

EFFECT OF PUBLIC SECTOR AUDIT ON FRAUD PREVENTION IN NIGERIA

PUBLIC SECTOR

BY

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**BEING A PROJECT SUBMITTED TO THE POSTGRADUATE SCHOOL OF
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DECLARATION

I hereby declare that this project has been written by me and it is a report of my research work. It has not been presented in any previous application for the Award of Master's Degree in Public Sector Accounting. All quotations are indicated and sources of information specifically acknowledged by means of references.

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DATE

NSU/PSA/MPS/0038/16/17

CERTIFICATION

This project entitled “*Effect of public sector audit on fraud prevention in Nigeria public-sector*” meets the regulations governing the Award of Master’s Degree in Public Sector Accounting, of the School of Postgraduate Studies of Nasarawa State University, Keffi, for its contribution to knowledge and literacy presentation.

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DEDICATION

This project work is hereby dedicated whole heartedly to the Omnipotent, Omniscience and Omnipresent God who in his infinite mercy, grace and favour saw me through the struggling period of my studies in this institution. Furthermore, it is dedicated in memory of my late father Danko Jezanyi. Finally to my late uncle Mr. Bawa Shehu who nurture me through his tireless labour and brother Maikasuwa Danjuma as well as my friends who were instrumental to my educational pursuit to completion.

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My life is full of praise and thanks to my eternal father, God Almighty for sustaining me throughout this course duration and the special grace to me to complete this work. Having heard, watch and waited at the posts doors of the Lord, I am blessed.(prov. 8:34 “Blessed is the man that heareth me waiting daily at my gate ,waiting at the door post of my doors.”).

Having successfully completed this project, I regard it as a life of victory to my future prospect and achievement made possible with the encouragement of families, friends indeed and individual well-wishers. To God be all the glory.

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ABSTRACT

This study examined the effect of public sector audit on fraud prevention in Nigeria public sector. The study adopted correlational survey research design and made use of primary data. The study used Yaro Yamane formula to arrive at a sample size of 137 out of the structural questionnaires prepared based on 5 point Likert type scale and were distributed among the respondents. The data were analyzed using OLS multiple regression technique. The result show that auditor independence, auditor competence and auditor size has positive significant effect on fraud prevention in Nigeria public sector. The study concluded that auditor independence competence and size of are the main factors that help to prevent fraud in Nigeria public sector. The study therefore, recommends among other that the office of auditor general of the Federation should emphasize on the training and retraining to improve auditor competence. Furthermore, auditors should be monitored by professional bodies to improve auditors independence.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

There is a general consensus among policy makers, academicians and professionals all around the continent on the desire for governments to put greater effort to prudent management of public financial resources. The reason is recognized, government makes the biggest sole business entity and their nature of spending through its various ministries, agencies and departments arouse lots of economic functions. Sagacious management of financial resources in the public sector has become even more important in the wake of the economic recession that many nations are currently facing. Achieving public financial prudence requires the system of financial control, including accounting control, to be sound and effective.

The public sector accountants have the responsibility of developing systematic arrangements to assist management in the performance of the services of the institution, while the public sector auditors have among other duties, the complementary role to examine whether management actually performs that efficiently. The public sector auditors have to satisfy himself that the accounts presented have been prepared in accordance with statutory and constitutional requirements, regulation and proper accounting standard practice have been observed in their compilation. With the growing size and complexity of public sector in the recent years, the importance of the audit has correspondingly increased so that it is today a major factor in determining credibility of financial statements of the public sector entities.

However, the survey by Transparency International, (2018) reports that Nigeria ranks twenty six (26) from one hundred and eighty (180) nations on the corruption index, suggesting that Nigeria is one among the corrupt countries of the world. This calls to question the effectiveness of public sector audit as a measurement of fraud.

The public sector auditors consist of Auditor General and internal auditors of each of the Ministries Department and Agency. The Auditor General has the responsibility of preventing fraud of public funds, by implementing the effective internal controls (Ratliff, Wallace, Loebbecke, & Farlan, 1996). Account need to be accurate and timely so as to aid decision making. As noted by International Public Sector Auditing Standard (IPSAS) financial reports and section 13, sub-section 1-3 of the 1999 constitution mandate the Accountant –General to furnish the Auditor-General of the federation with the country’s financial statement. The Auditor-General shall within 60 days of receipt of the Accountant-General financial statement submit his report to the National Assembly.

Competence of staff is an important constituent in effective internal audit functions (IIA, 2006). Competence has been known as indices of reliance on the internal auditor's work by external auditors (Al-Tawaijry, 2004). It is seen in terms of staff professional, educational, continuous development and experience in the field of internal audit. The nexus between staff competence and effectiveness of internal audit work has been well documented in the literature. In addition, internal audit department needs to be provided with enough resources, materials as well as human, to be able to perform its responsibilities appropriately. The resources are what represent the size of the internal audit department. Prior studies have suggested that the effectiveness of internal audit may be higher when there is capable and sufficient number of staff in the department. Previous studies suggested a gap between adequate number of staff and capacity of

an internal audit department in accomplishing its duties effectively (Mihret&Woldeyohanmis, 2008, Mulugeta, 2008).

The increasing size and the complexity of public sector in recent years, particularly after the global financial crisis of 2007, have correspondingly increased the relevance of internal audit. As a relevant constituent of both corporate and good governance, internal audit ensures effective and sound services to the public at giveaway price that gives the organization a profit for future sustainable operations (Institute of Internal Auditors – IIA, 2011). It also represents a major determinant in enacting the quality of the internal control system in public sectors. This underscores why the effectiveness of internal audit is considered not only critical but necessary for the improvement of public sector funds management.

It is against this background the study seeks to examine the effect of public sector audit and fraud prevention in the public sector.

1.2 Statement of the Problem

Concerns have been raised by Government and other stakeholders over frequent fraud occurrence in the public sector. Efforts have been made over the years to curtail and/or eliminate the financial improprieties, fraud and inaccuracies in the public sectors in Nigeria. Despite the existence of audit activities on Ministries, Departments and Agencies (MDA), there still exists fraud in large proportion. So the question is: Does public sector audit prevent fraud?

Auditor plays an effective role in promoting transparency, governance and accountability, yet most of the public sector auditors in the developing world and Nigeria in particular, still lack adequate independence to play this role (Khan 2009).

The Auditor-General of Nigeria substantially obtains his power of independence from Sec.85(6) of the 1999 Constitution of Nigeria which states that : “In the exercise of his functions, under this Constitution, the Auditor-General shall not be subject to the direction or control of any other authority or person “However, the role of the Auditor-General under Nigerian constitutional scheme vis-a-vis its security of tenure and independence from the Presidency became questionable when on January 10, 2003 the Auditor-General, submitted to the National Assembly revealing information containing the expenditure pattern, particularly the profligacy of the executive/administration. This damning report, the first of its kind from any Auditor General, was believed to have led to the Auditor General’s abrupt retirement on the controversial premise that he was functioning in an acting capacity and considered to have failed in his duties (Tell Magazine 2003).

The officers do not discharge the responsibilities placed on them by statute and this results in inefficiency and fraud occurrence. If proper and sound audit of public finances by Auditor – General was being done, cases of fraud would have been reduced. The Auditor – General’s report is the Litmus test for the performance of his audit functions. In the view of Kasum, (2009) “although there is a general agreement that the public sector auditor should play an effective role in promoting transparency, governance and accountability, yet most of the auditors in Nigeria still lack adequate independence and resources to play this role.”

Competency can be relating to the ability of an individual to perform a job or task properly base on the educational level, professional experience and the effort of the staffs for continuing professional development. Auditors’ competency determines the effective auditing in the organization. It

contributes to the ability of the auditors to perform the systematic and discipline audit approach to improve the effectiveness of auditors in public sector.

