INTERNAL AUDITING AND FRAUD PREVENTION IN THE NIGERIAN PUBLIC SERVICE: A CONCEPTUAL REVIEW

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ABSTRACT
The paper sets out to review the effect of internal auditing in the detection and prevention of fraud and financial crime in the Nigeria public service. The paper relies mostly on secondary documentation, where scholarly articles on the subject matter were reviewed in line with the objective of the study. The reviewed articles revealed that auditing plays a significant role in the detection and prevention of fraud and financial crime in both private and government owned institutions. Internal auditing has been the traditional method of checking discrepancies in the accounting books of any organization mostly government owned institutions with the view of curbing fraud and financial crime. But fraud and financial crime has assume a geometric proportion as observed in many of the articles reviewed. Based on the findings, it was recommended that public service institutions should engage in outsourcing of auditing services to stem the rising cases of fraud and financial crime in the public service as the traditional internal auditing has failed to curb fraud over the years.

Keywords: Internal Auditing, Fraud Detection, Financial Crime Prevention, Nigeria Public Service

Introduction
Fraud is an aged long phenomenon associated with mankind mostly in his public interaction with other people, corporate entities and indeed government owned institutions. Nigeria government institutions are not exception to this aged long tradition of fraud in the public service sector of our economy. Fraud no doubt is one of human phenomenon that creates serious challenges for all kinds of businesses be it public or private (Perri & Brody, 2012). The concept of fraud focuses on any deliberate action or in-action of man either as an individual or as a group to deceived others or take possession of an item deceitfully at the expense of others (Halbouni et al, 2016).

The survival of any organization to a large extend depends on its ability to detect and prevent fraud and its attendance consequences by the adoption of auditing practices mostly in the public sector of any economy. Auditing is the arts of checking the books and accounts of any business to protect the business from fraud and fraudulent activities, highlighted by any discrepancies in accounting methods of the day to day business transaction of an organization for its growth and survival. The constant review and verification of the accuracy of financial records of any organization is the certain way to curb if not eliminates completely fraud and fraudulent activities in any organization be it private or public (Bello & Orah, 2019).

The cardinal responsibility of auditing in addition to examining and preparing financial documentations, writing financial reports, examining financial statement for compliance with laws and regulations, prepare tax owed and returns, looking at the validity of a company financial
statement and writing report at the end of the investigation all geared toward the detection and prevention of fraud and fraudulent activities in any organization especially the public organizations, this core principles of auditing and auditors seems to have fail over the years as fraud cases in Nigeria public service sector has assumed an alarming proportion evident by the recent fraud (corruption) allegation against the head of different public organizations by the Economic and Financial Crime Commission (EFCC). Internal auditors who are gate keepers in checkmating fraud and fraudulent activities in any organization especially public service institution in Nigeria have not been able to detect and curb fraud in some institutions based on the increasing rate of fraud in government owned institutions in Nigeria.

Despite the fact that there has been continuous auditing by both internal and external auditors in the private and public organization in our country, incidences of fraud and fraud related activities is being reported in government owned institution in Nigeria. Does it mean that auditing practice mostly in government owned institutions in Nigeria is ineffective in the detection and prevention of fraud and financial crimes? Or has the auditing process been compromised by the auditors and managers of government institutions in Nigeria? This paper seeks to conceptually investigate and provide answers to the research questions.

Over the years successive government and accounting/auditing professionals have committed huge resource to create an enabling environment for the practice of auditing and the training of auditors to enhance their technical know-how in preparing, checking and handling of financial statements in order to curb the increasing rate of fraud in public institutions in Nigeria. But this effort by government and various accounting bodies has not yielded the desired result, as fraud and corruption allegations against managers of government owned institution are on increase in Nigeria. Therefore, the main objective of the study is to conceptually investigate the role of auditing in detecting and preventing fraud and financial crime in the Nigeria public sector.

**Literature Review**

**Internal Auditing**

Internal audits evaluate company internal controls, including its corporate governance and accounting processes. It ensures compliance with laws and regulations and help to maintain accurate and timely financial reporting and data collection. The managers of public institutions mostly are provided with the necessary tools to attain operational efficiency by identifying problems and correcting the gaps observes before they are discovered by external audits (Abdullahi, 2018).

The Institute of Internal Auditors (IIA) (2014) defines internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations.” It further elaborates that internal auditing “helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control governance processes and eliminate all forms of fraud and fraudulent activities in the organization. Auditing whether financial or otherwise is a veritable tool for the survival and growth of any organization through the routine audit to ensure the organization has the ability to survive in a competitive and turbulent business environment and continue to prosper. This is achieved through monitoring, analyzing and assessing the risk and controls of the organization by reviewing the organization compliance with states and federal policies and laws.
Internal audits was traditionally design to ensure reliable accounting information to safeguard the organization asset especially public organizations, but more recently, internal auditing has evolved to encompass operational auditing, risk assessment, information technology assurance services, and more. This expanding role has increased the relevance of internal auditing as part of the organization’s management control structure thereby requiring different skills and competencies, and many organizations need to face the choice whether to develop these broader competencies internally or to outsource internal auditing to outside service providers (Ahlawat & Lowe, 2004; Widener & Selto, 1999). Over the last decades, this decision has been keenly debated in both academic and professional literature.

The debate over the benefits of organizing the internal audit function in-house versus the alternative of outsourcing this function to third party vendors (usually a public accounting firm) is not without partisan interests. Indeed, the debate can be seen as a jurisdictional dispute between the internal auditing and the public accounting professions over the right to control the provision of internal audit services (Rittenberg & Covaleski, 2001; Covaleski, Dirsmith, & Rittenberg, 2003). Public accounting firms have found the provision of internal audit services to be a lucrative market (Petravick, 1997; Rittenberg & Covaleski, 1999). Some estimate that potentially, an accounting firm’s revenues from internal audit services can be up to ten times that of annual financial statement audits (Aldhizer, Cashell, & Martin, 2003). These firms justify their presence in the market for internal audit services by stressing their sophisticated expertise, flexibility, and cost-effectiveness (Caplan & Kirschenheiter, 2000).

Internal auditors, on the other hand, emphasize the importance of in-depth, organizations pacific knowledge, loyalty, and their role in handling crisis situations and fraud prevention (Barr & Chang, 1993; Chadwick, 2000; Martin & Lavine, 2000). This debate has gained additional momentum as in the wake of recent business scandals many organizations are currently reconsidering their internal audit functions-either voluntary or forced by new laws, regulations, and guidelines (the Sarbanes-Oxley Act, SEC-rules and their local counterparts all around the world). Although these new rules appear to favour in-house internal auditing as an integral part of the organization, outsourcing is still allowed provided-broadly speaking-that the organization retains management of the internal audit function and the contractor is not the external auditor.

Fraud Detection and Prevention

It is necessary for government owned institutions to establish an effective fraud prevention and detection mechanism in order to minimize the opportunities of fraud and financial crime from occurring (Bierstaker, Brody & Pacini, 2006). These methods can comprise managerial communications about intolerance to fraudulent activities, executing transparent performance and remuneration schemes, pre-employment and on-going screening and, most significantly encouraging a culture of fraud awareness (PwC, 2012).

A survey conducted by PwC (2014) revealed that 37% of respondents globally reported fraud did occur in their organizations, and the number of economic crimes seemed to pose a persistent threat to businesses and their business processes. Ernst & Young (2014) reported the 59 countries involved in the survey agreed that incidence of fraud and reported cases are not declining. In fact new ways of fraud constantly emerge and matters that regulators and public consider inappropriate or fraudulent are evolving. A survey by KPMG Malaysia (2013) discovered that the highest number of fraud
Perpetrators came from employees which represented about 50%. These employees were found to be among those in non-management. In 2009, this category of fraud perpetrators i.e. employees, in contrast, only represented about 34%. These figures are alarming to the government and the management, as there was an increase of 16% in 2013.

The second category of fraud perpetrators were customers, followed by management, each category represented about 18% respectively. Other fraud perpetrators identified were service providers (8%) and suppliers (6%). The report also highlighted that theft of outgoing funds was the highest reported category of fraud at 67% in 2013 compared to 57% in 2009 survey. Ranking second, was theft of physical assets at 58%, followed by theft of incoming funds at 34%. On an individual basis, the most common types of fraud were theft of cash and cash receipts (26%), followed by false invoicing (16%) and theft of inventory (13%) (KPMG Malaysia, 2013). Governments and corporations as claimed by Ernst & Young (2014) agree that fraud, bribery and corruption are bad for business and society, and that decisive steps need to be taken to reduce them. Fraud prevention calls for measures to stop fraud from occurring in the first place. Fraud detection comes next once fraud prevention has failed as it involves identifying fraud as quickly as possible once it has been perpetrated (Bolton & Hand, 2002). By nature, fraud detection must be used and worked continuously as fraud evolves.

Clearly, the traditional approach to detect and prevent fraud, like auditing, is not sufficiently effective and only enabled fraud to be detected months after the date of the transactions, if ever. In some cases the consequent huge losses cause the organization to lose sustainability and the business would consequently collapse. Such belated discovery of fraud would then only have recourse on punishment which demonstrates a reactive approach instead of a proactive approach. Hence, deriving an understanding on the causes of fraud or economic crimes becomes vital, since this will crucially lead to identification of the most effective mechanisms to detect and prevent the occurrence of fraud.

Prior studies on fraud detection and prevention method have focused mainly on the private sector (Bierstaker, Brody & Pacini, 2006; Smith, 2012; Apostolou & Crumbley, 2008; Alleyne & Horward, 2005; Oluwagbemiga, 2010; Durtschi; Rahman & Anwar, 2014). There were limited studies conducted on fraud detection and prevention in the public sector. There are various audit procedures that can be applied to detect fraud in the public sector. Interestingly, most researchers discovered analytical procedures were the most effective method to detect fraud.

Association of Certified Fraud Examiners (2012) reported that fraud has been divided into three broad categories as follows: corruption, assets misappropriation, and financial statement fraud. From the existing cases, there are many ways that fraud can be perpetrated from the simple misuse of trust to the sophisticated computer based offense. Anyanwum (1993), Ajie and Ezi (2000), Karwai (2002), Okafor (2004), Adeniji (2004) and Onuarah et, al. (2011) summarize the types of fraud on the basis of methods of perpetration include the following but not exhaustive as the methods are devised day in-day out. These include defalcation, suppression, outright theft and embezzlement, tampering with reserves, insider abuses and forgeries, fraudulent substitutions, unauthorized lending, lending to ghost borrowers, kite flying and cross firing, unofficial borrowing, impersonation, teeming and lading, fake payment. Fraudulent use of the organization documents, fictitious accounts, false proceeds of collection, manipulation of vouchers, over invoicing, changing statistical data, manipulation of ledger accounts, fictitious contracts, manipulation of cheque books, computer fraud, misuse of suspense accounts, false declaration of cash shortages among others.
The various forms of public sector fraud include bribery and extortion; fraud and embezzlement; unlawful use of public assets for private advances; over- and under-invoicing; payment of salaries and other benefits to ghost (non-existent) workers and pensioners; payment for air supply (goods or services not provided or rendered) (Singleton, Bologna, & Lindquist 2006). Underpayment of taxes and duties on exports and imports through false invoicing or other declarations; inflation of prices of goods purchase; embezzlement of assets; court pronouncements awarding financial compensations well in excess of any damage suffered; deletion of documents or the whole case files; favoritisms and patronage. Fraud may be categorized into Corporate, Management Fraud and fraud as a tort. Corporate fraud, on the other hand, is any fraud perpetrated by, for or against a business corporation (Singleton, et al., 2006)

The role of the internal auditor depends, of course, on his professional training and practical abilities, as well. In practice, the role of the internal audit can include a varied set of responsibilities: supporting the management in establishing auditable anti-fraud mechanisms; facilitating the assessment of fraud and reputational risks at the level of an organization and its business process; assessing the connections between fraud risks and internal controls; auditing frauds; aiding the specialists in fraud investigation; supporting the efforts to rectify deficiencies; and reporting to the audit committee the problems regarding anti-fraud mechanisms, fraud and fraud cases and suspicions (Petracu, 2012). The internal audit cannot completely prevent fraud, but it can adapt its work approach and procedures so that it can increase the chances of identifying and interpreting the signs of fraud is the public firms (Munteanu, Zuc & Zuca, 2010).

**Review of Empirical Literature**

A lot of research works have been carried out in this subject matter both by the government and in the academia on how internal audit is employ to curb fraud both in the public and private sector, but in a disaggregated manner. Each research normally takes a particular aspect of auditing and tries to link it with fraud and fraud related matters. This research work focuses on evaluating the role of internal auditing in preventing and detecting fraud in the Nigerian public sector.

**Table 1: Literature Mapping**

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<thead>
<tr>
<th>S/N</th>
<th>Author &amp; Year</th>
<th>Research Title</th>
<th>Variables</th>
<th>Methods And Findings</th>
<th>Limitation</th>
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<tbody>
<tr>
<td>1</td>
<td>Eiya &amp; Otalor (2013)</td>
<td>Auditing and accountability: A case of Nigerian Banking industry</td>
<td>Auditing, Firms Accountability, Nigerian banking industry</td>
<td>Cross-sectional survey design was adopted. Logistic regression analysis was performed which predicted a significant influence of Auditing on Banks</td>
<td>Logistic Regression, restricted to Nigeria Banks only which cannot be generalizes to other sectors</td>
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<td>Author(s)</td>
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<td>Methodology</td>
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<td>2</td>
<td>Mohamed &amp; Omar (2014)</td>
<td>The role of internal Auditors in the fight against corruption in revenue generations in Kano states</td>
<td>Survey research design was employed in data collection, and using descriptive statistics, correlation and analysis of variance, which shows a significant effect on using internal Auditors in enhancing the fight against corruption in Kano revenue generation agency.</td>
<td>Restricted to only Kano state, Kano revenue generation agency.</td>
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<td>3</td>
<td>PWC (2012)</td>
<td>Fraud Awareness, Detection and Prevention in selected private sector.</td>
<td>Quantitative, 20 private companies, primary source of data, ordeal least Square (OLS) regression, the findings was significant that fraud awareness enhance its detection and prevention in the private companies in Nigeria.</td>
<td>The study was limited to 20 listed companies, restricted to Nigeria which becomes difficult to generalize to other nations.</td>
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<td>4</td>
<td>KPMG (2012)</td>
<td>Fraud prevention approaches as a primary line of defense and cost-effect</td>
<td>Secondary data was collected, using E-view to test the correlation between the</td>
<td>Manufacturing companies listed in Nigeria only and the study fail to cover other countries.</td>
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<td>Method of controlling fraud in the manufacturing companies in Nigeria.</td>
<td>Method of controlling fraud, Manufacturing companies in Nigeria</td>
<td>variable, which show strong relationship between the variables under study.</td>
<td>Limited to SMEs only and to developing countries. Data mining is just one among other techniques used to curb fraud in an organization and cannot be used alone</td>
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<td>Jans, Lybaert &amp; Vanhoof (2010) Effect of data mining techniques on internal fraud risk reduction On SMEs developing countries</td>
<td>Data Mining Techniques, Internal fraud risk reduction, SMEs in developing countries.</td>
<td>Primary data, Descriptive statistics and SPSS. Data mining techniques significantly reduce internal fraud in SMEs in developing countries.</td>
<td>Data used for the study was collected for other purpose and not purposely for this study. The study was limited to Malaysia resulting to geographical gap.</td>
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<td>Omar &amp; Bakar (2012) Fraud prevention mechanism of Malaysian: An Government-Linked Companies: An Assessment of Existence and Effectiveness</td>
<td>Fraud prevention mechanism, Government linked companies, Existences and effectiveness, Malaysia</td>
<td>Secondary data collected and E-view was used to analyze the data. results showed that management review of internal controls and external audits of financial statements ranked as the top-most fraud prevention mechanisms in terms of the percentage of existence in organizations as perceived by internal auditors and fraud investigators, followed by operational</td>
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<td>Audits, internal audits or fraud examination departments, and internal control review and improvements by departments</td>
<td>Auditing and fraud prevention in the Kogi state ministry of education</td>
<td>Longitudinal survey design, Pearson’s correlation and finding shows positive relationship between the variables</td>
<td>The respondents are centralized in one part of Nigeria,</td>
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<td>Auditing and fraud, fraud prevention, ministry of education Kogi state.</td>
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7. Okoye & Gbegi (2013)  
Auditing and fraud prevention in the Kogi state ministry of education

Impacts of External Auditing in curbing fraud in the Nigeria Banking industry.  
External Auditing, Fraud elimination, Nigeria Banks.

Effectiveness of forensic auditing in detecting, investigating, and preventing bank frauds,  
Forensic Auditing, fraud investigation and prevention in banks

Secondary data, E-view analysis, result revealed significant effect on the use of forensic audit in the investigation and preventing of fraud in the banking system only rising the problem of generalization
Theory of Fraud Triangle
This paper is built around the three element of fraud triangle (Pressure, Opportunity and rationalization) as identified by Cressey in 1953. Cressey 1950 attempted to determine the major reason why people commit fraud mostly in public offices, this effort lead in the formulation of a theory known as Theory of Fraud Triangle (TFT) after reviewing about two hundred and fifty criminal cases for a period of five months. The said theory was publish in 1953, identifying three key element that are usually present for fraud and fraudulent activity to take place such as; pressure/incentive, opportunity and rationality. This three key element are depicted in the triangle thus:

![Diagram of Fraud Triangle]

**Source: Cressey 1953**

In analyzing and contributing to these three elements as identify by Cressey many scholars (Hooper & Ponelli, 2010; Rasha & Andrew 2012; Albrecht et al. 2006) have recommended that the word perceived be used when describing the word pressure and opportunity to commit fraud because variable may not be real and may depend on the perpetrator perception. Pressure and opportunity may be the driving forces to commit crime mostly in the public sector with less supervision like Nigerian public sector. Pressure and opportunity may be due to greed, living beyond ones means, family financial problem and drug addiction, large expenses or personal debt, among others.

When a particular system is weak like the Nigeria public sector it create the opportunity and the enable environment for fraud and financial crime to take place by the employee leveraging on the chance, power and ability to exploit the weak system to commit fraud.

The more an institution internal control system is weak the likely the opportunity to conceal fraud and commit financial crime. Even when an employee has excessive pressure, financial fraud may not possibly take place unless an opportunity exists. Public institutions internal control weaknesses, poor auditing system, lack of accounting record and poor segregation of duty are significantly influencing
individual to commit fraud (Hooper & Pornelli, 2010). Turner, Mock and Sripastava (2003) argue that despite the presence of pressure or motive on a person yet, he cannot be able to commit fraud until the possibilities are created.

This paper is anchor on opportunity as the underlying theory under the fraud triangle theory that underpins this study. The Nigeria public sector is weak, poorly supervise, lacking adequate internal control mechanism, rules are not observed and laid down procedures not follow thereby giving rise to the surge in fraud and corruption case being reported.

Methodology
This study review the effect of internal auditing in the detection and prevention of fraud and financial crime in the Nigeria public service. In order to achieve the study objective, the author adopted the conceptual and theoretical approach in reviewing existing work on the subject matter.

Discussion of Findings
The effect of internal auditing in detecting and preventing fraud and financial crime in the Nigeria public sector is well documented by various scholars (Eiya & Otalor, 2013; Hooper & Pornelli, 2010; Mashayanye, 2009; Bierstaker, Brody & Pacini, 2006; Smith, 2012). This is due to the rising case of fraud and financial crime in both private and public sector around the world (Adeoye, 2018). The role of internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations, helping an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, governance processes and eliminate all forms of fraud and fraudulent activities in the organization according to Omar and Bakar (2012). This varies from one organizational setting to another and from the private sector to the public sector. Most of the reviewed articles (Petracu, 2012; Mashayanye, 2009; Eiya & Otalor, 2013; Hooper & Pornelli, 2010) are of the opinion that the traditional internal auditing practice and procedures’ are weak, incompatible with the present realities and almost obsolete giving rise to the unprecedented surge in fraud and financial crime cases in the Nigerian public sector of recent time. These scholars advocate for external auditing rather than internal auditing due to its weakness and non-adherence to procedural process. This view is in line with the underpinning theory for this paper, the fraud triangle theory, which holds that fraud and financial crime in most public institution is based on the weakness and poor supervision of the system by internal auditing processes.

Conclusion
Internal auditing role is pivotal to the growth and survival of any human endeavor be its private or public endeavor but this is significant and core principles of auditing and auditors of detecting, preventing and highlighting discrepancies in the financial record of any organization. And, it seems to have fail over the years as fraud cases in Nigeria public service sector has assume an alarming proportion. The uprising in fraud cases in the public sector is attributed to the failure of internal auditors to observe the basic principles of internal auditing thereby creating a weak system and opportunity for fraud and fraud activities to take place. Hence, to curb fraud and the rising wave of corruption in the Nigeria public sector or institutions, the obvious weakness observed in internal auditing most be corrected by following strict auditing practice as recommended by the Institute of Internal Auditors. Otherwise external auditing should be substituted for internal auditing in government own institutions in Nigeria. When a particular system is week like the Nigeria public
sector it create the opportunity and the enabling environment for fraud and fraudulent activities to take place by employee leveraging on the chance, power and ability to exploit the weak system to commit fraud.

The more an institution internal control system is weak the likely the opportunity to conceal fraud and commit financial crime. Even when an employee has excessive pressure, financial fraud may not possibly take place unless an opportunity exists. Public institutions internal control weaknesses, poor auditing system, lack of accounting record and poor segregation of duty are significantly influencing individual to commit fraud

**Recommendation**

Based on the reviewed articles and the theoretical underpin of this paper, it was recommended that the Nigeria public service sector should engage the services of external audits in place of internal audits as is the case in the ongoing external and independent audit in the ministry of Niger Delta due to the weakness and by extension the opportunity created by internal auditing for employee and managers to commit fraud such as contract duplication, extra budgeting spending, payroll fraud, money laundering among fraudulent activities. The study also recommend that, to enhance the detection and prevention of fraud in the Nigeria public sector, audit and auditing practices should not be left in hands of an individual or a group of individual over a long period of time, some forms of rotation should be observed and strict compliance to the core values of auditing practice be maintain in Nigeria government institutions.

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