ISSN: 3187 – 7288
Volume 10, Number 3, 2022
International Journal of Innovations in Accounting and Economics Management

IMPLEMENTATION OF INTERNAL CONTROL STRUCTURES TO ALLEVIAT FRAUD IN THE PUBLIC SECTOR

Dr Kaine Anwuli Horsfall
Department of Accountancy, Faculty of Business Studies
Ignatius Ajuru University of Education, Port Harcourt Rivers State, Nigeria

ABSTRACT

The paper assessed the implementation of internal control structure and fraud alleviation in public enterprises in Nigeria. The study recommends among others that government should put in place a functioning of internal control system that needs the right control make-up, with control performance clarified in detail at each point of public governance. This should contain: top level reviews; appropriate activity controls for different sectors or segments; neutral controls; looking for conformity with disclosure restrictions and follow-up on noncompliance; a system of authorization; confirmation and reconciliation. It also needs appropriate separation of jobs and that the workforce is not assigned contradictory schedules as a means of mitigating the high level of fraud in public enterprises in Nigeria.

Keynote: Implementing, Internal Control, Alleviate, Fraud

INTRODUCTION

The onus of the paper lies on how to effectively implement internal control structures to mitigate fraud in the public sector and with the adoption of sound internal control practices such as control environment, control activities, accounting information system, monitoring and management risk assessment. However, it important to state that the prospect of internal control practices has generated considerable research attention in Nigeria (Okoro & Orlu, 2021; Haladu, 2018; Iyinomen & Nkechi, 2016; Henry & Osagie, 2016; Ojua, 2016; Kehinde et al 2016; Okonkwo & Ezegbu, 2016) there is not been adequate emphasis on the components of internal control framework on fraud mitigation in public enterprise in Nigeria. Efiong et al (2016) stated that the main reason for the establishment of internal control system is to ensure that entities achieve corporate goals, prevent the loss of resources, and ensure compliance with laws and regulations. Similarly, Okoro and Orlu (2021) also argued that fraud in the public sector could be attributed to low wages in the public sector, lack of accountability and transparency among public and civil servants, inequality in income distribution, promotion of ethnicity and lack of nationalism and weakness of internal control in ministries, department and agencies (Gbegi & Adebisi, 2014). The researcher examined over one hundred empirical studies conducted in similar studies that are related to my study in Ghana, UK, Canada, and USA. For example, the collapse of Exxon Mobil, Enron, WorldCom, Tyco, Marconi, Swissar, Royal Arnold, Parmalat, African Petroleum etc, were purely as a result of internal control weaknesses. Yemer and Chekol (2017) explain that the disclosure of an ineffective internal controls system has greater propensity of undergoing management errors in their operation than those organizations that report strong internal controls system. Specifically, organizations that disclose poor revenue performance, inappropriate management of cash, theft or fraud, lack of incentive, errors made by inefficient and inexperienced personnel, quality of service, pricing and fees, and quality of service among others are strong evidence of internal control weaknesses. Additionally, organizations that disclose ineffective internal controls system have larger tendency of experiencing errors and fraud in their operation than those firms that report effective internal controls system (Okoro & Orlu, 2021; Haladu, 2018; Iyinomen & Nkechi, 2016).Yemer and Chekol (2017) argue that internal control has been documented in most organization as one of the further most indispensable elements essential for the subsistence of the public enterprise and government agencies. The authors further explained that internal control practices mitigate any financial loss, imprecise decision making, fraud, loss of income and assets. Hence, the role of internal controls, therefore, offers provision for management in safeguarding assets, elimination financial loss, making goal focused decisions, identifying and mitigating fraud (Okoro & Orlu, 2021; Hammayo et al, 2020; Udukeke & Ezenwafor, 2019). Consequently, to the best of my knowledge, there is none on internal control practices and fraud mitigation in Nigeria, particularly in public enterprises. Hence, the focus of the research study is to investigate the relationship between internal control practices and fraud mitigation and to determine if the relationship affects public enterprises in Nigeria.

Control Activities/Monitoring

Control activities are the policies and procedures that help ensure that management's directives are carried out. Ohaka and Somina (2020), these policies and procedures promote actions that address the risk that face the organisation. Appah (2017); Hayes et al (2016) states that control activities are those policies and procedures designed by management achieve an organisation's specific objectives. Nnam (2014) disclosed that control activities are those activities that are taken to achieve corporate objectives. Ohaka and Somina (2020) state that the five primary control procedures include: segregation of duties, system authorization, independent check, physical safeguards and documents and records.

Appah (2017) stated that while there are different types of control activities performed in an organisation, only the following are generally relevant to an audit of an organisation's financial statement: (1) adequate segregation of duties; (2) authorization of transactions; (3) physical controls; (4) performance review; (5) adequate documents and records.

