

Internal Control System and Fraud Prevention in Public Service of Bayelsa State, Nigeria

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Abstract: The paper titled: **Internal Control System and Fraud Prevention in the Public Service of Bayelsa State, Nigeria.** The research design adopted was Cross Sectional Survey, Sample size was forty-eight (48). Data was collected by primary source, questionnaire. Analysis of data adopted the Spearman Rank order correlation aided by the statistical package for social sciences. It was found that very strong relationship exists between Internal Control and Fraud, Safeguarding of assets is significantly related to asset misappropriation and there is a significant relationship between management integrity/ethical value and employee embezzlement. In conclusion, the attainment of organizational objectives depends largely on how strong and effective the internal control system is in place. The recommendation is that the public administrators should ensure that effective internal control system is in place, since strengthening internal control will minimize fraud.

Keywords: Internal control System, fraud, safeguarding assets, assets misappropriation, management integrity, ethical value, employee embezzlement.

1. INTRODUCTION

The menace of fraud in nation building cannot be over-emphasized as it contributes to growth retardation and decay of infrastructure of many nations. It is a severe problem of concern globally especially to developing countries, which view fraud as a normal way of life. Duffield & Grabosky (2001) asserts that “fraud is the practice of misleading (a deceit) involving the deliberate manipulation of the truth by hiding the actual fact to gain undue influence (advantage) over another in an attempt to obtaining benefit while depriving others”. It is the deliberate deception with the aim of securing a personal benefit by taking advantage of others. It could be in the form of misappropriation, theft or embezzlement of public assets in a particular economic environment. Achibong (1993) simply puts it as “stealing by tricks”. Fraud is embedded deeply in the Nigerian public sector to the extent that an attempt to fighting it makes one look like an alien.

Internal control systems is the system of control on its entirety, including financial and otherwise put in place by the management of an organization to undertake the business of the organization in an orderly and efficient manner. It entails the control environment and control procedure, as well as all the guidelines and processes put into use by the directors and management of an organization to help in actualizing their set goals and objectives while aligning with the laid down guidelines in the organization, the safe guarding of assets, the prevention and detection of fraud and error as well as secure the integrity of records, with the appropriately-timed preparation of financial information which others can depend on in decision making (Benjamin, 2001). Internal control system as highlighted above helps in the prevention and detection of fraud, it functions to provide accountability as public sector managers are responsible for managing resources entrusted to them to carry out government programs and it also encourage sound management practices as it controls and coordinates department’s policies and procedures to safeguard its assets, check the correctness and the dependability of data, promote operational efficiency, and encourage adherence to sound management practices which help in the prevention of fraud.

2. LITERATURE REVIEW

Internal control:

Millichamp (2002) advanced that internal control system is the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records.

Babatunde and Dandago (2014) opines that, “for an institution to succeed, internal control is seen as the system of control in its totality both financial and otherwise put in place by the management of an organization to ensure the arithmetic exactness and the veracity of records, carry out the day to day activities of the business in an orderly manner and ensure the safety of organizational assets, in an attempt to preventing or detecting fraud and errors”.

Adepoju (2013) posited that internal control in the public sector is characterized by pre-audit and post-audit responsibilities, the pre audit occurs before the government commits itself, to a procurement arrangement, it is used to verify that there is sufficient fund and that there is authority to effect the expenditure. Lee et al (2004) as cited by Adepoju (2013) see post audit as a well-designed means of collection of evidential matter good enough, needed by management to make a categorical statement that the financial statement prepared represent the true nature of the activities or to help in appraising the management’s due diligence in the cause of carrying out the responsibilities assigned to them.

Fraud:

Several scholars and experts have widely defined fraud in different literatures. Agwor (2017) advanced that Fraud consists of knowingly making material misrepresentations of fact, with the intent of inducing someone to believe the falsehood and act upon it and, thus suffer a loss or damage. Idowu (2009) viewed defined fraud as “the intentional misrepresentation, concealment or omission of the truth for the purpose of deception/manipulation to the financial detriment of an individual or an organization which also includes embezzlement, theft or any attempt to steal or unlawfully obtain, misuse or harm the asset of an organization.” Fraud consists of both the use of deception to obtain illegal financial advantage and intentional misrepresentation, affecting the financial statements by one or more individuals among management, employees or third parties.

