financial auditors' limitations in fraud detection and prevention (Kranacher & Riley, 2019). Moreover, Sule, Yusof and Bahador (2019) found an audit expectation gap in fraud prevention and detection in Nigeria. The main effective option available to Nigerian anti-corruption institutions for reducing corruption in the nation is forensic accounting services (Suleiman & Ahmi, 2018). This implies that forensic accounting services are provided by experts to combat financial and other related fraud. It is a strategic approach for analyzing and minimizing financial crimes and fraud through forensic auditing techniques. However, no matter the level of professional forensic accountants' expertise, they would not achieve the goals of detecting and preventing fraud without the necessary supportive ethical climate (Lawal et al., 2021). Despite the well-researched role of ethical climate on different aspects of firm performance, empirical studies on the effect of ethical climate on the use of forensic accounting services for the detection and prevention of fraud in the public sector are limited. Therefore, it is necessary to investigate whether perceived ethical climate affects the use of forensic accounting services for the detection and prevention of fraud in the Nigerian public sector.

## **II. Review of Literatures**

There are different climates in the workplace, and these climates affect the ability to achieve goals and objectives. Due to recent frauds that damaged the public's trust in financial statements and the accountants who generate them, the ethical climate in the accounting profession has become a significant national problem (Rogoi & Perica, 2022). The foundation for all other performance requirements is a strong ethical foundation, which is the basis for true professionalism and societal development (Turpen & Witmer, 1997). As a result, the term "ethical climate" refers to how civil servants collectively see the moral values that are promoted and modelled there. These moral values are anticipated to have an impact on how the public sector behaves and makes ethical decisions (Victor & Cullen, 1988). One of the key elements influencing the use of forensic accounting services in an organization is the perceived ethical climate. In this regard, professional norms may be supported by the ethical climate of an organization.

Two of the ethical climates initiated by Victor and Cullen (1988) that are related to this study are principle ethical climate and benevolence ethical climate. According to Saygili et al (2020), benevolence ethical climate indicates the moral and ethical belief that decisions made should always be based on the concern for the general well-being of all stakeholders, i.e., the interest at the heart of the decision is to maximize the benefit to the largest possible internal and external individuals. In government establishments where a benevolence ethical climate succeeds, all decisions have to convey benefits to the majority of persons including internal and external stakeholders of the establishments (Cullen et al., 2003). The principle ethical climate is such that the decision-making process focuses on the laid down laws and rules, policies, procedures, and regulations (Victor & Cullen, 1988). "All decisions within the organization need to refer to and comply with its rules and regulations" (Yến, 2020, p.87).

Due to the emphasis on adhering to established government regulations or professional rules and codes of conduct, it is simple to forecast and promote ethical behaviour when the organizational climate encourages people to follow principled climates (Shafer, Poon & Tjosvold, 2013). The practice of forensic accounting services is based on this moral conduct. According to Winata, Kusnawan, and Simbolon (2020), an accounting firm with a

strong ethical climate would be more likely to recognize each fraud-related ethical concern. Therefore, according to the argument made by Ismail and Yuhanis (2018), an accountant who is committed to his or her profession should be more likely to react negatively to an ethical climate that is at odds with his or her beliefs and ethical standards. For instance, an organizational ethical climate that prioritizes serving the public interest should encourage teamwork among employees as they work toward this common objective, which will ultimately result in greater levels of professional ethics during a forensic accounting services service (Shafer et al., 2013). This study is interested in determining whether ethical climates are consistently recognized within organizations and whether they have an impact on the attitudes and actions of accountants who provide forensic accounting services.