1. **Segregation of Duties**: A fundamental concept of internal control is that no one department or person should handle all aspects of a transaction from beginning to end. According to Ohaka and Somina (2020), segregation of duties involves dividing a given task into two or more parts so that no one individual has complete control of the task. Nnam (2014) stated that the failure to maintain strong separation of duties makes it possible for an individual to commit fraud and then be in a position to conceal it in the normal course of performing their respective functions and responsibilities.
2. **Authorization of transactions:** Appropriate delegation of authority sets limits on what levels of risk to authorize the main types of business transactions. According to Ohaka and Somina (2020) authorization of transaction can take many forms. Passwords authorize individuals to use computers and to access databases. Signature cards authorize individuals to enter safe deposit boxes. Nnam (2014) assets that the main reason for authorization is to ensure individuals are acting within the scope of their authority.
3. **Performance review:** These controls include reviews of actual performance as compared to budgets, forecasts and prior period performance; relating different sets of data to one another; and performing overall view of performance (Appah, 2017; Singal et al, 2019). Performance review provides management with an overall indication of whether personnel at various levels are effectively pursuing the objectives of the organization (Nnam, 2014).
4. **Physical controls:** These controls include those that provide physical security over both records and other assets (Appah, 2017). Activities that safeguard records may include maintaining control at all times over unissued prenumbered documents, as well as other journals and ledgers, and restricting access to computer programs and data files (Singal, et al, 2019) Ohaka and Somina (2020) stated that physical controls such as vaults, fences, locks, and keys take away the opportunities to commit fraud by making it difficult for people to access assets. The authors further noted that physical controls are often used to protect inventory by storing it in locked cages or warehouses, small assets such as tools or supplies by locking them in cabinets and cash by locking it in vaults or safes (Ohaka & Somina, 2020).
5. **Adequate documents records:**An organisation should maintain a set of documents and records on which to enter and summrise transactions. According to Nnam (2014), documents and record are the physical object upon which transaction are entered

andsummarized. Ohaka and Somina (2020) documents merely serve as preventive controls but provide excellent detective controls. These documents include sales invoices, purchase order, andsubsidiary records, sales, sales journals and employee time card, many of thesedocuments and records are maintained in the form of computer files until they are printed out for specific purposes (Nnam, 2014).

Accounting System

Accounting system can be described as systems that operate functions of data gathering, processing, categorizing and reporting financial events with the objective of providing relevant information for the purpose of score keeping, attention directing and decision-making (Azhar, 2017). Accounting information, according to Nicoloau (2000), is a system that increases the control and enhances the cooperation within the firm. Management is engaged with various types of activities with different quality components. They require also non-financial information such as production statistics, quality of production, etc. However, quality of information generated from accounting information is very important for management. Azhar (2017) argued that usage of accounting system depends on the perception of the quality of information by the users. Generally the quality of information depends on the reliability, form of reporting, timeliness and relevance to the decisions. Effectiveness of accounting information also depends on the perception of decision makers on the usefulness of information generated by the system to satisfy informational requires for operation processes, managerial reports, budgeting and control within the organization. AS are considered essential organizational mechanisms that are necessary for effectiveness in decision management and control in organizations (Zimmerman, 2002). AI will be useful when information provided by them is applied effectively for decision making process by the users. Otley (2010) argued that accounting systems are an important part of the fabric of organizational life and have to be evaluated in their wider managerial, organizational and environmental context. Therefore, the effectiveness of accounting information not only depends on the purposes of such systems but also depends on contingency factors of each organization. Accounting information are said to be effective when the information provided by them serves widely the system users' needs. Effective systems should systematically provide information, which has the necessary potential effective on decision making process.

Social Causes of Fraud: The following social issues are capable of encouraging fraud:

1. The placing of high value on the accumulation of wealth by the society without regard for the source of the wealth.
2. Where rewards are absent for honest way of life.
3. The promotion of nepotism in office where only individuals with people at high places are favoured.
4. The placement of less emphasis on professionalism.

Technological Causes of Fraud: The following are the technological issues capable of encouraging fraudulent practices:

1. Technological frauds are not easy to detect or prevent.
2. The proceeds from fraudulent activities can be obtained with ease.
3. Technological development is a continuous process.
4. The cost of perpetrating fraud using available technology is very low.
5. Technology facilitates near perfection of documents replication.

Legal Causes of Fraud: The following are the legal issues capable of encouraging fraudulent practices:

1. Fraud prosecution requires due process of the law.
2. The rot in the law enforcement arm of the legal system.

3. The level corruption in the judiciary.
4. Sometimes when suspects are arrested, they are discharged by the court for lack of evidence.