Duffield and Grabosky (2001) argued that fraud as “is a deceit that involve intentional distortion of the truth or misrepresentation or concealment of a material fact to take advantage over another so as to enjoy some benefit at the expense of others.” Mukoro, et al (2011) quoting Edafehirhaye and Edafehirhaye (2008) refers to fraud as the “tendency and propensity to do what is wrong, evil or harmful to one’s neighboring spite of the knowledge of what is good. It is an attempt of subverting the rule of the game using trick to take public fund and using them for one’s personal interest.”

Albrecht (2005) argued that Fraud is rarely seen. The symptoms of fraud are usually observed. Fraud is deceitful and dishonest, whichever way it is looked at, it entails unlawful conversion of properties belonging to the government or an organization without permission or knowledge or consent. The issue of fraud is a conventional phenomenon in our national life.

Wells (2005), identifies three main categories of fraud that affects organizations; the first of these is asset misappropriations, which involves the theft or misuse of an organization’s asset, financial statement fraud and corruption. While Albrecht et al (2011) classified fraud to include Employee Embezzlement. However for the purpose of this paper emphasis is on asset misappropriation and employee embezzlement.

Internal control system and Fraud in the public service:

CIMA (2009) states that internal control system comprises all those policies and procedures that collectively support an organization’s operation internal controls typically dealing with approval and authorization processes, access restrictions, transaction controls, account reconciliations and physical security. These procedures often include the division of responsibilities and checks and balances to reduce risk.

An effective good internal control system will benefit an organization in preventing the incidence of bad financing as well as helping organization to work effectively and in harmony while detecting errors and irregularities in its operation” (Pathak, 2005 and Wardiwiyono, 2012 as cited by Mohamade et al 2015). “Internal control system also plays a vital role in the internal auditing practices since the internal auditors might be considered as being experts in management control”

(Fadzil et al, 2005 as cited by Mohamad et al 2015) Bowrin (2004) opines that internal control is an integral component of an organization's overall governance structure, which is intended to direct and control its activities by promoting transparency, accountability, responsibility and fairness to all stakeholders.

Bianchi (2010) reflected it that in the public sector organization, the roles of internal control is to support the establishment of the system, while fostering the decision maker's accountability. However, failing to establish a reliable and dependable system could harm the organization in many ways while exposing to risk the efforts of nurturing accountability in the public sector. Reliable system of internal control assist in prevention and early detection of fraud in the public sector. Therefore, the higher dependency on the control system is constantly associated with higher expectation on enhancing the accountability in the organization (Liu, 2011).

It is therefore glaring that since internal control system lays emphasis on providing accountability, an effective system of internal control is what is needed in the public service to deter fraudulent and sharp practices thus providing accountability to the general populace. It is imperative to acknowledge that fraud detection in the public sector is relatively difficult if not impossible practically, this is as a result of the weakness caused by human and other factors.

Abiola (2009) argued that public sector fraud is where criminals seek to exploit government grants and compensation schemes for personal gain". He noted further that this particular type of fraud have effect on general public including tax payers, in an attempt to loot public treasury the fraudsters will develop or present documents that are not real (fake document and applications) to internationally mislead or exploit certain schemes which are in place to provide help to applicants (Gbegi and Adebisi, 2015). Fraud detection is a Herculean task because those involved have perfected the act of defrauding to a point that a special knowledge is required (Aluko, 1999). The existence of fraud in the public sector could be reduced if an effective system of internal control is present in the public sector.

Aluko (1999), Jenfa (2002), Damagum (2003) and Edeh (2015) Suggested the measures in their contributions on fraud detection, they are: identification of factors indicating fraud, staff appraisal, adequate designing of internal control system, proper communication of internal control policies, full implementation of the internal control, regular training and re-training of staff, prompt balancing of accounts and records, and the use of experts.

In the light of the above discussions, emanating from review of scholarly contributions, it is imperative to tentatively assert or hypothesize as stated below:

H₀₁: There is no significant relationship between internal control system and fraud in the public service.

Safeguarding of Assets and Asset Misappropriation in the Public Service:

To safeguard assets refers to putting in place restrictions on the unauthorized use. Effective Internal Control System ensures that assets belonging to the organization is safeguarded, security measures are kept in place to deter unauthorized use of those assets such as in the account department physical cash, cheque books, and other valuables of the organization are kept in the safe, whereby only the authorized personnel can access the safe.