Empirical studies have generally found that ethical climate has a significant effect on various organisational performance (e.g: Farouk & Jabeen, 2018; Sen & Rathore, 2018; Sabiu et al, 2019; Shah & Abd Rahim, 2019; Saygili et al, 2020; Y n, 2020; Ramdhan et al, 2021; Ezeanyim & Ezeanolue, 2021; Danilwan & Dirhamsyah, 2022). For example, Saygili et al (2020) conducted a survey of 460 participants in the healthcare sector and found that principled climate was positive and significantly related to performance of health staff. Farouk and Jabeen (2018) indicated that the perceptions of public sector employees in the United Arab Emirates are positively influenced by the organization's ethical climate, which in turn affects organizational performance. Using structural equation modelling, Shah and Abd Rahim (2019) reported that the effect of ethical climate on corporate financial performance in the context of Pakistan was positive and significant. Similarly, Y n (2020) used 364 respondents to show that different perceptions of the organization's ethical environment positively influence different individual performances. Ezeanyim and Ezeanolue (2021) revealed that in the manufacturing sector of Nigeria ethical climate had a significant positive effect on the organization's performance in South-East Nigeria. In a Survey of 181 Nigerian public sector agencies, Sabiu et al (2019) also reported that ethical climate significantly mediated the relationship between performance appraisal and organizational performance. The study made recommendations and drew suggestions for future research to enhance the performance of public sector agencies. Sen and Rathore (2018) used 80 employees to provide evidence to reveal that an ethical climate is critical to the IT sector as it impacts employee performance and commitment. Danilwan and Dirhamsyah (2022) examined 260 employees in the manufacturing sector in Indonesia and found that an appropriate ethical climate provided the necessary context for human resource practices to positively influence organizational performance. Ramdhan et al (2021) conducted a survey of 400 employees. The results showed that ethical climate has an influence on employee performance through corporate social responsibility. Based on the arguments above and the past empirical findings, the following hypothesis is formulated:

H1: Principle ethical climate has no significant effect on the application of forensic accounting services for fraud detection and prevention in Nigeria's public sector

H2: Benevolence ethical climate has no significant effect on the application of forensic accounting services for fraud detection and prevention in the Nigerian public sector

### **Theoretical Framework**

The study was anchored on the theory of planned behaviour. One of the most significant conceptual frameworks in behavioural research is Ajzen (1991)'s theory of planned behaviour. The central tenet of the theory of planned behaviour is that actual behaviour is a function of intention, which is dependent on (a) Attitude, which is a person's assessment of whether it is positive or negative to demonstrate particular behaviour (Jimmieson, Peach, & White, 2008) and (b) Subjective Norm, which is a type of ethical climate that either enables or

prevents exorbitant performing appropriate need (Cheng, Hung & Hsu, 2021). The final factor is perceived behavioural control, which represents a person's propensity to engage in behaviour based on his or her perception of their ability to do so or their perceived personal gains or losses from engaging in or refraining from engaging in that behaviour (Straatmann, Kohnke, Hattrup, & Mueller, 2016). Because of this, using forensic accounting services is an ethical decision, and ethical climate is a key factor in how organizations make ethical decisions (Buchan, 2005).

Despite the fact that the theory of planned behaviour has been widely applied to the study of behavioural intentions, a review of the literature in the field reveals that it has not been sufficiently applied to the study of ethical climate in relation to professional services, such as forensic accounting services in fraud detection and prevention. By examining the application of the theory of planned behaviour to comprehend how perceived ethical climate affects the use of forensic accounting services for fraud detection and prevention in the Nigerian public sector, this study seeks to close this research gap.

### III. Research Methods

The methodology adopted for this is the quantitative survey research design. This is because the primary purpose of this study is to establish the supposed relationships that exist between perceived ethical climate and the use of forensic accounting services using a questionnaire. This research design follows the cross-sectional approach since the data were collected at a point in time. This study focused on the population of 352 senior staff in the finance and accounts department of the six-area councils in Abuja with a sample size of 187 calculated using the Yaro Yamen formula. The primary data was collected from these 187 employees which were selected through a simple random sampling method. The research questionnaire for this study was adapted from previous studies that have gone through the ideal process of validation. Principle ethical climate and benevolence ethical climate was measured with item adopted from Victor and Cullen (1988). A sample item for principle ethical climate is "people are expected to comply with the law and professional standards over and above other considerations". Similarly, a sample item for benevolence ethical climate is "It is expected that one will always do what is right for the public". The scale for the measurement of forensic accounting services was adopted from the study of Lawal et al (2021) and modified as to suit our purpose as shown:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

Where  $Y$  is Forensic Accounting Services,  $X_1$  is Principle Ethical Climate,  $X_2$  is Benevolence Ethical Climate,  $\alpha$  is the slope of the equation,  $\beta$  is the coefficient of the variables, and  $e$  is the error term.

The method of data analysis technique adopted for this study is multiple regression analysis with the aid of SPSS. This study adopted the Cronbach reliability test with a standard of 0.70 as significant reliability for the questionnaire items for the study as presented in Table 1.

#### Reliability and Multicollinearity

Table 1 shows that the principle ethical climate had the highest reliability ( $\alpha = 0.796$ ), followed by forensic accounting services ( $\alpha = 0.785$ ), and benevolence ethical climate ( $\alpha = 0.760$ ). This demonstrates that all the items measuring the three variables were reliable as their Cronbach's Alpha values are above the prescribed threshold of 0.7. Furthermore,

Variance Inflation Factor (VIF), are below 10 which can be translated that multicollinearity does not seem to be an issue in the data collected.

**Table 1.** Reliability Coefficients and VIF of Variables

SN	Dimensions of Ethical Climate	No of Items	Cronbach's Alpha	VIF
1	Benevolence ethical climate	4	0.760	1.214
2	Principle ethical climate	4	0.796	1.214
3	Forensic accounting services	4	0.785	

**Source:** Researchers' Computation (2023) using SPSS 26

## IV. Results and Discussion

### 4.1 Hypotheses Testing

The hypothesis for this study states that perceived ethical climate (principle ethical climate and benevolence ethical climate) has no significant effect on the application of forensic accounting services in the selected public sector of Nigeria. Multiple regression was used to test this proposition and the result is presented in the form of a model summary, analysis of variance and beta coefficients.

#### a. Model Summary

Adjusted R squared tests the coefficient of determination which indicates the level of changes in the dependent variable due to variation in the independent variables.

**Table 2.** Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.656 <sup>a</sup>	.430	.421	.29940

a. Predictors: (Constant), principle ethical climate, benevolence ethical climate

**Source:** Researchers' Computation (2023) using SPSS 26

The multiple regression results generated with SPSS in Table 2 show the value of adjusted R squared was 0.421 an indication that there was a variation of 42.10% in forensic accounting services due to changes in principle ethical climate and benevolence ethical climate at 95% confidence interval. This indicates that 42.10% of changes in forensic accounting services could be accounted for by changes in the two dimensions of perceived ethical climate, namely principle ethical climate and benevolence ethical climate.

#### b. Analysis of Variance

Table 3 is the result of the ANOVA statistics. The F calculated value was significant at a 5% level of significance an indication that the data collected is ideal for concluding the population. This demonstrates that the model has a goodness of fit model.

**Table 3.** ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.797	2	4.399	49.069	.000 <sup>b</sup>
	Residual	11.653	130	.090		
	Total	20.450	132			

a. Dependent Variable: forensic accounting services

b. Predictors: (Constant), principle ethical climate, benevolence ethical climate

**Source:** Researchers' Computation (2023) using SPSS 26

### c. Regression Coefficients

The calculated multiple regression model in Table 4 can be transformed into the following equation:  $Y = 1.459 + 0.274X_1 + 0.380X_2 + e$

The multiple regression equation above indicates that when principle ethical climate and benevolence ethical climate is held to a constant zero, forensic accounting services would stand at 1.459.

**Table 4.** Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized	T	Sig.
		B	Std. Error	Coefficients		
1	(Constant)	1.459	.274		5.331	.000
	BEC	.274	.055	.366	5.019	.000
	PEC	.380	.067	.412	5.643	.000

a. Dependent Variable: forensic accounting services

**Note:** Benevolence Ethical Climate (BEC), Principle Ethical Climate (PEC)

**Source:** Researchers' Computation (2023) using SPSS 26

Furthermore, the result in Table 4 revealed that a unit increase in benevolence ethical climate would lead to an increase in forensic accounting services by a factor of 0.274, which has a p-value of 0.00. Similarly, the result showed that a unit increase in principle ethical climate would lead to an increase in forensic accounting services by a factor of 0.380, which has a p-value of 0.00. This means that principle ethical climate contributed more to the variation in forensic accounting services than the benevolence ethical climate. This study, therefore, rejects the null hypothesis and indicated that perceived ethical climate (principle ethical climate and benevolence ethical climate) has a positive and significant effect on the application of forensic accounting services in selected public sector Nigeria.

## 4.2 Discussion of Findings

The main objective of this study is to investigate the effect of perceived ethical climate and the use of forensic accounting services for fraud detection and prevention in the Nigerian public sector. The result revealed that perceived ethical climate (principle ethical climate and benevolence ethical climate) has a positive and significant effect on the application of forensic accounting services in selected public sector Nigeria. This implies that the foundation for all other performance requirements is a strong ethical foundation, which is the basis for true professionalism and societal development (Turpen & Witmer, 1997). For example, professional accounts that comply with the law and professional standards over and above other considerations are likely to use forensic accounting services for fraud detection and prevention. When such professional conduct is followed, it shows that public servants are actively concerned about the public interest for accountability. This study has shown that a proper ethical climate is a prerequisite for the use of forensic accounting services for fraud detection and prevention. Thus, one of the key elements influencing the use of forensic accounting services in an organization may be perceived ethical climate. The practice of forensic accounting services is based on this moral conduct. According to Winata, Kusnawan, and Simbolon (2020), an accounting firm with a strong ethical climate would be more likely to recognize each fraud-related ethical concern. Therefore, according to the argument made by Ismail and Yuhanis (2018), an accountant who is committed to his/her profession should be more likely to react negatively to an ethical climate that is at odds with their beliefs and ethical standards. These findings are in agreement with the findings of Saygili et al (2020) who found that principled ethical climate was positive and significance related to the performance of health staff.

This study also aligns with the theory of planned behaviour which represents a person's propensity to engage in behaviour based on their perception of their ability to do so or their perceived personal gains or losses from engaging in or refraining from engaging in that behaviour (Straatmann, Kohnke, Hattrup, & Mueller, 2016). Because of this, using forensic accounting services is an ethical decision, and ethical climate is a key factor in how organizations make ethical decisions (Buchan, 2005).

## V. Conclusion

This study seeks to investigate the effect of perceived ethical climate and the use of forensic accounting services for fraud detection and prevention in the Nigerian public sector. Based on the empirical findings, the study concludes that one of the key elements influencing the use of forensic accounting services in an organization may be perceived ethical climate. This study recommends that professional accountants should be first trained to strictly follow legal or professional standards in the conduct of their duties and more so in the use of forensic accounting services. Accountants should always use moral judgment in all aspects of their work. Accountants should refrain from utilizing sensitive information for their benefit or advantage. Professional accountants should eschew the temptation to mislead and manipulate financial information, even while inaccuracies or differences of opinion regarding the applicability of forensic accounting services laws do exist. Accounting professionals should check their actions to make sure they are adhering to generally accepted principles in the absence of particular regulations or standards.

This research has some limitations that spur future research. The sample size used may not be representative of all accountants in Nigeria. Therefore, future research could increase the sample size to cover beyond Abuja. In addition, future research should be done to investigate the effect of other factors on the use of forensic accounting services for fraud detection and prevention such as the technology environment which is an important factor globally.

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