Personal Causes of Fraud: The following are the personal issues encouraging fraud:
1. Professional criminals whose specialty is to defraud people.
2. Some individuals have the desire to venture into fraudulent activities.
3. The level of morality of people in the society.
4. People with weak minds that are easily influenced by others.

Institutional Causes of Fraud: The following are the institutional issues encouraging fraud:
1. Recruitment of staff without proper character checks.
2. The placement of high premium on paper qualification.
3. Weak internal control system.
4. Placement of higher responsibilities and confidence on a single individual.
5. Delay or total neglect of external audit.
6. Total neglect of staff training.
7. Unrestricted access to computer data base.
8. Lack of security equipment.

Prevention of Fraud/Errors
Adeniji (2004) is of the view that preventive of fraud/errors are measures put in place by management to deter and prevent noncompliance with directives, policies and procedures. These preventive controls are intended to prevent risk of error, frauds and irregularities from occurring in transactions and prevention of loss. These preventive of fraud/errors are in the form of segregation of duties, proper authorization and approval, establishment of organizational chart to allocate jobs to responsible officers, adequate documentation, physical control over assets and constant training of staff (Joseph, 2020).Other preventative controls include testing for clerical accuracy, backing up computer data, drug testing of employees, employee screening and training programs, segregation of duties, enforced vacations, obtaining approval before processing a transaction and having physical control over assets (locking money in a safe, for example.

Ways of Preventing Fraud/Errors in an Organization
Alhassan (2018) listed the following ways of preventing fraud/errors in an organization as;

a. Fraud prevention involves good division of responsibilities, supervision of staff, monitoring work performance and putting measures in place to ensure that even when systems are accessed there is proper control.
b. Day-to-day supervision of dealings should also be conducted in order to detect unfamiliar dealings.
c. Staff training is a key element in risk management as employees who are actively trained in risk management are better able to identify threats to the organization due to weak or non-existent Internal Controls.
d. Fraud awareness can also be enhanced through seminars and training events held in collaborations with banks, and other financial institutions, covering areas like fraud prevention measures and investigation techniques.
e. Know your customer is another key compliance issue, whereby an institution is required to identify all the features of its clients by updating existing files and monitoring the operations and examining at least that inventors and recipients are not barred.
f. Other fraud prevention measures may include surprise audits regulations, job rotation, communicate to employees on views and policies regarding fraud, annual independent financial statement audit, eliminate excessive authority residing with one individual etc.

Detection of Fraud/Errors

Detection of fraud is controls which are aimed at detecting and uncovering problems such as fraud, irregularities and errors after they have been committed. Although, detection is necessary prevention is more desirable. These controls are in the form of post-audits, exception reports and validation. They provide evidence that a loss has occurred but do not prevent a loss from occurring. Chiam (2016)detection of fraud are method use to find out errors after they have occurred. They serve as part of a checks-and-balances system and to determine how efficient policies are.Examples of detection of fraud are reviews, analyses, variance analyses, reconciliation, physical inventories and audits, surprise cash counts, taking inventory, review and approval of accounting work, internal audits, peer reviews, and enforcement of job descriptions and expectations. Detection of fraud also help to protect assets. For instance, if a cashier does not know when her cash drawer will be counted, she may be more likely to be honest. However, detection of fraud/errors play critical role in providing evidence that the preventive controls are functioning and preventing losses (Adeniji, 2004).

Safeguarding of Asset Misappropriation

This is the theft or misuse of assets and account. Cash theft occurs in the form of fraudulent disbursements, cash skimming and cash larcency/stealing/theft (Eze, 2015). Fraudulent disbursement involves fraudulent billing schemes, cheque tempering, expense reimbursement, payroll schemes and register disbursement. Cash skimming is the act of diverting business receipts to an individual's personal use (Okoye, et al, 2017). The Association of Certified Fraud Examiners (2002), state that asset misappropriation is the misuse of employee's property including theft and payroll fraud in an organisation. This type of fraud accounted for 80% of all the cases reported in ACFE report (2012) and 85% in report (ACFE, 2014). The report stated that theft of cash; inventory and supplies are the common kinds of assets misappropriation (ACFE, 2012). It is observed that asset misappropriation involving theft, fraudulent disbursement are the most frequent scheme type represented in the frauds reports (ACFE, 2012) in (Umah, et al 2015). Similarly, Price Waterhouse Coopers (PWC)'s Global Economic Crime Survey suggests that assets misappropriation accounted for 72% of the global crimes committed (Price Waterhouse Coopers, 2014).

