ISSN: 3244 - 5091
Volume 11, Number 1, 2022
International Journal of Management, Accounting and Human Development

CONTROL ACTIVITY AND FRAUD MITIGATION IN PUBLIC ENTERPRISES IN NIGERIA

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ABSTRACT

The study investigated the relationship between control activity/monitoring and fraud mitigation in public enterprises in Nigeria. The specific objectives were to investigate the relationship between control activities/monitoring and prevention of frauds/errors in public enterprises Nigeria. Interpretative philosophy was adopted while descriptive research design was adopted for the study. The population of the study consisted of twenty six (26) public enterprises in Rivers State, Nigeria as at the end of 2020. The unit population was the staff of the public enterprises from departments of Finance and Accounts and internal audit for each of the selected public enterprises. Probability sampling technique of simple random sampling was used to determine the sample for the study. Using Taro Yamene method a sample of 24 public enterprises and 24o respondents were selected for the study. Copies of questionnaire were used for data gathering. Univariate, bivariate and multivariate techniques was used for data analysis. The result of the study shows that a insignificant relationship between control activities/monitoring and prevention of frauds/errors in public enterprises 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 authorisations; 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: Control Activities, Monitoring, Fraud, Public Enterprises

INTRODUCTION

According to Owusu-Boateng et al (2017), internal control is a system incorporated within an entity with the purpose of nurturing resourceful and current activities. Okoro and Orlu (2021) noted that such arrangement promises that activities and tasks track rules and establishment of laws and advances the reliability of financial reports. Similarly, Ohaka and Somina, (2020), observed that control systems that are internal are vital for the organization to accomplish its crucialgoals. The control system ensures that public enterprises anticipate possible hitches and may bring about financial losses and as such mitigate whichever future happening. Owusu-Boateng et al (2017), Okoro and Orlu (2021), Haladu, (2018); Iyinomen and Nkechi, (2016) Henry and Osagie, 2016), noted that research on corporate failures primarily conclude on the evidence that effective internal control practices will be able to mitigate fraudulent activities. Furthermore control systems within an organization shield all valuations and procedures that are used and produced to support the detection of appropriate processes conforming to unwavering policies established management, working a list of books and the system for recording, classifying the responsibilities, tasks, power and strategy of the organization (Okoro & Orlu 2021); Ohaka & Somina, 2020;Haladu, (2018); Iyinomen & Nkechi, (2016).Hence, internal control systems are established and implemented by management and employees as a process which is strategic to make sure the goals and objectives of the organization are achieved. Owusu-Boateng et al (2017), further argue that strong internal control system is sine-qua-nonif management is resolute atfraud mitigation. Okoro and Orlu (2021), Ohaka and Somina (2020), Ukoma (2019), Owusu-Boateng et al (2017) explained that a number of techniques have been recognized to make an internal control system fraud resistant. These include selection of fraud staff; building management responsiveness; guaranteeing management supervision of internal control system; separation of duties; establishment of security and authorization of financial transactions. Additionally, the improvement of a fraud policy and mitigation is a serious function in any internal control system. Hence this study investigates internal control practices and fraud mitigation in selected public enterprises in Nigeria.

Hypotheses

Ho_1: There is no significant relationship between control environment and safeguarding of assets /misappropriation in public enterprises Nigeria.

Ho_2: There is no significant relationship between accounting system and safeguarding of assets /misappropriation in public enterprises Nigeria.

Ho_3: There is no significant relationship between control activities/monitoring and safeguarding of assets /misappropriation in public enterprises Nigeria.

Control Activities/Monitoring and Fraud Mitigation

Ohaka and Somina (2020), noted that control activities are those 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.A properly designed control activities does reduces the level of fraud. 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.

Okoro and Orlu (2021) stated that monitoring involves ongoing and continuous or periodic assessment of the quality of internal control system performance by management to see if internal control systems are understood, implemented and need for revision, external and internal audit reports, financial statements, regulatory reports can be used. Hayes et al (2016) noted that it is important to monitor internal control to determine whether it is operating as intended and whether any modifications are necessary.Monitoring can be used to mitigate corporate fraud. 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 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 ss or 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).

