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ASSESSING THE IMPACT OF INTERNAL CONTROL AND FRAUD EXTENUATION IN PUBLIC ENTERPRISES

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ABSTRACT
The paper assessed the impact of internal control practices and fraud extenuation 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.

Keywords: Assessing, Internal Control, Fraud, Extenuation

INTRODUCTION

Fraud activities affect the values and norms of any given society. According to Osisioma (2012), Nigeria has paid serious price for the high level of fraud. This is because fraud affects the performance of entities and constrains the optimal use of resources. Izedomin and Mgbame (2011) stated that there is a continuous rise in fraud practices in government agencies. Gbegi and Adebisi (2014) observed that fraud among public officials and public sector entities have remained the problem of Nigeria since the country got independence in 1960. Okoye, et al (2020) suggested that it is disturbing that the efforts of the anti-corruption agencies to minimize the high level of fraud seem to be proving unsuccessful because several public sector officials often get away with the fraudulent practice. This is the reason Osisioma (2012) stated that the high level of fraud degrades quality, affects economic growth and development, and produces a culture of illegality and market inefficiency and a reduction in the quality of service of in public sector entities.

Fraudulent and abusive practice in public enterprises in Nigeria is a social malady, which has eaten deep into every aspect of the country. Oladejo and Oluwaseun (2015) reported that fraudulent practices has grown to a very dangerous level to all sectors in Nigeria and hence has to be minimized. Akenbor and Ironkwe (2014) stated that fraudulent practices are committed in the public service such ghost workers, materials under supplied but fully paid for, non-performance of contracts or jobs for which payments have been claimed, over-invoicing and inflation of bills, supply of inferior quality and outdated materials etc. According to Inaya and Isito (2016), fraud is a world-wide phenomenon that has been in existence for long and keeps increasing on a daily basis due to the activities of man. It is an activity that takes place in organizations and negatively affects individuals and society in general (Uniamikogbo, et al 2019). Okafor (2004) in Appah (2016) stated that fraud consists of all the negative activities that can be utilised by persons to get financial benefits over another due to deceit. Onurah and Appah (2012) stated that the public sector in Nigeria is characterized with fraudulent activities such as non-existent workers on payroll of ministries, departments and agencies (MDAs). Appah and Appiah (2010) noted that the prevalent cases of fraudulent activities in the public sector in Nigeria are as a result of the involvement of civil servants in ministries, departments and agencies.

Aims and of the Study

The major purpose of this study is to investigate internal control practices and fraud mitigation in public enterprises in Rivers State.

Concept of 1nternal Control

Internal control is defined as those activities or practices that are designed for the provision of logical security towards the achievement of corporate goals in an efficient, credible financial and administrative reporting, and finally the conformance of appropriate rules that safeguards the corporate reputations (Okoro & Orlu, 2021). The Turnbull Report (2005) in Appah (2017) stated that internal control consists of the policies, processes, tasks, behaviours and other aspects of an organisation that taken together facilitates its effectiveness and efficient operations by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the company's objectives. This includes safeguarding of assets from inappropriate use or from loss and fraud and ensuring that liabilities are identified and managed; helps ensure the quality of internal and external reporting and help ensure compliance with applicable laws and regulations, and also with internal polices with respect to the conduct of business. According to the International Standards on Auditing (ISA 400), internal control system consists of all the policies and procedures employed by management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information. The report on the Committee of Sponsoring Organisation of Treadway Commission (COSO) in Appah (2017) defined internal Control as: a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations and safeguarding of assets against unauthorized acquisition, use or disposition (Ohaka & Somina, 2020). Nnam (2014) noted that internal control is a mechanism that deals with financial control, administrative control and otherwise which is installed and maintained by management of the corporate entity to safeguard assets of the entity from misuse and error; establish and maintain the accuracy and reliability of accounting data, information and records; promote operational efficiency and effective; encourage an orderly conduct of an entity and seek, encourage and obtain adherence to management policies and methods. Owusu – Boateng et al (2017) argued that the fundamental purpose of internal control structure for organisations is to relentlessly examine the geniality of all organizations processes with well-known auditing standards, corporate guidelines, instructions and rules to solve difficulties that may occur where needed. The authors further state that in operationalizing an sound internal control structure, flawed,deceitful dealings and wrongdoings are less likely to transpire in corporate entities. Internal control system therefore is an important prerequisite needed to mitigate fraudulent activities in public enterprises.