Fraud Diamond Theory

This theory of fraud was propounded by Wolfe and Hermanson (2004). They added a fourth variable called capabilities to the three factor theory of fraud triangle of pressure, opportunity and rationalization. Adebisi and Gbegi (2015) stated that capabilities explain how the fraudster must possess certain skills and competencies to pull off his crime. Ukoma (2019), Adebisi & Gbegi (2015) reported that Wolf and Hermanson (2004) believed several frauds would not have been committed without the right individual with the right capabilities implementing the details of the fraud. They also explained four traits for committing fraud which includes authoritative position or function within the organization, the capacity to understand and exploit the weaknesses in the accounting systems and internal control system, confidence that the individual will not be detected ssor if caught will get out of it easily and capability to deal with the stress created within and otherwise good individual when he or she commits bad acts. Okoye, et al (2015), also stated that opportunity provides the road to fraud, and incentive and rationalization can move a person towards fraud. They noted that the individual must have the capability to recognize the road and to take advantage of it by walking through. However, scholars have criticized this theory as an inadequate tool for deterring, preventing or detecting fraud. This is because, the theory omits some important variables like national value system and lack of corporate governance is omitted from the analysis (Adebisi & Gbegi, 2015).

CONCLUSIONS/RECOMMENDATIONS

Based on the findings made in the course of this study, the following conclusion/recommendations are hereby suggested:

1. Fraud mitigation functions should be established in public enterprises with expertise of detecting, investigating fraud and the recovery of assets. This will go a long way to dissuade further fraud activities from public servants and others members of the organization. Also legal action should be taken on perpetrators and the proceeding should be speedily concluded for exemplary purposes.
2. The public servants should be mandatorily required to proceed on annual leave. Conditions for accumulated leave should be exception and not the rule. This will reduce excessive confidence on a particular staff that may induce or allow room for fraudulent behaviour in public enterprises.
3. The government should put in place work ethics unit in all public enterprises. The unit should observe the attitude of the staff towards work and their spending habit to check if the amount spent is in line with the income earned. The wanting staff should be counselled in first instance; and unrepentant staff should be punished according to the rules of engagement.
4. Public enterprise in Nigeria should put in place a functional internal audit department with adequate staff in terms of size, quality and independence as a fraud mitigation strategy. Also the government should also establish forensic audit and investigation department in every public enterprise to support the internal audit functions of the internal auditor and the overall internal control practice in Nigeria.

REFERENCES

Adeniji, A. (2004). *Auditing and investigation*. Value Analysis Publishers.

Appah. E. (2017). *Auditing and assurance services.*Perescopic Media and Publishing House.

Efiong, E. J., Inyang, I. O., & Joshua, U. (2016). Effectiveness of the Mechanisms of fraud Prevention, and Detection in Nigeria. *Advances in Social Sciences Research Journal*, *3*(3), 206-217. Doi:10.14738/assrj.33.1894.

Hayes, R., Dassen, R., Schilder, A., & Wallage, P. (2016). *Principles of auditing: An introduction to international standards on auditing;* Pearson Education.

Henry, K. F. & Osagie, I. U. (2016). Financial control, and fraud prevention in the public sector. *International Journal of Advanced Academic Research in Social & Management Sciences,2*(8), 34-50.

Iyinomen, O.D. & Nkechi, O.T. (2016). Effect of internal control on fraud prevention and detection in the public sector in Nigeria. *Journal of Accounting and Financial Management,2*(4), 21-27.

Kehinde, A. A., Felicia, O. O. & Joseph, N. T. (2016). Fraud prevention and internal control in the Nigerian banking system. *International Journal of Economics and Financial Issues*, *6*(3), 1172-1179.

Ohaka, J. & Somina, E.P. (2020). *Auditing and Investigation: Theory and Practice, Man-Philip Publications.*

Okonkwo, I. V. & Ezegbu, N. I. (2016), Internal control techniques, and fraud mitigation in Nigerian banks. ISOR *Journal of Economics and Finance*, *7*(5); 37-46.

Okoro, E.V. & Orlu, G. (2021). Internal control practices and treasury fraud in the Rivers State Ministry of Finance, *Journal of Accounting Research,7*(4), 329-345.

Okoye, E.I., Maimako, S.S., Jugu, Y. G. & Jat, R.B. (2017). *Principles of forensic investigation and forensic accounting.* SCOA Heritage Nigeria Limited.

Okoye, E.I., Nwoye, U.J., Akuchi, B.N. & Onyema, A.C. (2020). Effect of forensic investigation techniques in detecting occupational fraud in the public sector: A study of ministry of finance, Anambra State, *International Journal of Innovative Finance and Economics Research,8*(1), 117-124.

Singal, G., Nagi, B.S. & Goyal, A.P. (2019). Analysis of fraud detection and prevention strategies in the Indian Public Sector. *International Journal of Applied Engineering Research, 14*(6), 1357-1367.