METHODOLOGY

In line with the problem and objective of this study, the appropriate research design for this study is survey research design. The target population of the study is made up of all accountants and auditors in the selected public enterprises in Nigeria.

The Taro Yamen formula was used in the determination of the sample size of the study.

$$n = \frac{N}{1+N(e)^2}$$

Where:

n= sample size sought

e = level of significance

N = Population size

$$n = 26/\{1+26(0.05)^2\}$$
$$n = 26/\{1+26(0.0025)\}$$
$$n = 26/\{1+0.065\}$$
$$n = 26/\{1.065\}$$
$$n = \underline{\underline{24}}$$

The instrument used for collecting data for this study was designed by the researcher taking into consideration the objectives of the study. The instrument was named **Internal Control Practices and Fraud Mitigation Questionnaire (ICPAFMQ).**

Method of Data Analysis

The methods of data analysis involve mathematical and statistical formula used in analyzing the outcome of the research hypothesis and questions. Hence, Consistent with the positivist research philosophy and quantitative design, the employed technique of inferential analysis in this study is parametric statistics. This technique is associated with the use of quantitative models that seek to establish correlational relationship between two variables by using sample-based parameters as measures to infer about the population of the study. The data analysis was executed in three distinct stages. Firstly, a univariate (or descriptive) analysis was executed, followed by bivariate analysis and lastly, multivariate analysis.

Results

Bivariate Analysis of Model III

Correlations Analysis of Model three

		SAM	COE	ACS	CAM
SAM	Pearson Correlation	1	-.177*	.404**	-.090
	Sig. (2-tailed)		.019	.000	.232
	N	176	176	176	176
COE	Pearson Correlation	-.177*	1	.122	-.512**
	Sig. (2-tailed)	.019		.107	.000
	N	176	176	176	176
ACS	Pearson Correlation	.404**	.122	1	-.162*
	Sig. (2-tailed)	.000	.107		.032
	N	176	176	176	176
CAM	Pearson Correlation	-.090	-.512**	-.162*	1
	Sig. (2-tailed)	.232	.000	.032	
	N	176	176	176	176

**. Correlation is significant at the 0.05 level (2-tailed).
*. Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS Output of Field survey (2021)

The correlation matrix from table 4.6 indicated the strength of the relationship between the dependent variable Safeguarding of Assets/Misappropriation (SAM) and the independent variables (Control Environment (COE), Accounting System (ACS), Control Activities/Monitoring (CAM). The correlation coefficient of r = -0.177, 0.404 and -0.090 shows a moderate positive and negative correlation between Safeguarding of Assets/Misappropriation (SAM) and all the independent variables. This implies that there is a negative relationship between Safeguarding of Assets/Misappropriation (SAM) and Control Environment (COE), there is a moderate relationship between Safeguarding of Assets /Misappropriation (SAM) and Accounting System (ACS). Finally, there is a negative relationship between Safeguarding of Assets/Misappropriation (SAM) and Control Activities/Monitoring (ACS).

Dynamic Error Correction Mechanism for Model three

The Parsimonious ECM result presented in Table 4.10 below shows the relationship between Safeguarding of assets/misappropriation (SAM) and control environment (COE), accounting system (ACS) and control activities/monitoring (CAM). From the result, the coefficient of one period lag of ECM is statistically significant and correctly signed. This validates the existence of long-run equilibrium relationship among the variables despite the presence of short-run inconsistencies due to non-stationary of one of the series. The parsimonious error correction model shows that the coefficient of determination R^2 is 89.7%. That is, the explanatory variables included in the model explained 89.7 percent change in Safeguarding of assets/misappropriation. In other words, only about 10 percent of variation in Safeguarding of assets/misappropriation were accounted by variables not included in the model. Hence the model is a good fit. Also, the overall regression was significant at 1%. The Durbin Watson statistic of 2.45 shows absence of serial autocorrelation.

Model Three Summary

Dependent Variable: D(LOG(SAM))

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.005188	0.012308	-0.421497	0.6740
ΔLSAM(-3)	0.077440	0.002328	33.26175	0.0000
ΔLSAM(-4)	0.060134	0.025455	2.362339	0.0194

ΔLCOE	-0.154668	0.122063	-1.267117	0.2070
ΔLACS	0.031232	0.120474	0.259242	0.7958
ΔL(ACS(-2)	-0.203578	0.141525	-1.438462	0.1523
ΔLACS(-3)	-0.228909	0.113286	-2.020631	0.0450
ΔLCAM	-0.545512	0.171600	-3.178979	0.0018
ΔL(CAM(-1)	-0.423045	0.145639	-2.904747	0.0042
ΔLCAM(-2)	-0.507772	0.158233	-3.209018	0.0016
ECM(-1)	-0.036295	0.024175	-1.501383	0.1352

R-squared	0.897319	Mean dependent var	0.008155
Adjusted R-squared	0.890861	S.D. dependent var	0.485258
S.E. of regression	0.160311	Akaike info criterion	-0.760885
Sum squared resid	4.086238	Schwarz criterion	-0.557980
Log likelihood	75.67522	Hannan-Quinn criter.	-0.678549
F-statistic	138.9478	Durbin-Watson stat	2.456379
Prob(F-statistic)	0.000000		

From the above result, the lags of Safeguarding of assets/misappropriation have positive and significant impact on current value such that in the short run, a percentage increase in previous values of Safeguarding of assets/misappropriation measures would significantly increase current Safeguarding of assets/misappropriation. The above table indicated an indirect relationship between control environment and control activities/monitoring measure and it is significant. That is increase in control activities/monitoring measure reduces Safeguarding of assets/misappropriation. While both control environment and accounting system measures were insignificant in explaining Safeguarding of assets/misappropriation in public enterprises Nigeria.

Internal Control Practices and Safeguarding of Assets/Misappropriation

On the relationship between internal control practices and safeguarding of assets/misappropriation, the result in Table 4.10 reveals that the parsimonious error correction model shows that the coefficient of determination 89.7% which implies that internal control measure explained 89.7 percent change in Safeguarding of assets/misappropriation. In other words, only about 10 percent of variation in Safeguarding of assets/misappropriation were accounted by variables not included in the model. Hence the model is a good fit. The above table indicated an indirect relationship between control environment and control activities/monitoring measure and it is significant. That is increase in control activities/monitoring measure reduces Safeguarding of assets/misappropriation. The findings were with in line with Adesina et al (2020) their result suggested that forensic audit has significant effects on the control of financial fraud in deposit money banks in Nigeria. Also, the findings agreed Andove et al (2019) they conducted a study of internal control practices and financial performance of faith based facilities in Kakamga County in Kenya and the result disclosed a statistically significant association between risk assessment control practices and financial performance of faith based organisations in Kenya. Other includes; Singal et al (2019); Ogiriki and Appah (2018); Gibson (2018); Owusu-Boateng et al (2017) and Iyinomen and Nkechi (2016). However, both control environment and accounting system measures were insignificant in explaining Safeguarding of assets/misappropriation in public enterprises Nigeria and this findings agreed with Adelana and Toba (2018) their result disclosed a negative and insignificant relationship between segregation of duties and fraud detection and prevention. Similarly, the findings further agreed with Sorunke (2016) carried out a study of internal audit and fraud control in local government councils in Osun State and the result from the analysis disclosed that the existence of internal audit does not prevent the occurrence of fraud and that fraud prevention. Others include; Yakubu et al (2017); Uniamikogbo et al (2019); Akenbor and Ironkwe (2014) and Agyapong (2017).

CONCLUSIONS

The study examined the relationship between internal control activities/monitoring and mitigation of fraud in public enterprises in Nigeria. The need for adequate internal control practices cannot be overemphasized due to the high level of financial irregularities in public enterprises in Nigeria. The results obtained indicates a positive significant relationship between control activities/monitoring and prevention of frauds/errors in public enterprises Nigeria.

RECOMMENDATIONS

Based on the findings made in the course of this study, the following 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.

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