Concept of Fraud Mitigation

Fraud is defined as an intentional misrepresentation of financial information by an individual or group of individuals. It entails the utilisation of criminal deception to obtain an illegal advantage. Ohaka and Somina (2020) stated that fraud embraces all the multifarious means which human ingenuity can devise, which are resorted to by one individual, to get an advantage over another by false representations. The Economic and Financial Crime Commission (2004) defined fraud as the non-violent criminal and illicit activity committed with objective of earning funds illegally either individually or in a group or organized manner thereby violating existing laws governing the economic and financial activities of government. According to Okoye, Maimako, Jugu and Jat (2017), fraud is an act of deceit or dishonest conduct involving acts of omission or making fraudulent statements with the aim of obtaining financial benefits. Fraud is a deliberate or intentional distortion of documents for the purpose of gaining an undue advantage. Ukoma (2019) noted that fraud consists of the acquisition of assets or economic benefit using deception, through either a misrepresentation or concealment. Appah (2016) defined fraud as an act deception, deliberately practiced to gain unlawful or unfair advantage to the detriment of another. It is also defined as conscious premeditated action of an individual or group of individuals with the intention of conceal the truth and or fact for selfish personal financial gains (Ogiriki & Appah, 2018). Appah (2016), Ogiriki & Appah (2018) stated that fraud can be classified into internal fraud, external fraud and mixed fraud. The internal frauds are those committed by employees and managers of organisations. External frauds are those committed by individuals outside the organization and mixed fraud are committed by internal and external individuals. Eze (2015) noted that fraud can be classified into customer and investor fraud, criminal and civil fraud, internal and external fraud, management and non-management fraud, entrepreneurial fraud, client and employee fraud, internal mass fraud, face to face fraud etc. The causes of fraud in any given society can be classified into the following: social, technological, legal, personal and management causes (Adebisi, 2009; Nwaze, 2009; Eze, 2015).

Fraud Triangle Theory

This theory was developed by Cassey (1919 – 1987). The theory explains that individuals who are trusted could violate the trust once they believe that having a financial problem that is non-shareable can be solved by violation of a position of financial trust. Hence, these individuals can use their position to change their perception and those of others on their action. According to Eze (2015), this theory explains that every fraud has three things in common: (1) pressure (motivation or incentives); (2) knowledge or opportunity to commit crime and (3) rationalisation.
Pressure (or incentive or motivation): It is the financial force that pushes an individual towards committing fraud and abuse. According to Eze (2015), pressure is something that occurred in the personal life of the fraudster that establishes the need that motivates him to commit fraud. He further stated that pressure centres on financial strain, but it could be the symptoms. Adebisi and Gbegi (2015) stated the issues that may result to pressure to commit fraud to include the relationship between employer and employee, isolation physically, personal failure of the individual, business reversals, gaining of status. Okoye, et al (2015), pressure relates to perceived need for assets and it is as a result of greed. It is important to note that the pressure needs only to be perceived in the mind of the perpetrator to motivate the commission of fraud. This perceived needs not be visible to a third party observer. Pressures result from immediate needs not for cash or assets to support a lavish life style, pay debts, or purchase necessaries.
Opportunity (Knowledge): This is the chance and ability of an individual to commit fraud. Adebisi and Gbegi (2015) opine that an opportunity gives the person the chance to violate a position of trust he holds in the organization. Individuals commit fraud where they find the chance to commit the fraud and get away with it. The opportunity could be in the form of weak internal control system and poor supervision in the entity. According to Eze (2015), opportunity not only means that chance exist, but either there is a lack of internal controls or the complexities related with the event are such that the fraudster examines the risk of being caught as very low. Okoye, et al (2015) noted that opportunity facilitates the ability to commit fraud. It is created by a weak internal control environment, poor management oversight, and/or the misuse of position. They further noted that failure to establish adequate procedures to detect fraudulent activity also increases the opportunity for fraud to occur.

Empirical Reviews

Appah and Inini (2021) investigated forensic investigation and fraud mitigation in the public sector of Bayelsa State, Nigeria. The study employed quantitative research design (survey research) and the population consisted of all ministry, department and agencies (MDA) in Bayelsa State, Nigeria.

The study employed random sampling technique and the sample size consisted of 150 respondents. The study used primary and secondary data. The primary data consisted of well-designed questionnaire after reliability and validity test. The data obtained from the questionnaire were analysed using descriptive and spearman rank order coefficient. The result from the analysis revealed a negative and significant relationship between forensic investigation and occupational fraud in the Nigerian public sector. The study concluded that the application of forensic investigation would improve and minimize the level of occupational fraud in Nigeria.

Adesina et al (2020) conducted a study of forensic audit and fraud control of deposit money banks in Nigeria. The study employed survey research design. The study population consisted of the twenty-two (22) deposit money banks in Nigeria while the sample size consisted of seventeen (17) banks. The study was limited to Lagos and Ogun States of Nigeria. The study used primary and secondary sources of data collection. The primary data consisted of a well-designed questionnaire after content validity and reliability of data using Cronbach Alpha coefficient of 79.5%. The data obtained from the questionnaire were analysed using descriptive statistics, Analysis of Variance (ANOVA) and ordinary least square method. The result of their study suggested that forensic audit has significant effects on the control of financial fraud in deposit money banks in Nigeria; there is a significant relationship between skills of forensic auditors and knowledge on the timely mitigation of financial fraud in deposit money banks in Nigeria and the experience of forensic auditors has a significant influence on the control of financial fraud in deposit money banks in Nigeria.

Udukeek and Ezenwafor (2019) carried out a study on forensic accounting techniques and fraud detection in Nigeria. The study employed descriptive survey design and the population consisted of two hundred and sixty with a sample of one hundred and sixty. Their study used questionnaire for the purpose of data collection and the data collected were analysed with mean and standard deviation for the purpose of homogeneity while t-test and analysis of variance (ANOVA) was employed for the purpose of hypotheses. The result suggested that the respondents lowly employed background investigation technique while investigative technique was moderately employed for fraud detection. Also their result revealed that the type and status of an entity in the Nigerian Stock Exchange does not significantly affect their ratings on the use of background investigation and investigative interview in detecting fraud. Therefore, their study concluded that accounting professionals do not employ of forensic investigation techniques for fraud investigation.

Inyada, et al (2019) investigated forensic audit and bank fraud in Nigeria. Their study utilised survey research design with a population of one hundred and sixty-five and a sample of one hundred and twenty-eight. The study employed questionnaire as the primary source of data collection. The data obtained was analysed with ordinary least square method of analysis. The result revealed that forensic audit is an effective technique in bank fraud detection, prevention and reduction in Nigeria.

CONCLUSIONS/RECOMMENDATIONS

The need for adequate internal control practices cannot be overemphasized due to the high level of financial irregularities in public enterprises in Nigeria.

Based on the review of literature made in the course of this study, the following recommendations are hereby suggested:

1. Government should put in place measures to mitigate the challenges faced in implementing internal controls findings are that the internal audit function, as part of the monitoring of the system of internal controls, must report directly to the directors of the institution and to senior executives. It is recommended that internal control gaps, whether known by public enterprise, internal audit, or other control personnel, should be reported in a well-timed fashion to the proper management level and reportedon time. Material internal control issues should be reported to senior management within the public enterprise.
2. The macro-economic policies of government should be such that encourage the general welfare of the citizens - adequate employment, low rates of inflation, adequate wages and

salaries such that would reduce or prevent undue pressure being exerted by dependents on public servants, as avoid the incidence of collusion with greedy staff to defraud government or engage in outright financial fraud

3. There should an establishment of 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 appointment.

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