Accounting and other documents are kept in the files cabinet with locks. Parameters such as fence are put in place to avoid pilferage. But in the public sector there is always the notion that assets of the government belongs to nobody and therefore the controls are usually undermined thus allowing for asset misappropriation.

Asset misappropriation occurs when people in the position of authority steals from it. "Asset misappropriation schemes include those frauds in which a perpetrator employs deceit to steal or misuse an organization's resources" Chad et al (2010). Asset misappropriation fraud include embezzlement where accounts are manipulated, or false invoices created, deception by employees, false expense claims etc. non cash Misappropriation also occurs when the resources of the organization is used for other purpose other than what it was authorized for.

KPMG (2004) in their prior research stated that "organization with weak internal controls are especially susceptible to fraudulent asset misappropriation schemes". Internal control weakness includes physical safeguards and other controls meant to safeguarding assets such as passwords etc. Albrecht et al (2012) argued that "overriding existing internal controls creates the greatest opportunity for asset misappropriation schemes". The duty of safeguarding assets in the public sector is vested in the hands of the accounting Officer or head of Department of the Ministries Departments and Agencies or Parastatals to ensure that the assets and files are protected, including other resources as well as documents.

The Internal Control Manual for Bayelsa State (2010) recommended the steps to be taken to implement physical and security of Non-current Assets Controls to deter misappropriation: these include Restriction of access, security, fencing of premises, tagging of assets, parking of vehicles, vehicle security numbers, inventory of assets and non-current assets register". From the foregoing discussions, with references to available literature reviewed, the development of the hypothesis below is necessitated:

Ho₂. There is no significant relationship between safeguarding of assets and Asset Misappropriation in the public service.

Management Integrity/Ethical Values and Employee Embezzlement in the Public Service:

Empirical studies identified that management integrity, accountability and setting the right tone at the top are the necessary constituent of good governance. Management integrity helps both the public and private sector organizations to attain maximal results with available resources, as well as achieve the set objectives, create a good working environment, and abide with existing rules, and regulations.

The code of ethics demands that management as well as employees in the public sector should act with integrity, setting aside personal profit and gain, and working in the public interest. Management adherence to code of ethics and communication of same to the employees will strengthen internal control system and hence check corruption, management should see the interest of the organization above their personal interest. Viewing from this perspective it suggests that unless sound moral principles anchored on enduring cultural values and practices are imbibed, the system of internal control will continue to be weak. With strong moral values and honesty, management in the MDAs and Parastatals will not inflate an invoice to expect kickbacks, will not put their personal interest above the interest of the public of which they tend to serve, if they are upright in character they will not attempt to convert public properties to personal use. With integrity and ethical value in play, employees will not attempt to manipulate the system for personal benefit.

According to Jason (2015), people are most likely to embezzle whenionable, they have rationalized what they are doing and they have an opportunity to get away with it. He suggested that organizations should do their best to hire ethical people and shut down opportunity. To supports embezzlement. Enofe *et al* (2016) in their study revealed that "employee capability and staff integrity exhibit significant relationship with fraud perpetration and prevention respectively although the strength of such relationship differs".

Since employee embezzlement still persist in the public sector as noted by Agbu (2003), who observed that public office can be abused for personal benefit even if no bribery occurs, through patronage and nepotism, the theft of state assets, or the diversion of public resources. Having critically presented the review of literature from this perspective, it became imperative to hypothesize as stated below:

Ho₃ There is no significant relationship between Management Integrity/Ethical Values and Employee Embezzlement in the public service.

Empirical Review on Internal Control System and Fraud in the Public Service:

Enofe *et al* (2016) in their study examined "internal control mechanism and fraud prevention in the Nigerian public sector using the new fraud diamond theory". It adopted a survey design and made use of primary data while the Spearman Ranked Correlation (ρ) was used to analyze the hypotheses. The findings revealed that "corporate governance and job segregation exhibits insignificant influence on fraud prevention while employees' capability and management integrity significantly influence fraud perpetration and prevention in the Nigerian Public Sector". Ggbegi and Adebisi (2015), in their studies "Analysis of Fraud Detection and Prevention Strategies in the Nigerian Public Sector" tested four hypotheses, "There is no strong internal control system in the Nigerian public sector" and "Management integrity has no influence on fraud prevention in Nigerian public sector". It was found that, "there is no strong internal control system in the Nigeria public sector and management integrity has influence on fraud prevention in the Nigeria public sector".

Ademola *et al* (2015) in their study on "the effect of internal control system In Nigeria public sector" concluded in the study that "the establishment of internal control play a vital role in prevention of fraud and irregularities" after testing two hypothesis to analyze "the effectiveness of internal control on the prevention and detection of fraud in the public sector organization". They went further to say that, "management and relevant authorities should focus on more strategic ways of internal control establishment as a way to preventing fraud in the public sector. More so, even though there is an

inefficient internal control, such as public sector reform etc., effective internal control are most effective for fraud prevention”.

In the study of internal control and fraud detection in the Nigerian public sector, Edeh (2015) concluded that internal control is a mechanism used to prevent and detect irregular activities and fraudulent practices in order to protect corporate assets from fraud and corrupt activities. In trying to analyze the accounting implication of the result, it was stated that internal control systems are approaches required to promote the effectiveness and efficiency of an organization’s, accounting system in order to reduce risks of asset loss due to fraud, and help to ensure the reliability of financial statements and compliance with laws and regulations.

Odunayo (2014) in his study; “Internal control system a managerial tool for proper accountability” stated that,” Internal Control system involves internal auditing, administrative and other accounting controls set-up by the management in order to ensure achievement of its planned objective” he went further to say that “these objectives entails keeping of appropriate records, ensuring adherence to the management policies and ensuring that actions are in line with plan”. One of the recommendations he made was that “there should be adequate motivation such as bonus and incentives to the employees/officers to avoid financial fraud”.

3. METHODOLOGY

The study adopted a cross sectional survey design, the population of the study consisted of all the 26 Ministries and Parastatals in Bayelsa State. The study adopted judgmental sampling technique thus, 10 Ministries/Parastatals were purposively selected. Five questionnaires were administered to each of the 10 Ministries/Parastatals individual basis. A total of 50 questionnaires drawn on a five point Likert scale were distributed to the respondents to obtain the primary data used for the analysis. Five structured questions each were drawn from each of the explanatory variables, (Safeguarding of Assets and Management Integrity/Ethical Values) and the criterion variables ((Asset Misappropriation and Employee Embezzlement). The Likert scale were structured ranging from Strongly Disagree to Strongly Agree for the explanatory variables and Very Low to Very High on the criterion variables. Spearman Rank Order correlation with the aid of Statistical Package for Social Sciences (SPSS) Version 20, was adopted for data analysis.

4. RESULTS

Fifty (50) sets of the questionnaire were produced and distributed to the respondents. Forty eight (48) sets of questionnaire were completed correctly, while 2 sets of questionnaire were not rightly completed and eventually not used. The 48 rightly completed questionnaires were used for the analysis representing the response rate of ninety six percent (96%).

Descriptive Statistics on all the study variables on table 1 revealed that: Safeguarding of Asset had a mean of 3.0667 and a standard deviation of 0.96256; Management Integrity/ Ethical Values had a mean of 3.1083 and a standard deviation of 0.91322, Asset Misappropriation had a mean of 3.4208 and a standard deviation of 0.91534, Employee Embezzlement had a mean of 3.2667 and a standard deviation of 0.85087; Internal Control System had a mean of 3.0875 and a standard deviation of 0.93140. Fraud had a mean of 3.3438 and a standard deviation of 0. 80923. The mean of all the study variables were above 3 (three) the required average of a 5 Point Likert scale.

Table 1: Descriptive Statistics on all the Variables of the Study

		Safeguardin g of Assets	Management Integrity Ethical/ Values	Asset Misappropriation	Employee Embezzlement	Internal Control System	Fraud
N	Valid	48	48	48	48	48	48
Mean	Missing	0	0	0	0	0	0
Std Deviation		3.0667	3.1083	3.4208	3.2667	3.0875	3.3438
sum		.96256	.91322	.91534	.85087	.93140	.80923
		147.20	149.20	164.20	156.80	148.20	160.50

Source: SPSS 20.0 Output (Field Survey Data, 2017).

Table 2: correlation Analysis on the Magnitude and Direction on the Relationship between Internal Control and Fraud

			Internal Control system	Fraud
Spearman's rho	Internal Control System	Correlation Coefficient	1.000	.873**
		Sig (2-tailed)	.	.000
		N	48	48
	Fraud	Correlation Coefficient	.873**	1.000
		Sig. (2tailed)	.000	.
		N	48	48

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

Source: SPSS 20.0 Output (Field Survey Data, 2017).

Table 3: correlation Analysis on the Magnitude and Direction on the Relationship between Safeguarding of Asset and Asset Misappropriation

			Safeguarding of Assets	Asset Misappropriation
Spearman's rho	Safeguarding of Assets	Correlation Coefficient	1.000	.742**
		Sig (2-tailed)	.	.000
		N	48	48
	Asset misappropriation	Correlation Coefficient	.753**	1.000
		Sig. (2-tailed)	.000	.
		N	48	48

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

Source: SPSS 20.0 Output (Field Survey Data, 2017).

Table 4: Correlation Analysis on the Magnitude and Direction on the Relationship between Management integrity/ethical value and employee embezzlement

			Management Integrity/ethical value	Employee embezzlement
Spearman's rho	Management Integrity/ethical Value	Correlation Coefficient	1.000	.753**
		Sig (2-tailed)	.	.000
		N	48	48
	Employee Embezzlement	Correlation Coefficient	.753**	1.000
		Sig. (2-tailed)	.000	.
		N	48	48

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

Source: SPSS 20.0 Output (Field Survey Data, 2017).

The correlation analysis on the magnitude and direction of the relationship between the predictor variables (Safeguarding of Asset and Management Integrity/Ethical Values) and the criterion variables (Asset Misappropriation and Employee Embezzlement) as presented in tables 2, 3 and 4. Table 2 shows the correlation coefficient on the relationship between Internal Control System and Fraud in the Bayelsa State Public Service, the analysis revealed a very strong negative correlation coefficient of 0.873**, significant at (pv) < 0.05 level of significance 2 tailed. Table 3 shows the correlation coefficient on the relationship between Safeguarding of Assets and Asset Misappropriation in the Bayelsa State Public

Service, the analysis revealed a strong negative correlation coefficient of 0.742**, significant at (pv) < 0.05 level of significance 2 tailed. Table 4 shows the correlation coefficient on the relationship between Management Integrity/Ethical Values and employee embezzlement in the Bayelsa State Public Service, the analysis revealed a strong negative correlation coefficient of 0.753**, significant at (pv) < 0.05 level of significance 2 tailed.

5. DISCUSSION

Results from the correlation analysis on the relationship between Internal Control and Fraud shows that a very strong relationship exists between them, this was evidenced by the correlation coefficient of - 0.873**, the negative correlation indicates that a decrease in Fraud is associated with an increase in Internal Control, therefore the null hypothesis was rejected and concludes that a significant relationship exist between Internal Control and Fraud, This is in line with “Ademola et al (2015) who stated that the establishment of internal control play a vital role in prevention of fraud and irregularities, that effective internal control is a panacea for fraud prevention. Also Wardiwiyo (2012) stated that a good internal control system will benefit an organization in preventing bad financing and irregularities while detecting errors in its operation.

Also, results from the correlation analysis on the relationship between Safeguarding of Assets and Asset Misappropriation, revealed a strong relationship exist between them, this was evidenced by the correlation coefficient of 0.742**, the negative correlation indicates that a decrease in Asset Misappropriation is associated with an increase in Safeguarding of Asset, therefore the null hypothesis was rejected and concludes that a significant relationship exist between Safeguarding of Assets and Asset Misappropriation.

The correlation analysis on the relationship between Management integrity/Ethical Values shows that a very strong relationship exists between them, this was evidenced by the correlation coefficient of 0.753**, the negative correlation indicates that a decrease in Employee Embezzlement is associated with an increase in Management integrity/Ethical Values, therefore the researchers rejects the null hypothesis and concludes that a significant relationship exist between Management Integrity/Ethical Value and Employee Embezzlement. This is in agreement with the study of Enofe et al (2016) which revealed that a significant relationship exist between management integrity and fraud prevention in the Nigerian public sector. Also Gbegi and Adehisi (2015) concluded that management integrity has influence on fraud prevention in the Nigerian public sector.

6. CONCLUSION

The impact of Internal Control System to an organization cannot be overemphasized. The attainment of organizational objectives depends largely on how strong, and the effectiveness of its Internal Control System. For an institution to succeed, internal control is the basic ingredient or panacea needed.

It is therefore recommended that Ministries/Parastatals should ensure that an effective system of internal control is put in place since strengthening internal control will minimize fraud. This is particularly important to the ministries and parastatals existing in the Bayelsa State of Nigeria.

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