With regard to the Nigeria environment, public sector auditor constantly faces the problem of low technical staff proficiency and lack of qualified staff as one of the main problems underlying the significant number of errors and irregularities that are occurring within audited organisations.

The public sector audit can plan, perform and communicate the findings and recommendation effectively if it has the required number of staff with requisite skills and knowledge. For auditors to be effective, they need to be well-resourced in order to meet quantitative and qualitative demands of the audit process. Both the quantitative of audit effort and the quality of professional care exercised will determine the overall quality of the audit work. Zain, Subramaniam & Goodwin (2004), argue that the size of the audit function as well as the extent of prior audit experience of the audit staff are likely to enhance the quality of the public sector audit. Zain, Subramaniam & Goodwin (2004) (2004), explained that in a larger audit unit, there will be more staff and consequently it can be expected that the scope of the audit work covered would be much greater than in a smaller sized unit.

In developing country like Nigeria, the audit staffs are inadequate, this limits the scope of work and more importantly, because audit work is time bound, the auditors may not be able to meet the deadline.

Zain, Subramaniam & Goodwin (2004) argue that the large proportion of internal staff with knowledgeable and prior audit experienced, the higher the audit quality in detection and prevention of fraud.

Many studies like , (El-Nafabi, 1998; Wolderupheal, 1998; Schyf, 2000; Brierley , 2001; Gwilliam and El-Nafabi, 2002; Brierley, 2003; Mihret and Yismaw, 20016; Mulugeta, 2017) have been conducted on the effect of auditors within the context of public sector. The studies are however based largely on US and Malaysia data, thus reflecting the advanced economies environment. Little is known about the public sector audit and fraud prevention mechanism in developing country like Nigeria particularly, using data from the Federal Ministries. It is therefore pertinent to conduct a study that will fill this literature gap. Moreover, this study uses three variables to investigate their effects on the prevention of fraud in the Federal Ministries of Nigeria.

1.3 Research Questions

This research is specifically undertaken to find answer to the following questions;

- i. To what extent does audit independence affect fraud prevention in Nigeria public sector?
- ii. How does audit competence affect fraud prevention in Nigeria public sector?
- iii. What is the effect of audit size on fraud prevention in Nigeria public sector?

1.4 Objectives of the Study

The main objective of the study is to examine the effect of public sector audit and fraud prevention mechanisms in Nigeria public sector.

The specific objectives of the study are to:

- I. Examine the effect of audit independence on fraud prevention in Nigeria public sector.
- II. Examine the effect of audit competence on fraud prevention in Nigeria public sector
- III. Determine the effect of audit size on fraud prevention in Nigeria public sector?

1.5 Research Hypotheses

In view of the objectives of the study, the following hypotheses were formulated in null form:

H₀₁: Audit Independence has no significant effect on fraud prevention in Nigeria public sector.

H₀₂: Audit competence has no significant effect on fraud prevention in Nigeria public sector.

H₀₃: Audit size has no significant effect on fraud prevention in Nigeria public sector.

1.6 Significance of the study

This research work is designed to assess the effect of public sector audit in fraud prevention occurrence. Fraud occurrences in public sector affect the development of the economy, so are measures to eradicate it will be useful in policy formulation that will promote accountability.

Being a study on public sector, government will find it worthy and helpful in formulating policies in governance in order to achieve transparency and accountability.

The findings of the study will also be significant to Ministries Department and Agency in the area of formulation of policy in regard to effective internal control system and a policy framework in protecting fraud occurrence in the Federal Ministries.

Furthermore, the findings of this study will provide a useful framework for studying audit in public sector and will be useful to academics and researchers.

1.7 Scope of the Study

The study focused on the effects of public sector audit on fraud prevention mechanisms in Nigeria public sector. The study covers the following Federal Ministries: (Agriculture, Finance, Education, Health and Labour & Productivity) for the period of 2019.

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Concept Public Sector Audit

Government activities, programmes functions and policies are implemented and executed in accordance with laid down rules and regulations. Thus Oshisami (1994) posits that the management and control of the public purse is the heart of governmental administration. Also Izedonmi (2009) asserts that an audit in itself is an indispensable part of a regulatory system whose primary aim is to reveal deviations from accepted standards and violations of “the principle of legality, efficiency, effectiveness and economy of financial management as far as auditing is concerned”. Financial control ensures that financial resources optimally obtained are applied efficiently and effectively in the economic system. Public sector audit asserts that all monies appropriated are rationally used. Consequently Oshisami (1994) opines that auditing attempts to assure discipline in the entire financial management process by confirming the accuracy and reliability of the financial information while also attesting to the probity or otherwise of the various custodians and users of public resources. Also Institute of Internal Auditors (2006) affirms that “public sector auditing is a cornerstone of good public sector governance.” Public Auditing promotes integrity and accountability in the financial system of a nation

Thus Salawu and Agbeja (2007) highlight that effective public sector audit requires competent, highly qualified, skilled and well-motivated manpower. Public sector audit is one of the pillars upon which rests the strength of a country’s integrity.

Auditors that are merely content with the conduct of financial, operational, compliance and even value for money audits may find themselves out of sync with the corporate realities of the 21st century. Thus Oshisami (1994) affirmed that the large scale malfeasance recorded during the second republic can be attributed to the failure of the financial control system in general and to the failure of auditing in particular.

Millichamp (1996) emphasizes that the primary aim of an audit is to enable the auditor to say that these accounts show a true and fair view or of course to say that they do not. Moreover, an effective public sector auditor promotes better governance across all aspects of society and helps to fight financial malfeasance whereas an ineffective Auditor allows financial frauds and misappropriation to thrive which in turn undermine the rule of law, quality of life and sustainable development. The Auditor uses data available from his/her routine audit work to review the threat of fraud specifically by identifying government sectors and stresses areas of activities prone to frauds. Daniel (1999) asserts that the role of public sector auditor is to ensure towards the accountability of the government (executive) to the National Assembly for the proper administration of public programmes, functions of agencies, activities or operations. Also Millichamp (1996) insists that an audit prevents errors and fraud by the deterrent and moral effect of the audit.

International Federation of Accountants (IFAC, 2007) defines public sector audit as a verification or examination of the documents of accountability executed by an auditor with the objective of providing him with the ability to express an opinion of those documents in such a way as to provide them with greater credibility.

International Organization of Supreme Audit Institutions (INTOSAI, 2004) defines public sector auditing as an examination of operations, activities and systems of a specific entity, to verify that they are executed or function in conformity with certain objectives, budgets, rules and requirements”.

Auditing in the public Sector is an independent examination of, and an expression of an opinion on the financial statements of governments by duly appointed persons in accordance with all relevant statutory obligation. In other words, auditing does not concentrate on fraud detection alone, but rather, to look at the financial and non-financial activities of an organization in terms of management, procedure, systems and statutory requirements to test the compliance level in term of operation with the overall aim of preventing fraudulent activities of public officers.

Section 85 of the 1999 Constitution states that there shall be an Auditor-General for the Federation. The role of the Auditor-General is to ensure that there is accountability by the Executive arm of the Government to the Legislative arm, for the proper administration of the activities, functions, operations and programmes of the government and its various agencies. The auditor in the Public Sector is a watchdog of Public officers in term of financial activities. He critically examines the financial activities of governments to ensure minimum financial and auditing standards are not compromised, and to ensure stewardship in the utilization of public funds by ultimately adhering to all relevant statutory provisions.

Apart from the provisions of the 1999 Constitution, the Audit Act, 1958 also provides that the Accountant-General of the Federation should furnish the Auditor-General for the Federation with the country's financial statements within seven months after the close of each financial year.

The institutional arrangements put in place to enhance planning, budgeting, funding, accounting, reporting, auditing and reviewing of the revenue and expenditure of the Federal Government consist of the following:

(a) Minister of Finance who issues financial warrants with which the Accountant-General releases funds to the Ministries and Extra-Ministerial Departments, after approval by the legislature. The Minister can withhold any item of expenditure on which he/she so desires to exercise control.

(b) Accountant-General of the Federation who is the only officer authorized to deal directly with the Central Bank of Nigeria. He/she releases funds to the Ministries and Extra-Ministerial Departments, based on the amount stated on the financial warrant signed by the Minister of Finance.

He is also responsible for supervising all the treasury accounts and preparing all the necessary financial statements.

(c) Auditor-General for the Federation is responsible for auditing the Accounts of the Federal Government and reporting to the National Assembly. S. 85(2) of the constitution.

(d) Public Accounts Committee (PAC) which is a committee of the National Assembly is responsible for public accounts in accordance with Section 85 (5) of the 1999 Constitution. The PAC is required to deliberate on the Auditor-General's report, consider all the queries raised by him in his report, compile a comprehensive report and recommendations for submission to the whole House.

The Auditor General is responsible for carrying out surveys of the cash, stamps, securities, stores or other properties of government that are held by such officers or persons.

The Auditor-General shall examine the accounts relating to public funds and property, ascertain whether the objectives of government auditing are met, and ascertain whether in his opinion:

- (a) The accounts relating to public funds have been properly kept;
- (b) All public monies have been fully accounted for and the rules and procedures applied are sufficient to secure effective check on the assessment, collection and proper allocation of revenue;
- (c) Essential records have been maintained and the rules and procedures applied are adequate to safeguard and control public property and funds; and
- (d) Monies have been expended for the purposes for which they were appropriated and the expenditures have been made as authorised.

In addition to being responsible for the auditing of the accounts of the accounting officers and all persons entrusted with various assets of government, the Auditor- General may also undertake the examination of the accounts of any organization that receives funds from the government, such as statutory corporations, parastatals and voluntary agencies. For the purpose of performing such functions, the Auditor-General or any person authorised by him shall have access to all the books, records, returns and other documents relating to those accounts.

The public sector auditor's role supports the governance responsibilities of oversight, insight, and foresight.

Oversight: Auditors assist decision-makers in exercising oversight by evaluating whether public sector entities are doing what they are supposed to do, spending funds for the intended purpose,

and complying with laws and regulations. Audits focusing on oversight answer the questions, „Has the policy been implemented as intended?“ and „Are managers implementing effective controls to minimize risks?“ Auditing supports the governance structure by verifying agencies’ and programs’ reports of financial and programmatic performance and by testing their adherence to the organization’s rules and aims.

Moreover, oversight audits contribute to public accountability by providing access to this performance information to stakeholders within and outside of the organization under audit. Elected and appointed officials as well as public sector managers are responsible for setting direction and defining organizational objectives. In addition, managers have the duty to assess risks and establish effective controls to achieve objectives and avert risks. In their oversight role, government auditors assess and report on the success of these efforts.

Oversight also describes the role many pub-Oversight also describes the role many public sector auditors have to detect and deter public corruption, including fraud, waste, or abuse, and other misuses of the power and resources entrusted to government officials. Auditors monitor the effectiveness of management’s internal control structure to identify and reduce the conditions that breed corruption. In many areas of the world, public sector auditors also are responsible for responding to allegations of corruption in the public sector organizations they serve through detection and deterrence.

Insight: Auditors provide insight to assist decision-makers by assessing which programs and policies are working and which are not, sharing best practices and benchmarking information, and looking horizontally across public sector entities and vertically among the levels of the public sector to find opportunities to borrow, adapt, or reengineer management practices. The

audit activity helps institutionalize organizational learning by providing ongoing feedback to adjust policies. Auditors conduct their work systematically and objectively to develop a detailed understanding of operations and draw conclusions based on evidence.

Therefore, audits can provide an insightful description of problems, resources, roles, and responsibilities that, combined with understanding of the root cause of the problem and useful recommendations, can encourage stakeholders to rethink solutions to problems. Not only can the performance of the specific program under audit be improved, but working through the issues brought to light by a particular audit can enhance the capacity of the public sector and the public to deal with similar problems. Audits focusing on insight contribute importantly to answering the broader question, “Has the policy brought about the intended results?” Concurrently with the accountability function, audits contribute to improving the operations of the public sector.

Foresight: Auditors also help their organizations look forward by identifying trends and bringing attention to emerging challenges before they become crises. The audit activity can highlight challenges to come such as from demographic trends, economic conditions, or changing security threats and identify risks and opportunities arising from rapidly evolving science and technology, the complexities of modern society, international events, and changes in the nature of the economy. These issues often represent long-term risks that may far exceed the terms of office for most elected or appointed officials, and can sometimes receive low priority for attention where scarce resources drive more short-term focus on urgent concerns. Additionally, a common audit approach, risk-based auditing, focuses the audit on the organization’s overall risk management framework, which can help identify and deter unacceptable risks. Through risk-based auditing, the audit activity provides useful and relevant information to the organization for managing its risks.

Audits focusing on foresight help answer the question: “What policy revisions or implementation would meet a future need or risk?” When public sector auditors focus on trends and look forward, they support decision making. Auditors also play a key role in helping managers understand and initiate risk assessments. Additionally, auditing own risk assessment ensures that audit resources are used effectively to address the areas of greatest exposure.

Through these roles, auditors protect core public values. By providing oversight, insight, and foresight services, public sector auditors help ensure that managers and officials conduct the public’s business transparently, fairly, and honestly, with equity and integrity, while performing their own work using the highest standards of integrity. Auditors should not only assess the potential abuse of power, but also should be cognizant of their own power within an organization.

Auditors’ independence

Auditors’ independence simply indicates that the auditor should conduct himself or herself in such a manner that would enable him or her to perform his or her functions in the professional practice without any influence and partiality.

Millichamp and Taylor (2008) states: "Auditors cannot give unless they Unbiased opinions are independent of all the parties involved. There is a dilemma here in that auditors receive Reviews their fees from the client. Nonetheless, independence is very important. Not only auditors must be independent in fact and in attitude of mind but they must also be seen to be independent.

Kusharyanti (2003) suggested that the possibility that auditors will find irregularities, fraud and misstatement depends on the quality of understanding(competence) of public sector audit. While the independence of the auditors can provide an honest assessment, impartially and without prejudice.

Programme Independence: Obviously, the audit report will be of little value unless it is supported by a thorough investigation. A thorough investigation may not, however, be in the

more expensive. Impeding the auditors could also act against the directors' interests in that it could create the impression that they have something to hide when their actions are disclosed in the audit report.

Reporting Independence: If the directors have been trying to mislead the shareholders by publishing accounting information which is incorrect or incomplete, they will certainly wish to prevent the auditors from making this public. This is when auditor's independence becomes absolutely crucial. Most disagreements are likely to arise over subjective decisions such as the interpretation of an accounting standard or an estimate such as a provision for bad debts. If the auditors insist on disagreeing with the directors, there is no guarantee that their treatment will be popular with the shareholders. In the case of an estimate, they may also find that subsequent events prove them wrong. If, on the other hand, the auditors suppress their doubts, it is possible that their willingness to concede to the directors will never be discovered.

The auditors will often be tempted to follow the line of least resistance by simply complying with the directors on all but the most fundamental differences. By doing so, they will avoid the sanctions which could be imposed by the directors. They are, of course, risking the possibility of even more severe penalties if they are discovered, but this will not necessarily happen. This would, of course, be disastrous for the users of the financial statements. Audit reports would be incomplete or would be expressed in ambiguous language. There would be no point in having an audit under such circumstances.

It is also important to note that the degree of confidence held in the auditor's opinion, and in the annual financial statements he is attesting, by the shareholders and other users of the statements, varies directly with his ability physically and mentally to disregard and to dissociate himself from the client company and its management, beyond the limits of his audit engagement. In other

words, the more independent the auditor is, the more confidence shareholders and other persons will have in the audited statements.

The need for auditor's independence, therefore, as pointed out by Lee (1982) arises out of what might be described as the "remoteness" gap which exists between the various report users and company management. The larger the company, the more the persons concerned are likely to become physically and mentally remote from one another. The auditor acts as a bridging point which helps to make management accountable to the shareholders particularly, and other users generally, through its annually reported financial statements. It is vital to the strength of this bridging point that the auditor is not only independent in mind, but is also seen to be independent.

The independence of the Auditor-General should be the backbone for effective control accountability and monitoring of the public financial system. An Auditor must exhibit a high level of integrity and accountability for his independence not to be compromised. Thus Ndibe and Okoye (1988) assert that he should also divert himself of any self interest which might warp his judgment even sub-consciously in reporting. Also Owoyemi (2005) affirm that "while the processes for the appointment and removal of the Auditor are provided for in the constitution,.... His absolute independence is not guaranteed particularly because the funding of his office is still the responsibility of the executive arm... Moreover, Fielder (1998) surmised that "the chief aim of the Lima declaration is to call for independent government auditing....

This independence is also required to be anchored in the legislation. For this, however, well-functioning institutions of legal security must exist, and these are only to be found in a democracy based on the rule of law. Rule of law and democracy are therefore essential premises

of really independent government auditing and are the pillars on which the Declaration of Lima is founded”

From the above, it clearly implies that the nucleus of auditor’s independence rest on his person in terms of his moral virtue. The accounting professional bodies all over Nigeria are seriously interested in the independence of their members in the course of performing their professional functions for their clients. Thus, in respect to auditors’ independence, there are both statutory and accounting professional bodies provisions to strengthen it.

In other words, Companies and Allied Matters Act (CAMA)(1990), and Institute of Chartered Accountants of Nigeria (ICAN), and Association of National Accountants of Nigeria (ANAN) are very interested in ensuring that auditors’ independence is guaranteed.

Auditor Competence

Sound knowledge and competence; commands a premium. Similarly there is a demand for competence in auditing and accountancy, including adequate training and experience in all facets of an auditor’s work. Also, nowadays the profession has also placed increasing emphasize on auditing and accounting professional education programs for auditors to ensure that they keep abreast of the latest ideas and techniques in auditing and accounting. Gul et al. (1994,) state “the audit should be performed and the report prepared with due professional care by persons who have adequate training, experience and competence in auditing”. Auditors are expected by third parties to have academic training in accounting, taxation, auditing, and other areas related to their profession. In addition they should receive further training, both formal and informal, throughout their careers. According to Noor (1996) the success of any profession may depend on three main points as bellows:

A. Advanced information;

B. Continuing professional education; and

C. Minimum levels of professional qualification.

For auditing profession, the three points are covered through auditing education, research in auditing, training of auditors, and admission to the profession after obtaining desired qualifications. However, how does the independent auditor achieve the adequate technical training, desired qualification, and proficiency required to get this job? Such achievement is usually interpreted to mean college university education in accounting and auditing, substantial public accounting experience, ability to use procedures suitable for computer-based system, and participation in continuing education programs. Mautz and Sharaf (1986) point out the qualities of a prudent auditor, stating that “a prudent practitioner is assumed to have a knowledge of the philosophy and practice of auditing, to have the degree of training, experience and skill common to the average independent auditor”. Also they should have the ability to recognize indications of irregularities, and to keep abreast of developments in the preparation and detection of irregularities.

The competence of auditors can be measured in terms of academic level, experience and the efforts of staff for continuous professional development and compliance with audit standards. Both the quantity of audit effort and the quality of professional care exercised will determine the overall quality of the internal audit work (Cohen & Sayag, 2010; Leung and Cooper, 2009; Belay 2007). Arena and Azzone, (2009) also stated that Auditors effectiveness increase in particular when the ratio between the number of skilled auditors and employees grows. This shows that sufficiently large number of skilled professionals enables the Auditors to do its duties.

2.2.1 The Concept of Fraud

The Association of Certified Fraud Examiners (2008) defined fraud as the use of one's occupation for personal enrichment through deliberate misuse or misapplication of the employing organisation's resources or assets. It is therefore any act of misappropriation, theft or embezzlement of corporate assets in a particular economic environment. It has been considered as is any act of deception performed by somebody to cheat or deceive another person to his detriment or the detriment of any other, or to cause injury or loss to another person while the perpetrator has a clear knowledge of his intention to deceive, falsify or take advantage over the unsuspecting and innocent victim (Robinson, 1976) resulting to suffering loss or damage (Stanley, 1994).

According to Udoayang and James (2004), fraud is simply "stealing by tricks." Ramamoorti and Olsen (2007) in their definition of fraud argued that it "is a human endeavour, involving deception, purposeful intent, intensity of desire, risk of apprehension, violation of trust and rationalisation,". Fraud is an intentional act done by human beings through deception, trickery and misrepresentation (Ramamoorti, 2008). Fraud could be any deliberate actions taken by management at any level with the intention to deceive, con, swindle, or cheat investors or other stakeholder (Drew and Drew 2010). (Ojo and Adewunni (1986) in Hamilton and Gabriel 2012; Sydney, 1986; Ojigbede, 1986) agree that fraudulent activities involve the use of deceit and tricks to change the truth so as to deprive another person of his right.

Frauds are committed in all spheres of human activities: business, public and financial sectors (Ratlift, 1996). It is a strategy to achieve a personal or organisational goal or to satisfy human needs. Fraud is any action, behaviour or oral expressions deliberately aimed at deception and /or misinformation. It is a sequence of activities perpetrated to obtain money, property or services, to

avoid payment of services or to secure personal or business advantages. These acts are not dependent upon the application of threat of violence or of physical force (International Standards for Professional Practice of Internal Auditing, 2002).

Pedneault, Sheetz & Rudewicz (2012), agree that modern definition of fraud appears to be derived from case and statute law even though many of the ancient components still obtain. It can be traced to the Latin noun *fraus*, which conveys a range of meaning centred on the idea of harm, deceit and wrongdoing (Silverstone and Sheetz, 2007). “The modern definition derived from case law focuses on the intent of the fraudster(s) to separate the trusting victim from property or a legal right through deception for his or her own benefit” (Silverstone and Sheetz, 2007).

In any case, all the definitions of fraud stresses on acts that are capable of deceiving and misappropriation perpetrated deliberately. Such acts are carried by somebody or group of persons against another person or an organisation, and can be expressed verbally or through behaviour.

Dandago (1998) splits the causes of fraud in Nigeria into two broad categories: institutional and environmental causes of fraud. Under institutional causes he lists factors emanating from recruitment system which is usually full of disregard to established ethics and nepotism; poor management; greed and avarice, volume of work; inadequate infrastructure and working facilities; negligence on the part of staff; frustration due to poor compensation and remuneration; and poor internal control system. Under the environmental and societal causes of frauds, he concurs with Mani (ibid) and Opara (ibid)’s positions cited earlier, but adds that soft or total absence of punishment which makes it possible for corrupt officers to leave their organizations at their slightest involvement in fraud to another organizations, perhaps with even high position

seems to encourage the menace. He also outlines the problem of slow and tortuous legal process which its attendant consequences of police, lawyers and even judges playing some delaying tactics on fraud cases for reasons best known to them in the name of giving “fair hearing” and conducting “proper investigations”, as worsening the situation.

Furthermore, Udoayang and James (2004) have classified fraud into two types, viz. bite fraud and nibble fraud. Bite fraud occurs when assets are taken and the individual taking it disappears. This type of fraud usually involves large assets; hence it can be detected quickly. To avoid being tracked down, the bitter absconds to a “protected colony”. On the other hand, nibble fraud involves small assets, usually taken in piecemeal. Here, the possibility of being detected at the early stage is quite low; hence the fraud occurs on many occasions.

Adewale (2008) also classified fraud broadly into two main groups, the internal and external frauds. When employees identify an opportunity to commit acts of fraud, it is classified as an internal fraud whereas when outsiders, such as suppliers and service providers involve in acts of frauds against organisations, this is classified as external fraud (Hansen, 2005). Sydney (1996) prefers to classify fraud according to perpetrators while Adewunmi (1986) has done same based on methods. Based on perpetration, Iwuagwu (2000) had earlier extended the internal and external fraud to include mixed fraud by both staff and outsiders.

Again, the Association of Certified Fraud Examiners (ACFE) classified fraud into three major categories: Asset misappropriation, corruption and fraudulent financial statement. Asset misappropriation has to do with the misuse or theft of assets in an organisation such assets may be inventory fraud, payroll fraud, computer fraud, the organisation’s physical properties or the unauthorised use of equipment.(Pedneault, Sheetz & Rudewicz,2012).

However, corruption is the act that the person uses his powers due to the position he is occupying in the firm to get some business transaction in order to achieve some financial benefits either to himself or others in the firm. According to Kimuyu (2007) as cited by Mobolaji and Omoteso (2009) corruption is the abuse of the entrusted power for private benefit. It is detrimental to a firm's growth and the propensity to export; as most firms spend a significant proportion of their earning on informal payment.

Fraudulent financial statement has to do with the falsification of the statement of accounts. This may be to either understate or overstate the financial statements to meet the perpetrator's desires (Hopwood, Leiner, & Young, 2012). However, asset misappropriation has been discovered to be the main type of fraud with more than 85 per cent of total fraud under this category and cash is the most targets for such fraudulent act in firms (Seetharaman, Senthilvelmurugan & Periyannagam, 2004).

However there are other factors as found in the literature. For instance, causes of fraud has been categorised into two, viz. the institutional factors and the environmental/ societal factors (Adewunmi 1986; Udoayang and James 2004). Institutional factors are those that are traceable to the internal environment of organisations (Udoayang and James 2004; Nwaze 2008). The common institutional causes of fraud that are identified in the literature include, poor internal control and checks; inadequate training and re-training on both the technical and theoretical aspects of the job leading to poor performance that breeds malpractice; inadequate knowledge and experience of staff; use of sophisticated accounting machines by dishonest staff who could employ it to deliberately omit entries or substitute improper figures and fear of negative publicity. Many institutions fail to report cases of fraud to the appropriate authorities for fear of negative public image of their institutions. Such attitude encourages fraud (Adewunmi 1986;

Udoayang and James 2004; Idowu 2009). These factors are generally within the control of the management of the organisation.

Others are poor security arrangement; staff negligence due to poor supervision, lack of technical knowledge, apathy, pressure; bad management practices; poor remuneration, particularly in situations where remuneration do not conform with the economic realities of the time; absence of detailed operational Manuel; poor bookkeeping and accounting; faulty personnel policies and staff infidelity (Udoayang & James, 2004).

On the other hand, environmental /societal factors are those that are traceable to the immediate and remote environment of the organisation. These factors include social values, where the possession of wealth determines the reputation and recognition ascribed to a person; indiscipline, where there is minimum level of conformity, orderliness and moderate behaviour below which an individual or society is not able to function effectively is breached and personality profile of fraudsters, where people are bent on making it by hook and crook. To such people, the end justifies the means (Udoayang and James 2004). Idowu (2009) argues that fraud is observed to be firmly established in a materialistic societies such as those where wealth is recognised and honoured without questions of source.

It is difficult to quantify the magnitude of fraud losses since majority of fraud go undetected and unreported (Bhasin, 2013). However, the available statistics offer useful information on the effect of fraud on organisations and the society. Bhasin (2013) presents a list of numerous financial frauds and scandals with historical significance from both the developed and developing nations. Some of these scandals include Global Crossing (Bermuda), Nortel Network (Canada), Vivendi Universal (France), Adelphia Communication, IBM, Enron, Xerox, Lehman

Brothers (USA), United Engineers Bhd (Malaysia), Wiggins, Versailles (UK), Samsung Electronics (Korea), etc.

The fraud problem continues to plague organisations and stakeholders around the world (Ravisankar, 2011). The Association of Certified Fraud Examiners' (ACFE, 2010) in its Report to the Nations on Occupational Fraud and Abuse, found that financial statement fraud though less than 5 per cent of total fraud cases reported averaged about 1.7 million dollars per incident. This was by far the most costly of all types of fraud. By implication, the figure translated to an annual loss of more than 3.5 trillion dollars when applied to the 2011 Gross World Product. Similarly, the Committee for Sponsoring Organisations of the Treadway Commission fraud report (2010) in their report of 347 cases of frauds from 1998 to 2007 discovered that an average dollar amount of each occurrence of fraud had increased from 4.1 million dollars in 1999 to 12 million dollars in 2007. In the United Kingdom, the scale of loss in 2012 against a victim is about 73 billion pounds annually and has been on the increase (National Fraud Authority (UK), Annual Fraud Indicator, 2012).

In India, fraud losses amounted to INR 66 billion in 2011-2012 (The Ernst & Young's India Fraud Indicator) while fraud loss in Nigeria for 2012 alone was more than 1.5 billion dollars (KPMG, 2012). The damage done by fraud can only be imagined than believed and when fraud is discovered it is always a surprise for the firm to believe because it is always so much that they may be forced to believe that such a loss did not occur. In most cases frauds are not always reported due to the negative impact or the risk of embarrassment and reduction in the level of confidence in customers or shareholders (KPMG, 2012). This may lead to inability to say emphatically how much has been lost to fraud. However, the estimated amount of fraud related losses reached \$650 billion in 2006 (Wells 2007).

Public sector fraud is where criminals seek to exploit government grant and compensation schemes for the personal gain. This type of fraud affect all tax payers by stealing public money the criminals will produce fake document and applications to deliberately deceive and exploit certain schemes which are in place to provide help to applicants, (Abiola, 2009). A suitable summary of these definitions within the context of our discussions tends to suggest that fraud is an act of obtaining financial value by trick or deceit through inflation of contract, kickbacks, paying or collecting money for non-existing commodity, misappropriation of cash, manipulation of accounts to disclose false position, wages fraud, computer frauds, ghost workers etc.

2.1.2 Fraud Prevention

It is necessary for an organization to establish an effective fraud prevention and detection mechanism because it can reduce the opportunities of fraud 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 and 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 becomes vital, since this will crucially lead to identification of the most effective mechanisms to detect and prevent the occurrence of fraud.

Internal control: Millichamp (1996) opines that fraud is “intentional misstatements, in, or omissions of amounts or disclosures from, an entity’s accounting records or financial statements”. He went further to buttress the point that fraud is an illegal act that is any act, which is contrary to the law.

In order for the Government to succeed in reducing fraudulent behaviours, internal controls serve are critical tools to be utilized in conjunction with operation and financial reporting and compliance objectives. Internal control is broadly defined as procedure, process or policy that is enforced in order to enhance efficiency, safeguard assets from being misappropriated or stolen and to prevent fraud and error (Princeton, 2010). Millichamp (1996) opines that Internal control 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".

The researcher agrees with the explanation made by the above authors on internal control. However, the researcher is of the view that internal control when transacted into public sector environment is a “Process designed by our government financial administrators in order to carry on the financial activities of government in an orderly and efficient manner, ensure compliance to government policies, protect the assets and secure as far as possible the completeness and accuracy of the government financial statements”. In other words, Internal Control may be a government system installed, to effectively and efficiently prevent, detect and control material accounting errors or frauds on a timely basis.

Periyanayagam (2004) emphasized strong internal control as the most effective method of fraud prevention. Moyes and Baker (2003) conducted a survey of practicing auditors on the importance

of fraud detection effectiveness and their results indicated 56 out of 218 procedures were considered more effective in detecting fraud. Generally, the most effective procedures were associated with the existence and/or the strength of internal controls in the organizations.

Omar and Bakar (2012) conducted a survey on Fraud Prevention Mechanisms of Malaysian Government-Linked Companies: An Assessment of Existence and Effectiveness and their 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 audits, internal audits or fraud examination departments, and internal control review and improvements by departments. Omar and Bakar (2012) asserted that companies ignored the existence of red flags, and actions were only instituted after the discovery of fraud. They identified the top-most fraud prevention mechanisms in Malaysian Government-Link Companies (GLCs) are management review of internal controls and external audit of financial statements.

According to Petrucelli (2012), all organizations (including Governments) are prone to fraud; therefore, strengthening internal control system will definitely make organizations a less attractive target for those seeking to exploit internal control weaknesses. Consequently, it is important for the Public Sector to be cognizant of the factors that lead to this behaviour, by understanding those who commit fraud. After assessing this, the system administrators within the Public Sector should be able to implement better detection and prevention mechanisms to deter obvious routes of fraud. This strengthening of the system can, as a bi-product, bring about efficiency and effectiveness within Government.

The Community of Sponsoring Organizations (COSO) developed a framework that focused on five (5) components believed to be of vital importance in implementing proper internal controls

(Auditors, 2008). COSO's internal control framework is recognized by the Security and Exchange Commission (SEC) and Public Company Accounting Oversight Board (PCAOB), and is generally called "layers," and the controls within each must be included in management's assessment (Auditors, 2008). The five components introduced by COSO, included the control environment, risk assessment, control activities, information and communication, and monitoring. Management thus uses these components to design specific controls that address these components (Auditors, 2008).

Therefore, developing internal controls entails proper authorizations, segregation of duties, processes, accountability of assets, and documentation procedures. It also includes physical, mechanical and electronic controls and independent internal verification, which should therefore make the internal control effective (Auditors, 2008).

Whistle-blower mechanisms: Management and employee fraud are concerns for all organizations today. Confidential reporting mechanisms, or whistle-blower hotlines, are often proposed as one tool in the organization's internal control arsenal for dealing with fraud. The guiding framework for the design and evaluation of internal control today is the 1992 report issued by the Committee of Sponsoring Organizations, commonly called the COSO Report. A key dimension of internal control in the COSO Report is communication. Since fraud involves concealment and communication fosters openness, it is logical that communication might act to thwart fraudulent activities. Indeed, COSO asserts that a key element of good communication is upstream communication, such as that provided via a whistle-blower hotline (Hooks, 1994).

If communication regarding observed incidents of fraud is to occur, it is vitally important to the organization that these reports are made internally, rather than through external paths. It is only in this way that organizations can meet the challenge of addressing the immediate problem of

fraud and correcting the internal controls which allowed the fraud to occur. This will also give the entity the ability to report the wrong-doing and associated corrective action to appropriate authorities internally and externally if necessary, rather than suffering the embarrassment and potential legal penalties resulting from learning of the fraud through external channels. It is encouraging to note that nearly all whistle-blowers first report perceived wrongdoing to parties within their organizations (Miceli and Near, 2002). When valid, such reports provide the opportunity for wrongdoing to be corrected and organizational controls to be improved.

The American Heritage Dictionary defines a whistleblower as one who reveals wrongdoing within an organization to the public or to those in positions of authority. Whistleblower hotlines have been common place in government agencies and for governmental contractors for decades. More recently, whistleblower mechanisms are considered a possible tool for the detection, and possibly prevention, of corporate wrong-doing.

Miceli and Near (1992) describe whistle blowing as the disclosure by organization members (former or current) of the illegal, immoral or illegitimate practices under the control of their employers, to persons or organisations that may be able to effect action. Wilmot (2000) defines whistle blowing as the public exposure of organizational wrongdoing. Dawson (2000) gives a more detailed definition by defining whistle blowing as a deliberate voluntary disclosure of individual and organisational malpractice by a person who has had privileged access to data, events or information about an actual, suspected or anticipated wrongdoing within an organization that is within its ability to control. This is consistent with the definition of Ahern and McDonald (2002) that define whistle blowing as any reporting of misconduct in the workplace.

Greene and Latting (2004) note three criteria appear to be consistent in the definitions of whistle blowing:

- (1) The act of notifying powerful others of wrongful practices in an organization
- (2) Motivated by the desire to prevent unnecessary harms to others and
- (3) The action of an employee or former employee who has privileged access to information.

According to Chung (2004) and Ahmad (2011), whistle blowing can be internal or external. Internal whistle blowing is the reporting of wrongdoings to sources within the organization that can bring change. External whistle blowing happens when the complaint recipient is outside the organisation. Most whistleblowers are internal whistleblowers, who report misconduct on a fellow employee or superior within their company. Kaplan and Schultz (2007) argue that internal whistle blowing is generally preferred to external whistle blowing. Managers prefer that whistleblowers use internal channels rather than external channels so that the firm's dirty linen is not aired in public. Callahan et al. (2002) argue that where internal whistle blowing is more ethical than external whistle blowing. External whistle blowing is not only disloyal to the firm but can also trigger destructive side effects.

Zhang et al. (2009) note that disclosing information inside to a company to external parties breaches obligations to the organisation, violates the written or unspoken contract. Ahmad et al. (2011) point out that by rectifying corporate problems internally, management can ensure that confidential information stays confidential and encourages organisational accountability and learning. David (2005) notes that when internal reporting occurs, companies have the option to deal with the situation on their own terms and in their own time. Internal disclosures can also make the company aware of potentially damaging conditions before they become a crisis.

Finally, internal whistle blowing handled in an ethical and compassionate way by managers signals other employees that it is safe for them, too, to become the eyes and ears of the company. Whistleblowers are appreciated by some organisations. Macey (2007) points out those whistleblowers are now thought as an integral part of corporate governance that is supposed to result in better monitoring and control of management misconduct. Tip-offs from inside by whistleblowers are now regarded as the most common method of fraud detection. Bowen (2010) and Ahmad et al. (2011) point out that whistle blowing will allow the organization to rectify public wrongdoing internally and prevent them from encountering any further damage. In some countries, whistle blowing is seen as cultural or organisational dissent and whistleblowers are often punished. According to Chiu (2003), ethics are cultural specific. Although Western research into whistle blowing shows that the average whistleblower can be regarded as a model employee, this situation is not unequivocal. Whistle blowing is considered as unacceptable and unethical behaviour by many model Chinese employees. This is because it breaks down the ties between employer and employees especially as loyalty is considered an important element in the employment relationship.

Greene and Latting (2004) point out that over 90% of whistleblowers are made to end their careers early, or were blacklisted, treated as insane, lost their life savings through lawsuits, their marriage or even lives. Nayir and Herzig (2012) explain out that whistle blowing is perceived as a negative act in Turkey. Complaining openly about ethical misconduct such as bribery is not common. Whistle blowing is referred to an act of disloyalty that may damage the image of companies. Studies such as Mesmer-Magnus and Viswesvaran (2005) and Miceli et al. (2009) have shown that whistleblowers often suffered serious reprisals from their employees in response

to their actions. According to Zhang et al. (2009), some people consider whistleblowing as “tattling” or “ratting” and would never approve of it.

2.2 Empirical Review

De Smet et al., (2010) assessed that the scope of the auditor's activities and responsibilities are expanding and currently includes a risk assessment which must show assurance regarding the effectiveness of the organization's internal controls. The authors also indicated that as auditors gained an understanding of management's strategies, business processes and controls to mitigate business risks, it will become more likely that they will use this knowledge to allow them to evaluate internal control strengths and weaknesses. The study failed to indicate the sample of the study and the techniques of data collection as well as the research design used in the study.

Badara and Saidin (2013) investigated antecedents of internal audit effectiveness focusing on the moderating the effect of effective audit committee at local government level in Nigeria. The study is an evaluated literature using effective internal control system, risk management, audit experience, co-operation between internal and external auditors performance measurement. The paper finalized that the variables should be validated empirically. Their findings are not as straightforward as expected and left some potential for suspicion concerning the relationship between other forms of independence of internal audit. More explicitly the study actually succeeded in establishing a positive relationship between only one variable of the study which is effective audit committee with no prove of significant relationship between independence and internal audit effectiveness.

Alzeban and Gwilliam (2014) examined factors affecting internal audit effectiveness, the studies used questionnaire and multiple regressions to evaluate data sampled from 79 public sector

organization in Saudi Arabia. The study used five major indicators for the study are competence of internal audit department, size of internal audit department, management support for internal audit, relationship between internal and external auditors. The result of the findings shows a positive significance between size of internal audit department and internal audit effectiveness which is at 1% significance level. The study revealed that most of the companies evaluate and quantify the performance and effectiveness of their business activities. The study shows a positive relationship between all the constructs used in the study which may be faulty.

Oyewumi Ayoib, Oluwatoyin and Popoola (2016) examine conceptually management support and communication skills as the key factors affecting internal audit task performance in the Nigerian tertiary institutions. Based on the existing literature and the pronouncement of accounting and auditing professional bodies, the study develops a framework of these factors as influencing task performance. The study suggests that adequate management support and effective communication skills of internal auditors will enhance the task performance of internal audit department, hence, curbing the incidence of financial malpractices. The study has policy implications as it will assist the proprietors (government and private individuals), coordinating ministries, regulatory authorities, professional bodies, councils and management of tertiary institutions, and auditors in their decision making and oversight functions.

Leonora, Vokshib and Hashani (2017) contributing factors. The data for the study were collected through an online questionnaire and direct hand-outs of such. The results of the empirical analysis proved that effectiveness has a positive relationship with internal audit quality, the competence of the internal audit team, the independence of internal audit, as well as with the support of internal audit from the management. Moreover, it was confirmed that audit

quality is the fundamental element of the effectiveness of internal audit since it was among the most influential factors in the sample.

Milica and Đukić (2017) highlight the issue of independence and objectivity of internal auditors, which, given the place and role of internal audit in the system of corporate governance, is increasingly gaining in importance. In determining these concepts, the difference between them is pointed out, with particular emphasis on their importance for internal audit effectiveness. By introducing circumstances in which internal audit functions, the paper especially emphasizes the challenges that internal auditors face in achieving independence and objectivity in their work. In this process, they receive significant support from regulatory decisions regarding the position of internal audit in companies, and especially directions to invest efforts and eliminate all factors that threaten to undermine their independence and objectivity.

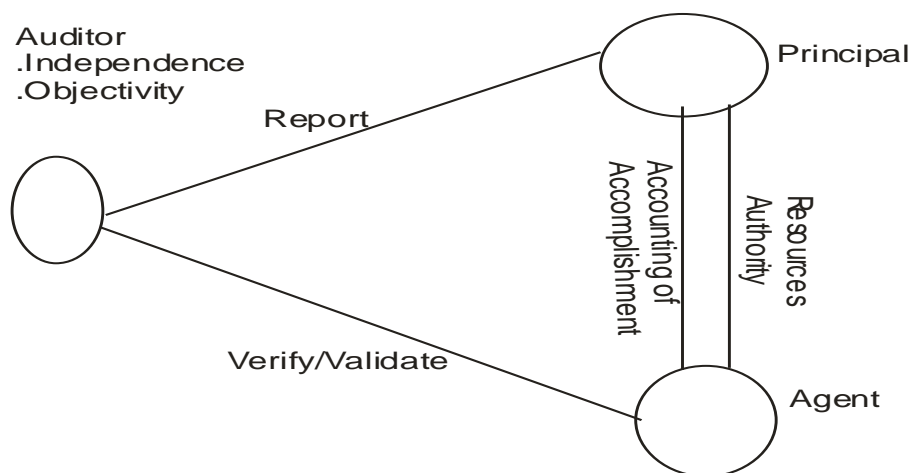
Alhassan, Dodzi, and Fred (2018) examined factors that determine internal audit effectiveness among SOEs in Ghana. The study was conducted in response to various scandals among Ghanaian SOEs and the lack of empirical studies on determinants of internal audit effectiveness that can deal with these problems. The study specifically examined the respondent's perception about the impact of factors such as; competence of internal audit unit, size of internal audit unit, relation between internal and external auditors, management support for internal audit function, and independence of internal audit unit on internal audit effectiveness among SOEs in Ghana. The surveyed internal auditors, accountants and management of these sampled SOEs in Ghana. The results of the study showed that management support for internal audit function is the most significant determinants of internal audit effectiveness. The study also revealed that size of internal audit unit, competence of internal audit staff, independence of internal audit unit as well as good relationship between internal and external auditors were significant determinants of

internal audit effectiveness. The study apart from contributing to the non-existent literature on the subject matter in Ghana, also serve as guidance to policy makers on critical areas to address to ensure affective internal audit in SOEs in Ghana.

2.3 Theoretical Framework

The theoretical framework will be based on the Agency theory and the theory of Fraud. This suggests that as a result of information asymmetries and self-interest, principals lack reasons to trust their agents and will seek to resolve these concerns by putting in place mechanisms to align the interests of agents with principals and to reduce the scope for information asymmetries and opportunistic behaviour. Auditors act as agents to principals when performing an audit and this relationship therefore brings with it similar concerns with regard to trust and confidence as the director – shareholder relationship, prompting questions about who is auditing the auditor (ICAEN, 2005).

Figure: Party Relationship



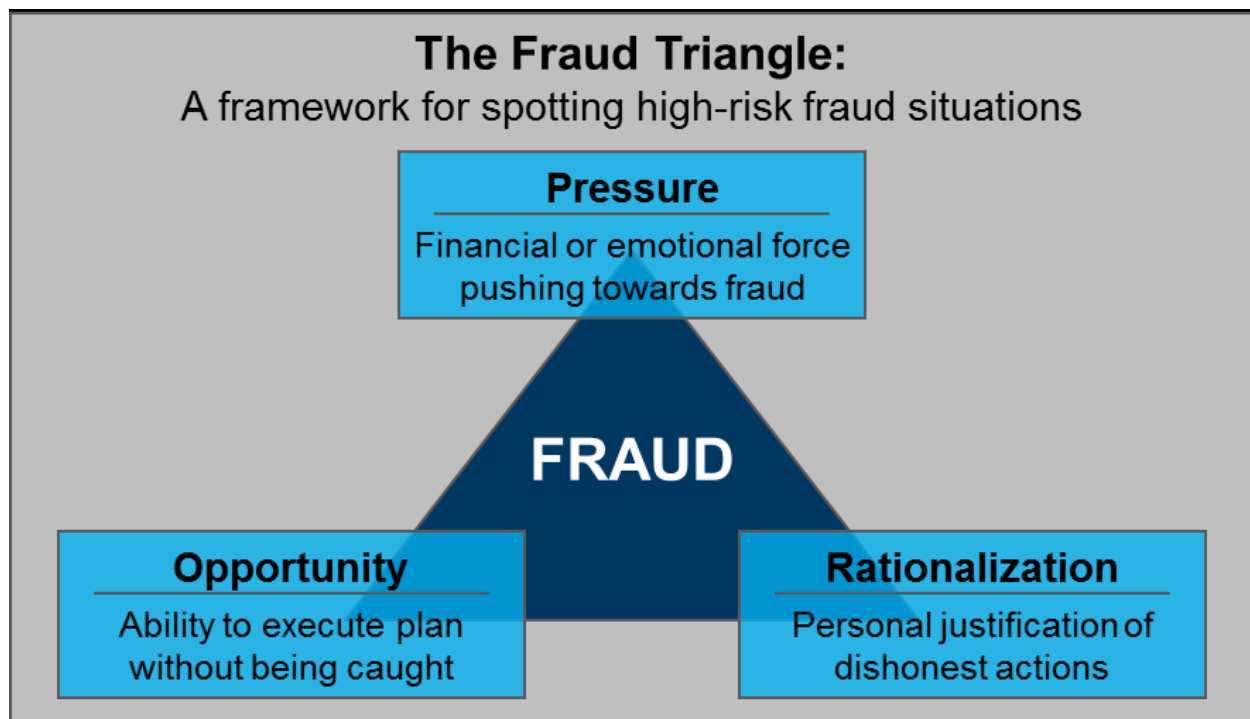
The public sector represents a principal-agent relationship. The officials acting as the principal's agent must periodically account to the principal for their use and stewardship of resources and the extent to which the public's objectives have been accomplished.

Dorminey, Fleming, Kranache & Riley (2010) suggests that much of the current understanding of why perpetrators commit fraud is grounded in the Fraud Triangle. The Fraud Triangle is a theory that identifies the elements that lead perpetrators to commit.

Dorminey, Fleming, Kranache and Riley (2010) emphasized, "That understanding the root cause of fraudulent behaviour is one way to deter fraud in an organization". According to these researchers, one reason why fraud has been committed is based on three critical elements that must be simultaneously present for individuals to engage in fraud. The first side of the Fraud Triangle represents a perceived pressure, the second side represents perceived opportunities, and the third side stands for rationalization. The Fraud Triangle's pressure element is a non-sharable financial need. In other words Dorminey, Fleming, Kranache and Riley (2010) listed greed, financial problems, addictions (like gambling, shopping or drugs), living beyond one's means, large expense and personal debt as shining examples of the pressures pushing employees like Public Officers to commit fraud. The perceived opportunity element on the second side of the Fraud Triangle is a chance to commit and conceal the fraud act (Dorminey, Fleming, Kranache & Riley, 2010). This opportunity boldly manifests itself when there are poor internal controls, poor training, poor supervision, lack of prosecution of perpetrators, inefficient antifraud programs, policies, and procedures and weak ethical culture. In essence, Dorminey, Fleming, Kranache & Riley (2010) implied that the lower the risk of getting caught, the more likely it is that fraud will take place. The fact that no one is constantly reviewing, or performing supervisory reconciliations within the Public Service, creates the comfort that Public Officers often need to think that they will not get caught in the fraud.

The third element of the Fraud Triangle – rationalization - is the moral justification for the fraud perpetrated (Dorminey, Fleming, Kranache & Riley, 2010). In Government, senior managers often abuse their office by fulfilling private obligations when they should be doing the tasks that they are paid to accomplish. Fraudsters justify their wrong on the expectation that wrongs are done everywhere within the Government system, creating the moral misconception that corruption is now an accepted way of life. Reality is, however, that no law within Nigeria states that two wrongs create a right for justification in any circumstance.

Figure 1: The Fraud Triangle



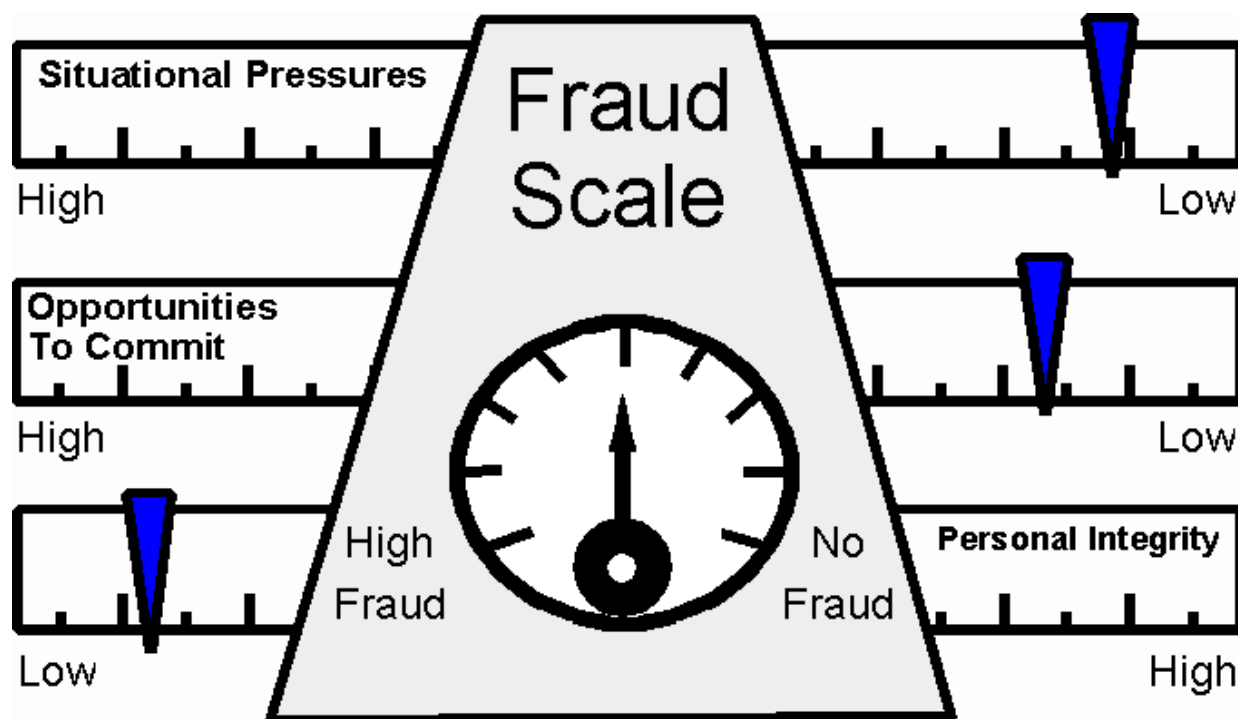
In addition, Dorminey, Fleming, Kranache and Riley, 2010), emphasized that perpetrators of fraud view their behaviour as acceptable. This reaction, somehow, preserves their self-image as a trustworthy person. Therefore, employees (Public Officers) may rationalize their act of stealing

as justifiable in thinking that it is a loan and they will pay it back (Dorminey, Fleming, Kranache & Riley, 2010).

Dorminey, Fleming, Kranache and Riley, 2010, (2010) argues that the Fraud Triangle alone is not an adequate tool for deterring, preventing and detecting fraud, even though the model had become an integral part of the Statement on Auditing Standards (SAS) No. 99. However, two of the characteristics of the Fraud Triangle (pressure and rationalization) cannot be observed and completely evaluated empirically.

The Fraud Scale Theory, developed by Steve Albrecht, Keith Howe, and Marshall Romney (2011), is an alternative to the Fraud Triangle model. The theory suggest that the greater the perceived opportunity or the more intense the pressure, the less rationalization it takes to motivate someone to commit fraud (Albrecht et al. 2011). In addition Albrecht et al. (2011) emphasized that the more dishonest a perpetrator is, the less opportunity and or pressure it takes to motivate fraud.

Figure 2: The fraud Scale



Albrecht, Howe, Romney, "Deterring Fraud: The Internal Auditor's Perspective," p6

Numerous studies were conducted on fraud in the public sector management. One such study examined fraud as it relates to the history, issues, tools and challenges (Brock, 2012). According to Brock (2012), the most extensive economic crimes worldwide are misappropriation, accounting fraud, influence peddling and corruption and cybercrime. Brock (2012) also described a typical fraudster as a male between 36 and 55 years of age and hold from intermediate positions to senior officers' rank. Brock (2012) also quantified that the typical fraudster act in collusion with others, working for more than ten (10) years at the organizations, and is mostly found in the accounting or finance department.

In addition, the key factors leading to fraud are personal financial needs, opportunity and greed (Brock, 2012). Although eradicating fraud is impossible, it is possible to reduce the risk that occurs (Brock, 2012). