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Impact of Fraud Preventive Measures on Good Corporate Governance

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Abstract

This study seeks to understand the impact of fraud preventive measures on good corporate governance within Omani public listed companies. Fraud preventive measures are considered as fraud risk assessment and preventive role of forensic accounting. This study also proposed that preventive role of forensic accounting mediates the relationship between fraud risk assessment and good corporate governance. Unit of analysis is public listed companies in Oman. This study utilized census sampling with quantitative cross sectional study. PLS-SEM was employed for the data and result analysis. Results suggest that, fraud risk assessment does not have significant impact on good corporate governance; whereas, preventive role of forensic accounting has significant impact on good corporate governance and it is also mediating between fraud risk assessment and good corporate governance. This study can assist regulators and policy makers towards inclusion of forensic accounting as permanent and compulsory component of the codes of corporate governance. Moreover, it is highly recommended for organizations to have in-house antifraud activity which can support and enhance good corporate governance. This study identifies forensic accounting as in-house preventive measure activity which can be available within an organization and working as governance management. This preventive role of forensic accounting is not explored before especially in the Omani market.

Keywords: fraud risk assessment, preventive role of forensic accounting, good corporate governance, public listed companies in Oman

1. Introduction

Improvement in the corporate governance is always necessitated and required due to new practices and ever increasing fraudulent activities. Improvements are usually driven by responses to high-profile failures of governance for which more strategic approach is needed in order to enhance corporate governance reforms (Johnson, Scholes, & Whittington, 2011). These strategic reforms can be termed as including forensic accounting preventive role in the form of governance management system and implementing fraud risk assessment as compulsory control.

Monetary value of the reported fraud cases is increasing yearly in spite of the availability of corporate governance codes, regulators, and conventional auditors (Vinita, Joe & Lee, 2008; Bhasin, 2013; ACFE, 2018; Rehman & Hashim, 2019). These rigorous and continuous frauds not only created expectation gaps (Xiaolu, Jieji, & Jian, 2016) but also necessitated improvement in the field of fraud detection and corporate governance. Improvement in the field of fraud detection can be achieved via implementation of fraud risk assessment and inclusion of forensic accounting's preventive role as governance management system.

In current business environment organizations are utilizing codes of corporate governance for compliance purposes only and not exploiting it to achieve its very essence i.e. attainment of satisfied shareholders (Zhu, 2016). Lack of well-formulated policies, lack of standards towards achieving corporate governance, lack of integrity, transparency and honesty in financial reporting, inefficient and ineffective system of risk assessment and non-independent board are few of the traits which can create barriers and hindrances in achievement of good corporate governance (GCG) (Vinita et al., 2008; Pretorius, 2015; Wessels & Wilkinson, 2016; Services, 2018). These traits not only execute poor corporate governance but also enhance the chances of fraud and fraud related activities.

Fraud risk assessment (FRA) is the corner stone of good corporate governance (Singleton & Singleton, 2010); however, it is ignored by many organizations (Rehman & Hashim, 2018). Furthermore, and in accordance with the recent survey, it was identified that cost of fraud is increasing at faster rate when compared with the spending on fraud risk management and majority of companies are not implementing fraud risk management at all (KPMG, 2019). FRA is the part of fraud risk management and deals with the development of control which is related to the detection and prevention of fraud (Leonard 2010). Moreover, FRA also supports organizations in developing controls with the aim of achieving corporate governance (Switzer, Mitchell & Mefford, 2015) as FRA can identify areas which can positively impact the achievement of organizational goals.

With regards to the detection and reporting of fraud, it is the responsibility of auditors to assure transparency in financial statements; moreover, auditors are also obliged to provide opinion on financial statements that organization's financials are free of fraud and free from material misstatement (International Organization of Supreme Audit Institutions, 2016). However, conventional auditors overlooked the role for fraud detection and label it as management's responsibility (AICPA, 2017; IIA 2016; Salem, 2012; Francine, 2018). Opinion of the auditor can be considered as persuasive verdict towards the assurance of "true and fair view" of organization's performance, but unfortunately in the Middle East and North Africa region (MENA) and when it comes to fraud detection; performance of the auditors is deemed to be insignificant (ACFE 2016). To coup up with the menace of fraud and to fulfil the duty of preventing and minimizing fraud, organizations required anti-fraud control, which is FRA and anti-fraud activity which is forensic accounting. Currently organizations consider forensic accounting as litigation claim settler, divorce claim settler, expert witness in court, detection of the money trail expert and as an activity which is available out-side organization (consultant) whose services can be called upon as and when required (Singleton & Singleton, 2010) i.e. emphasizing the role of detective nature.

Detective role of forensic accounting can only be helpful to organizations if they want to know the money trail and identify the perpetrators; however, preventive role of forensic accounting (FAP) defines and implement controls before the occurrence of fraud or its related activities. Unfortunately, the role of FAP is not visible in any of the codes of corporate governance established by many authorities including authorities in Oman. FAP is an activity which can be available within an organization that implements controls developed by FRA for the achievement of GCG. FAP can provide much needed security and satisfaction to shareholders by controlling, minimizing and eliminating fraud.

Corporate governance is relatively new in Oman as new codes of corporate governance are issued in the year 2016 and previous codes were issued in year 2002. Moreover, government's organizations are instructed recently to follow the codes of corporate governance (OEAA, 2019). Codes are issued and monitored by the Capital Market Authority (CMA, 2016). These codes require amendments and alterations to cater for the fraud prevention activities and controls and also it should define ways for organizations to achieve GCG. In terms of Omani market, very limited studies are available which can related to the area of corporate governance. Studies and researches which are conducted for corporate governance in Omani market are related to difference between new and old codes, impact of new codes on financial market and reporting time lines (Sanyal & Hisam, 2018; Al-Shammari, Brown & Tarca 2008; Baydoun, Maguire, Ryan, &Willett, 2013; Shehata, 2015; Baatwah, Salleh & Ahmad, 2015; Ellen, 2002). However, researcher was not able to find any study related to the Omani market which can define that how corporate governance can be considered as good and antifraud activities and controls can be considered as part of governance management system.

This study proposes FRA as a control and FAP as an activity which are having a direct relationship with GCG and also proposes that FAP mediates the relationship between FRA and GCG. FRA is a core control required towards the achievement of organization's corporate governance (KPMG, 2014), whereas FAP is an activity working towards the implementation of anti-fraud controls and assisting in achievement of GCG. This study is unique in its own way because it is recognizing the impact of in-house fraud related controls over GCG. In-house controls and activities are those which are available within the organizations and are always preferred as they coordinate and update themselves in accordance with the changes in organizational norms and industry practices. Contrary to in-house are the controls and activities which are out-side of the organization such as third party consultants, external auditors and regulators. Although, out-side controls and activities are necessary but they are not effective when compared with the in-house controls and activities as they are unaware from the understanding of the particular industry norms and changes in organizational practices. This study also suggests that FAP can be part of governance management system whereas previous studies only emphasizes on the detective role of forensic accounting which is not part of organizational management. This study also intends to combine significant empirical research and literature to identify the abilities of FRA on GCG with mediation impact of FAP, specifically in Omani public listed companies.

2. Literature Review

There are total 115 public listed companies listed in Muscat Stock Market (CMA, 2016) which are regulated by the codes of corporate governance and Commercial Companies Law. Good corporate governance (GCG) can only exist if the corporate governance is available within an organization. Therefore, it is better to briefly explain corporate governance before dwelling in to the details of GCG. This section also provides literature review for FAP, FRA and FAP as mediator.

2.1 Corporate Governance

Fraud and fraudulent activities initiated the need of corporate governance and necessitates corporate governance reforms (Bhasin, 2013; Johnson et al., 2011). Majority of the codes of corporate governance and its related committees were established after the occurrence of fraud (Bhasin, 2016). Corporate governance defines the process and procedure which enables organization to perform better for their shareholders (Baghel & Yadav, 2009). History is filled with situations where organizations demonstrated poor corporate governance and ends up in making losses and form bad reputation. Corporate governance codes are issued by the regulators with the intention to control the market, to provide transparency and to create accountability (Butt, 2012).

There are two major constituents of corporate governance namely board of directors (BOD) and senior management (SM) (Rehman & Hashim, 2018). Furthermore, corporate governance consists of two elements which are long term relationship and transactional relationship. Long term relationship element deals with assessments, incentives for SM and the relationship between SM and shareholders. Transactional relationship element deals with the disclosure, presentation, responsibility and authority which are directly related to the BOD (Butt, 2012). Moreover, corporate governance can be categorized as multiple terms system which can create control, leadership, individualism and business management (Broni & Velentzas, 2012). It is worth mentioning that availability of corporate governance cannot guarantee anything as organizations can utilize corporate governance as compliance check box only (Zhu, 2016) instead of gaining its true purpose; whereas, GCG demonstrates the organizations' seriousness towards control environment and also towards its business growth.

2.2 Good Corporate Governance

Good corporate governance (GCG) is widely considered as essential contributor towards improvement of overall economic performance and economic efficiency (Lee & Yap, 2017). It is a mechanism which drives the relationship between management performance and the interests of stakeholders. GCG will enable the efficiency and effectiveness of the company which eventually enhances the shareholders' trust (Rehman & Hashim, 2018). On the other hand, poor corporate governance deteriorates the performance of a company and also causes economic crisis in a country or even can cause global economic crisis, such as Lehman Brothers bankruptcy was the result of poor corporate governance which played major role in unfolding the financial crisis of 2007-2008 (Hamsyi, 2019; Sraders, 2018). Organizations which demonstrates GCG ensures positive growth and economic stability.

GCG is a system which implements five principles namely (a) transparency, (b) accountability, (c) responsibility, (d) independence and (e) fairness. With the assistance of these five principles, GCG brings the cumulative effort of BOD and SM with the aim of providing satisfaction to shareholders. Implementation of GCG ensures that organizations will have improved decision making process, perform compliance with laws and regulations and will also be socially active. Furthermore, GCG emphasizes on control environment and risk administration as significant components for organizational growth (Chen, Li & Shapiro, 2011; Laksmi & Kamila, 2018).

GCG enables organizations to identify and implement their economy in efficient and effective way which can reduce frauds and abuse of powers; moreover, GCG also provides organized flow of responsibility and accountability (Hashim, Mahadi & Amran, 2015; Musleh Al-Sartawi, 2018). GCG enhances organizational value (Emilia & Sami, 2012; OECD, 2014) and if GCG is properly implemented than values provided in Table 1 can be created (Rehman & Hashim, 2018):

Table 1. Values Created by Good Corporate Governance

Values	Description
Interest of stakeholders	Policies and strategies are developed to protect the stakeholders' interest. These policies are properly approved and implemented
Functions and obligations of board of directors	Board of directors and their related committees are formed with roles and responsibilities. Board is formed by knowing the expertise and knowledge related to business, accounting and auditing.
Integrity and ethics	It is obligatory for senior management to perform their duties with integrity and ethics. Any conflict of interest is required to be properly disclosed and senior management should perform their duties with care.
Transparency and disclosure	GCG obliges organizations to disclose all related parties transactions along with board resolutions and maintain transparency.

Source: Rehman and Hashim (2018)

As mentioned earlier, there are two major constituents of corporate governance namely board of directors (BOD) and senior management (SM) (Mohd-Sanusi, Rameli, Omar, & Ozawa, 2015, CMA, 2016; Rehman & Hashim, 2018). BOD and SM are the driving force towards achievement of GCG. These two major constituents are explained below:

2.2.1 Board of Directors

Good corporate governance (GCG) depends upon the regulations and commitment from the marketplace and also requires a healthy board culture. BOD is the foundation of corporate governance; moreover, BOD's characteristics and business performance assists in developing strong and effective corporate governance (Hoang, Abeysekera, & Ma, 2018; Collin, Ponomareva, Ottosson, & Sundberg, 2017; Ganesan, Kanthan, Mushtaq, & Yeap, 2018) which can be also be considered as GCG. BOD is responsible for the success of organization in making sure that its long term objectives are achieved and also plays vital role in establishing and monitoring corporate governance (Ganesan, Hwa, Jaaffar & Hashim, 2017).

In accordance with the available studies, selection of BOD is not random and they are selected by shareholders based on their connections with market and industry. Shareholders usually appoint more linked and robust BOD members so that they can provide better and broader perspective to shareholders (Rehman & Hashim, 2018). There is no hard and fast rule for the quantity or size of BOD in an organization; however, as per the law applicable in Oman minimum number of BOD should be three and maximum should be eleven (CMA, 2016). However, it is worth mentioning that board composition and their structure is significantly associated with frauds (Mohd-Sanusi et al., 2015). Moreover, majority of outside members on the BOD enhances the board’s efficiency, effectiveness and reduces the likelihood of frauds. Independence of the BOD assists in reducing agency cost and results in tighter monitoring of board activities thereby enhancing and improving organization’s performance (Bansal & Sharma, 2016). Furthermore, independent board helps improve stock prices and bring quality to corporate governance (Leonard, 2010).

It is required by law that BOD should meet at least four times a year (CMA, 2016). BOD meetings are necessary as they are not involved in day to day activities (Leonard, 2010). Meeting agenda should be circulated to BOD well in advance so that they are aware about the discussion and details about the item to be discussed (OECD, 2010). These meetings should be minuted with follow-up actions and decisions made by BOD (Bahrman, Manchanda, Roth & Mendes, 2012).

Effective and efficient board assures oversight role of BOD on senior management (SM), their actions, remuneration and compensation (Bahrman et al., 2012). It is considered as best practice that board's decisions should be communicated to the organization in order to have transparency, coherence and synergy (Zakaria, 2012; Mohd-Sanusi et al., 2015).

2.2.2 Senior Management

Senior management (SM) plays major role towards corporate governance. SM is responsible towards the implementation of the directives received in the shape of policies and guidelines from BOD (Mohd-Sanusi et. al, 2015; CMA, 2016). GCG creates separation and segregation between board and senior management. In past there were many companies which were publicly listed but have common CEO and Chairman of board (Keasey, Thomson & Right, 2012) and created many conflicts and agency problems. In order to protect shareholder's interest, organizations adopt two tier corporate systems namely BOD and SM, where board is appointed by shareholders and SM is appointed by BOD (Korine & Gomez, 2014).

SM is accountable for development, implementation and monitoring of corporate strategy directed towards achievement of organizational goals. SM is comprised of group of people responsible towards performance of organization such as CEO, CFO, and COO. SM is primarily responsible for achievement of mission and vision, goals, corporate performance, meeting targets and involve in day to day matters of the organization (Carcello, 2009).

SM sets and develops tone from the top which can be defined as attitude and culture of ethics and integrity. This is further drilled down towards whole of the organization (Brennan & McGrath, 2007; Patelli & Pedrini, 2015). This tone at the top develops the organizational culture towards fraud prevention or fraud enabler as SM's actions and mindsets for fraud can encourage similar actions by others within organization (Akkeren & Buckby, 2017; Weber, 2010; Bruisnsma & Wemmenhove 2009; Brennan & McGrath 2007; Mohd-Sanusi et al., 2015).

2.3 Preventive Role of Forensic Accounting

Forensic accounting can be considered as innovation in the field of fraud detection and prevention (Bhasin, 2013). Forensic accounting is considered in two broad roles namely detective and preventive roles. This paper is dealing with the preventive role of forensic accounting as prevention is always considered better (Mishra & Singh, 2017) than dealing with the actual fraud. In current business environment, forensic accounting is usually viewed for its detective role only and is called upon as and when required. Detective role of forensic accounting is also utilized for litigation claim settler, divorce claim settler, expert witness in court and detection of the embezzled money trail (Singleton & Singleton, 2010; Charles, Ramona & Suzanne, 2009).

In contrary to the detective role of forensic accounting, preventive role of forensic accounting (FAP) can be considered as an activity available within the organization and working in real time for developing control towards eradicating fraud and creating mitigating tools (Siregar & Tenoyo, 2015). FAP can become crucial and vital function towards fraud prevention and enhancing corporate governance (Siregar & Tenoyo, 2015) as majority of frauds may possibly be avoided if forensic accounting is made compulsory (Peshori, 2015). FAP also assist in preventing financial crisis not only for the individual organization but for the economy as whole (Shapiro, 2012).

FAP can be considered as an agent working towards protecting rights of principal. FAP with its abilities and understanding of fraud theories, can assists BOD and SM towards policy management, developing risk framework, identifying red flags which cannot be detected via regular accounting and auditing standards and also providing the recommendations and lesson learned reports with the aim of internal control implementation and fraud mitigation.

FAP can directly influence GCG by becoming the part of governance management system (Enofe at al. 2015) and preventing the fraud before its occurrence. FAP can provide much needed satisfaction to shareholders and can also eliminate the expectation gap which is created by conventional auditors (Adedire, 2016). FAP is always preferred over the detective role as FAP can be efficient and effective in responding to the threat of fraud.

2.4 Fraud Risk Assessment

Fraud risk assessment (FRA) is the major part of fraud risk management and cornerstone of good corporate governance (Leonard, 2010; Singleton & Singleton, 2010). FRA is a fundamental and core means for achieving effective corporate governance, internal controls and anti-fraud programs (Mohd-Sanusi et al., 2015). In order to achieve effective FRA, knowledge of fraud concepts should be considered in the applicable fraud environment (i.e. type of organization, time period and effectiveness of current internal controls). FRA is a continuous and ongoing exercise and cannot be considered as one-off task. Fraud risk is required to be assessed and updated on regular basis along with its mitigating factors (Rodgers et al., 2015; Singleton & Singleton, 2010; Leonard, 2010)

As mentioned earlier, major constituents of GCG are BOD and SM. It is the duty of BOD to assess and evaluate strategic risk which also includes fraud risk factors (COSO, 2016). These factors should be assessed and mitigated by all means (Rodgers et al., 2015). It is the duty of SM to assist BOD in providing details for FRA as it is the crucial step of risk management which can clarify the path towards achievement of GCG (Frigo & Anderson, 2009). BOD is responsible for the assessment of FRA and SM should devise it by considering all the rules, regulations and facts (OECD, 2014). FRA assists BOD in identifying potential fraud risk areas and its mitigating controls. It also assists SM in making effective and risk free decisions and to acknowledge the potential threat and oblige them to develop mitigating controls (Mohd-Sanusi et al., 2015).

2.5 Mediating Role of Forensic Accounting Preventive Role

Forensic accounting preventive role (FAP) provides a systematic flow of information which strengthens control mechanism and help in improving corporate governance (Enofe et al., 2015). In order for FRA to be effective, skills and knowledge of FAP can be considered as essential element which can define relationship between FRA and GCG. FAP performs tests and identifies the likelihood and related impact and update the FRA accordingly. FRA, which is usually linked with the organizational strategy map, identifies the areas which are prone to fraud and FAP provides related test and guidance as to the authenticity of such fraudulent areas (Siregar & Tenoyo, 2015). FRA with its updated policies and identification of likelihood of fraud provides assistance to FAP which can eventually affect the achievement of GCG.

2.6 Corporate Governance in Oman

Corporate governance is relatively new in Oman as new codes of corporate governance are issued in the year 2016 and previous codes were issued in 2002. Moreover, government's organizations are instructed recently to follow the codes of corporate governance (OEAA, 2019). Codes are issued and monitored by the Capital Market Authority (CMA 2016). There are 115 companies listed in Muscat Stock Market (MSM). These listed companies are obliged to follow the codes of corporate governance and distributed into the three sectors namely financial, industrial and services.

Available codes of corporate governance do not cater for the requirements of antifraud controls and antifraud activities; moreover, current code of corporate governance also do not define that how organizations can achieve good corporate governance. Limited research is conducted in the field of corporate governance in Oman and available studies are related towards the identification of corporate governance relationship with financial reporting time lines, accounting standards and financial performance. Few of the studies are also conducted for the comparison of codes between Gulf Corporation Council (GCC) countries and probable challenges faced regarding implementation of new codes of corporate governance (Shehata, 2015; Al-Shammari et al., 2008; Baydoun et al., 2013; Baatwah et al., 2015; Sanyal & Hisam, 2018; Ellen, 2002).

3. Research Method

To ascertain and recognize the relationship between FRA and GCG with FAP as mediator; quantitative approach with descriptive cross-sectional survey design was utilized. Relationship between FRA, FAP and GCG are defined in Figure 1. Unit of measurement for this study is public listed organizations in Oman. Asked questions were distributed in to different sections of FRA, FAP, BOD and SM with explanations which were necessary to define the purpose and definition of variables. Likert scale logic with five points ranging from strongly agree to strongly disagree was utilized to measure the answers of the respondents. Due to the small population, census sampling was utilized and contributions of all 115 organizations were taken into consideration. Census sampling is also in concurrence with the study of Hakeem and Bambale (2016).

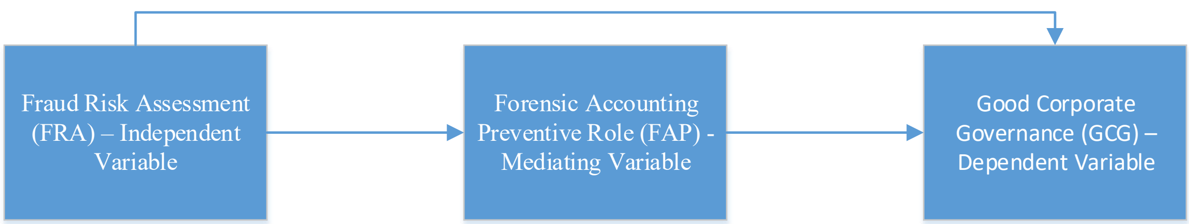

Figure 1. Framework of the Study

For this study, questions are adapted and adopted from previous studies. Total of 33 questions including three demographic questions were asked from respondents. As the unit of analysis is the public listed organizations in Oman; therefore, respondents for this study can only be those who can respond on behalf of the organization such as members of the BOD and its related committees, SM, internal auditors, and company secretaries. Data was collected by utilization of internet-based tool and analysis was performed by usage of Partial Least Square and Structural Equation Modeling (PLS-SEM). For the validity of analysis, defined rules were utilized which are mentioned by Ramayah, Cheah, Chuah, Ting, and Memon (2016) and Henseler, Ringle and Sarstedt, (2015) and presented in Table 2 and Table 3. These rules are towards the measurement of assessment and structural model and considered necessary to define whether the relationship is statistically significant and is also confirming the framework of the study (Hair, Hult, Ringle & Sarstedt, 2017):

Table 2. Acceptable Values for Model Evaluation- Measurement Model Analysis Using PLS-SEM

Assessment	Name of Index	Guideline
Internal Consistency	Composite reliability (CR)	Composite reliability should be ≥0.70
Indicator reliability/Factor loadings	Indicator Loading/ Outer Loading	It is always recommended to have Loading > 0.7 or higher but loadings > 0.6 or > 0.5 is adequate if other loadings have high scores of loadings to corresponding items of AVE and CR
Convergent validity	Average Variance Extracted (AVE)	The average variance extracted (AVE) should be equal to or higher than 0.50
Discriminant validity	HTMT Criterion	HTMT below 0.85 is acceptable.

Source: Ramayah et al., (2016)

Assessments of measurement models are made on the basis of their reliability and internal consistency by applying composite reliability (CR). Convergent validity is obtained via indicator reliability and AVE; whereas, Heterotrait-monotrait (HTMT) ratio is utilized for discriminant validity (Henseler, Ringle, & Sarstedt, 2015). Indicator reliability can also be defined as outer loading of the indicators which are measuring the variable, where higher outer loading demonstrates the commonality between measuring indicators. Questions which demonstrate lower outer loading which is less than 0.5 and creating barrier in the achievement of greater AVE should be deleted.

Table 3. Acceptable Values for Model Evaluation- Structural Model Analysis Using PLS-SEM

Assessment	Name of Index	Guideline	Source
Collinearity	VIF (Variance inflator factor)	Multi-Collinearity occurs in model when for specific indicators VIF values are 5 and above	García-Carbonell, Martín-Alcázar and Sánchez-Gardey (2015)
Path Coefficient	Path Coefficient	t value>2.33 (one tailed) p value <0.05	Hair et al.,(2017)
R-square	Coefficient of determination	0.26- Substantial 0.13- Moderate 0.02- Weak	Cohen (1988)
f-square	Effect size	0.35- Large 0.15- Medium 0.02- Small	Cohen (1988)

After the confirmation of validity and reliability of measurement model, assessment of structural model can be commenced. Assessment of structural model is conducted to examine the predictive capabilities of research model through the path relationship testing (Hair et al., 2017). There are four norms which are required to be examined towards the determination of relationships which were proposed in the research framework. The norms for measurement are (1) R^2 of endogenous latent variables, (2) estimates for path coefficients, (3) effect size f^2, and (4) collinearity assessment (Henseler et al., 2009).

Due to small population and adoption of census sampling pilot study was not performed. However and in order to validate the face and content validity, the questionnaire was forwarded to the total of four academicians from Universiti Sains Malaysia in Malaysia associated with the Graduate School of Business and A'Sharqiyah University in Oman associated with the College of Business Administration. Questionnaire was also forwarded to the Big 4 audit firms' directors who are associated with the audits of public listed companies. It is worth mentioning that in Oman 70% of the audits of public listed companies are conducted by the Big 4 audit firms (Services, 2018).

After receiving the responses for the face and content validity, amendments were made to the questionnaire. Amendments were made for the correction of the double-barreled questions, complicated syntax and clarifying unfamiliar terms. The amended questionnaire was forwarded via internet based tool to the targeted population and received responses were analyzed and presented in section 4.

4. Result and Analysis

From 115 organizations listed in Muscat Stock Market, 96% of organizations responded. Response rate is consistent with the other studies where census sampling was utilized but response rate was not 100% (Meeran, Amjad, Ansari, Ansari, & Latif, 2018; Butt & Shams, 2013). From 110 respondents, three did not provide answers to all questions therefore they were considered as incomplete and taken out from the study. The analysis was performed on the 107 responses which is 93% of the total population.

Table 4 outlines the demographics of 110 respondents. Only 5% of the respondents are female; whereas, 95% of the respondents are male. Regarding qualification, the bulk of the respondents were professional certificate holders such as a chartered accountant (CA), certified public accountant (CPA), certified internal auditors (CIA), and certified risk assessors (CRMA). Masters qualification is second highest after professional certification followed by bachelors, others and certified fraud examiners (CFE) respectively. Other qualification includes compliance certifications and law degrees. For the organizational positions, senior management comprised of 66% followed by the members of audit and risk committee which is 15%. Board of directors and remuneration committee respondents were 13% and 5% respectively.

Table 4. Demographic Profile of Respondents

Category	Details	Number of Respondents	%age
Gender	Male	106	95
	Female	4	5
Qualification	CA/ CPA/ MIPA/ CIA/ CRMA	51	46
	Certified Fraud Examiners (CFE) or other fraud-related education	3	3
	Masters	36	33
	Bachelors	13	12
	Others	7	6
Role/Position in Organization	Board of Director	14	13
	Audit and Risk Committee	17	15
	Remuneration Committee	6	5
	Senior Management	73	66

4.1 Assessment of Measurement Model

For the measurement model assessment, the evaluation was made in PLS-SEM with the rules and values defined by Ramayah et al., (2016) and mentioned in Table 2. The values of all indicators or questions were 0.5 and above; therefore, none of the questions were deleted. Average variance extracted (AVE) and composite reliability (CR) of GCG are 0.506 and 0.91 respectively whereas AVE and CR of FRA are 0.557 and 0.862 respectively and AVE and CR of FAP is 0.506 and 0.938 respectively. Outer loading defines the relationship between reflective construct and measured indicators. Mentioned AVE and CR met the threshold required for the acceptance of measurement model (Ramayah et al., 2016; Hair et al., 2017).

Asked questions along with the outer loading, AVE and CR are presented in Annexure 1.

4.2 Assessment of Structural Model

All the mentioned criteria of measurement model assessment were met; therefore, assessment of structural model can be performed. For the assessment of the structural model, evaluation of collinearity, coefficient of determination (R^2), effect size (f^2) and path coefficient was conducted in accordance with the thresholds mentioned in Table 3. For collinearity assessment, the result demonstrates that the value of VIF is 1 and 2.223 for FAP and GCG respectively; hence, there is no issue of multicollinearity. In accordance with García-Carbonell, Martín-Alcázar and Sánchez-Gardey (2015) multi-collinearity occurs in a model when VIF values for specific indicators are 5 and above. Coefficient of determination (R^2) and effect size (f^2) values are also meeting the acceptance criteria mentioned in Table 3. Values of R^2 and f^2 are presented in Table 5 and value of R^2 also presented as Figure 2.

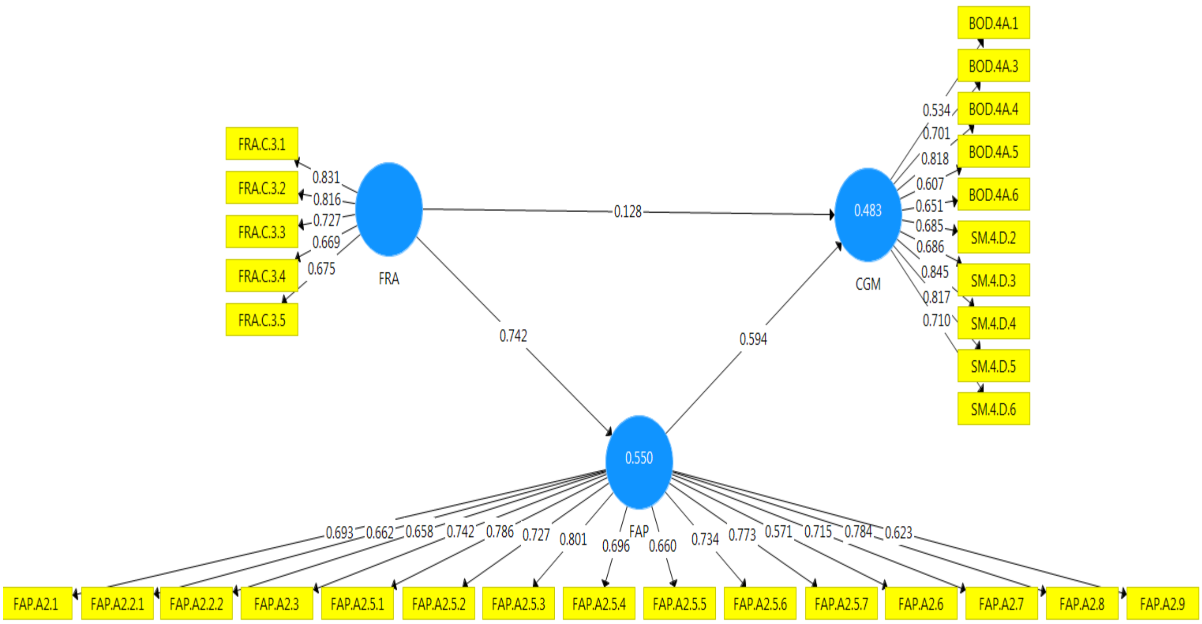

Figure 2. PLS-Path Analysis of R^2 Values

4.3 Significance of Direct Effects-Path Coefficients

Bootstrapping was utilized via smart PLS for 107 samples with the application of 5000 sub-samples. Path coefficient is measured to ascertain a level of significance related to the direct effects. Rule of thumb for a level of acceptance related to path coefficients for t-values is >2.33 and for p-value is <0.05 (Hair et al., 2017) which is also mentioned in Table 3. The significance of direct effect – path coefficients are presented in Table 5.

Table 5. The Significance of Direct Effect – Path Coefficients

Relationship	Beta (O)	Standard Error (STDEV)	T Statistics (O/STDEV)	P Values	R2	f2
FRA→GCG	0.128	0.112	1.113	0.133	0.483	0.014
FAP→GCG	0.594	0.106	5.557***	0.000		0.307
FRA→ FAP	0.742	0.036	20.608***	0.000	0.550	1.223

*Note: **p<0.05 (t>1.645); ***p<0.01 (t>2.33) (One Tail)*

Table 5 demonstrated that the entire beta (original mean) is positive; therefore, the relationship of FRA to GCG and FAP and FAP to GCG is direct. Furthermore relationship of FAP to GCG and FRA to FAP is significant as their t-values are above 2.33 and p values are less than 0.01; however, relationship of FRA to GCG is not significant as *t* value is lower than 2.33 and p value is greater than 0.01. *t* values are also presented in Figure 3

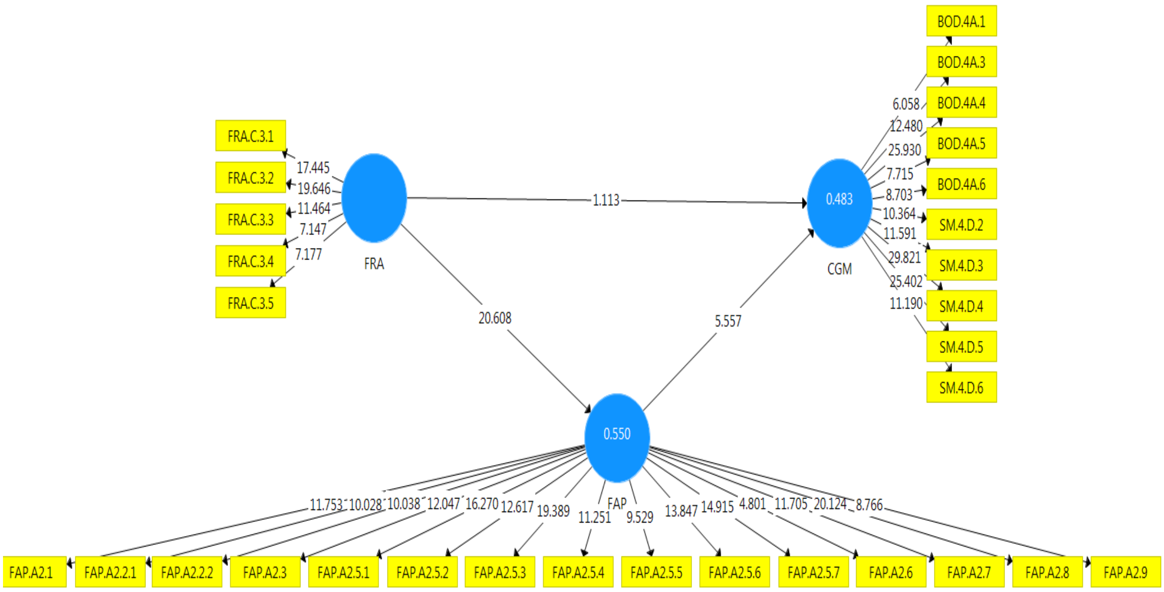

Figure 3. Path Coefficient and t-value

FRA is a control developed specifically for the prevention of fraud and achievement of GCG. FAP is specialized in preventing fraud and also assist in implementing controls. With regards to the GCG and its related constituents, they are majorly concerned with policies and achievement of vision and mission for organization. Performance of organization is affected by the occurrence and presence of fraud and organizations' corporate governance can be enhanced once the frauds and related activities are controlled and mitigated. Controls in the shape of FRA are necessary to provide assurance to board and related committees that organization is operating with fraud risk free environment; however, these controls are developed and strengthened by FAP and developed controls can be overlapped or abused by the BOD or SM. Although FRA is necessary towards the achievement of GCG but FAP is required to ensure that these controls are implemented and updated regularly.

Above obtained result is consistent with the studies conducted by Enofe et al., (2015) and Mohd-Sanusi et al., (2015) where it stated that forensic accounting could enhance corporate governance and fraud risk assessment is directly linked with forensic accounting. Although FRA has direct impact on GCG but it is not significant as FRA is a control that can deteriorate by the passage of time because of ever changing technologies or human interventions (Mohd-Sanusi et al., 2015). Example of human intervention in internal controls could be of Enron where it had effective internal controls and mostly correct financial reporting, but SM overrode internal controls to develop falsified financial statements.

4.4 Significance of Direct Effects-Path Coefficients - Mediation Analysis

To start the process for mediation analysis and to test the significance of path coefficient products; bootstrapping was performed with two tail test with 5000 sub-samples at significance level of 0.05 (Hair et al., 2017). Mediation occurs when indirect relationship between independent and dependent variables is statistically significant (Kiumarsi, 2017). Path coefficient offers the corresponding results for the direct effect which is required for the further analysis. Table 6 demonstrates direct and indirect significance:

Table 6. Direct and Indirect Significance

Relation	Beta-Direct Effect	t Value	Significance ($p<0.05$)	Beta-Indirect Effect	t Value	Sig ($p<0.05$)
FRA→GCG	0.128	1.124	No	0.441	5.649**	Yes

Note: *$p<0.05$ ($t>1.96$); **$p<0.01$ ($t>2.58$) (based on two-tailed test), Bootstrapping ($n=5000$)

As mentioned in Table 6, beta for the direct effect is 0.128, t value is 1.124 and p value is greater than 0.05, therefore it can be asserted that FRA→GCG is not significant. Whereas, beta for indirect effect is 0.441 with t value more than 2.58 and p value is less than 0.05 indicates that FRA is having significant indirect effect or relationship is entirely in-direct i.e. full mediation. When direct relation is not significant and in-direct relationship is significant than it is the case of full mediation (Hair et al., 2017).

Above mentioned mediation relationship also clearly demonstrates that FRA with the assistance of FAP can impact GCG; however, FRA as control cannot significantly impact GCG. This result is also consistent with the study conducted by Mohd-Sanusi et al., (2015) where it is written that controls are continuously changing and most of the times also become subject to management override and causes fraud or gross mismanagement. Although controls are necessary but activity such as FAP is necessary to monitor the implementation and constant improvement of these controls.

5. Conclusion

Fraud is the major cause where organizations not only lose their reputation but also suffer huge monetary losses. If fraud is not controlled by the availability of anti-fraud controls and fraud prevention activity; than it would be difficult to constraint fraud, difficult to have satisfied shareholders and difficult to achieve good corporate governance (GCG). In current business environment it is compulsory for organizations to follow basic codes of corporate governance; however, fraud is still transpiring regardless of the availability of codes and auditors within organization. Innovation is required in the field of fraud prevention and this innovation can be termed as fraud risk assessment (FRA) and preventive role of forensic accounting (FAP). It is worth mentioning and evident from the literature that board of directors (BOD) and senior management (SM) are the main constituents and key players towards achievement of GCG and both these functions are directly responsible for the organizational performance and providing satisfaction to shareholders. With the assistance of FAP and FRA, fraud element can be controlled and GCG can be achieved.

Result of this study demonstrated that FRA does not have significant impact over GCG, however FAP is having significant direct impact over GCG and it also mediates relationship between FRA and GCG. FRA is a control which changes with the passage of time; moreover, in majority of fraud encountered organizations controls are overridden by SM to commit fraud. In this scenario, FRA can have direct relationship with GCG but it cannot significantly impact GCG. On the other hand, FAP is an activity which can be available within an organization working towards prevention of frauds and thus having direct and significant relationship with GCG. FAP also mediates the relationship between FRA and GCG as FAP implements and update the controls which are made available by FRA for the achievement of GCG.

This study makes major contribution towards management systems and practical application to the organizations not only in Oman but across all organizations in globe. GCG is not only the requirement of public listed companies but it is becoming an international fundamental requirement; moreover, fraud is not impacting only the listed companies but all organizations across all sectors. For the mentioned and many other probable reasons, FAP is required for fraud's prevention, mitigation and implementation of internal controls and FRA is required towards developing and maintaining these controls. Findings of this study will be helpful and useful for regulators to develop particular standards which can demonstrate that how organizations can achieve GCG. With regards to the organizations, they can modify their governance policies and codes by including FAP as permanent constituent and as part of governance management system. FAP can assists in developing anti-fraud controls, identify and prevent fraud before its occurrence and also assists in reducing the cost of fraud. Use of FRA for GCG with FAP as mediator has been adopted for the first time since the initial development of this field of investigation. Similarly, diagnosis of all the major constituents (BOD and SM) of GCG is unique in its kind. The current research offered probable solutions and recommendations towards enhancing GCG within public listed companies in Oman. This study will also assist in enhancing charters or terms of references for BOD and its related committees so that fraud can be discussed as major limitation for achievement of true corporate governance. This study can also oblige organizations to conduct FRA on a regular basis which can eventually enhance shareholders' values.

With regards to the limitations, this study is only conducted on the public listed companies which are very few and inclusion of private companies would have provided better result; however, it is outside the scope of study. This study also does not cater for the fraud related education which can create impact towards better understanding of FA's role and mode of operations. Moreover, organization level study was conducted for this research, where only one respondent was invited who can respond on behalf of the company. However, enhanced result could have been obtained if multi-layer respondents were utilized. Furthermore, this study is only conducted in Oman perspective and effectiveness of this study could be more improved if comparison is made with the other GCC countries to identify the areas for improvement and strengths.

For the areas of future research, scope of the study can be broadened by including more than one respondent from company and responses can be received from all major constituents of GCG. Future research can also include size and age of company that act as contributed factor towards identification of GCG. Future research can also verify the prospect of FA education as moderator as the current study identifies that there are very few respondents who are qualified as forensic accountants.

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Annexure 1

Question Code	Questions	Outer Loading	CR	AVE
Good Corporate Governance (Dependent Variable)			0.91	0.506
BOD.4A.1	In my company, there is a defined management structure supported by organization charts for all roles.	0.534		
BOD.4A.3	In my company, there is an effective mechanism for keeping staff informed on the key issues and decisions made at the Board of Director's level.	0.701		
BOD.4A.4	My company's Board of Directors has set performance targets which are updated annually.	0.818		
BOD.4A.5	My company's Board of Directors has defined Terms of Reference which are updated periodically	0.607		
BOD.4A.6	My company's Board of Directors ensures that strategic planning is in line with the organization's objectives	0.651		
SM.4.D.2	My company's strategic planning has a clear relationship with the organization's objectives.	0.685		
SM.4.D.3	The code of conduct is presented in my company.	0.686		
SM.4.D.4	The code of conduct is emphasized in my company.	0.845		
SM.4.D.5	Employees in my company are encouraged to report illegal or wasteful activities.	0.817		
SM.4.D.6	Senior Management of my company seriously views corrective actions as an avenue for improvements	0.71		
Forensic Accounting Preventive Role (Mediating Variable)			0.938	0.506
FAP.A2.1	My company is proactive in dealing with the risk of fraud	0.693		
FAP.A2.2.1	My company has updated internal control systems to prevent fraud	0.662		
FAP.A2.2.2	My company has updated accounting control systems to prevent fraud	0.658		
FAP.A2.3	My company's external auditors should utilize forensic accounting in their attempt to uncover fraud	0.742		
FAP.A2.5.1	My company could be threatened by fraud due to Poor fraud management	0.786		
FAP.A2.5.2	My company could be threatened by fraud due to Poor fraud assessment	0.727		
FAP.A2.5.3	My company could be threatened by fraud due to Poor internal controls	0.801		
FAP.A2.5.4	My company could be threatened by fraud due to lack of ethical value	0.696		

FAP.A2.5.5	My company could be threatened by fraud due to Inadequate background checks on prospective employees	0.66		
FAP.A2.5.6	My company could be threatened by fraud due to Inadequate background checks on prospective vendors	0.734		
FAP.A2.5.7	My company could be threatened by fraud due to Management override of the controls	0.773		
FAP.A2.6	Corporate crime mitigation in my company can be achieved by strengthening corporate governance through forensic accounting's preventive role.	0.571		
FAP.A2.7	Inability of statutory auditing to identify, expose, and prevent weaknesses in corporate governance has made the need for forensic accounting in my company inevitable	0.715		
FAP.A2.8	Inability of statutory auditing to identify, expose, and prevent weaknesses in flawed internal controls has made the need for forensic accounting in my company inevitable	0.784		
FAP.A2.9	Inability of statutory auditing to identify, expose, and prevent weaknesses in fraudulent financial statements has made the need for forensic accounting in my company inevitable	0.623		
Fraud Risk Assessment (Independent Variable)			0.862	0.557
FRA.C.3.1	My company could be threatened by fraud due to Poor fraud management	0.831		
FRA.C.3.2	My company could be threatened by fraud due to Poor fraud assessment	0.816		
FRA.C.3.3	My company could be threatened by fraud due to Poor internal controls	0.727		
FRA.C.3.4	My company could be threatened by fraud due to Lack of ethical values	0.669		
FRA.C.3.5	My company could be threatened by fraud due to Inadequate background checks on prospective employees	0.675		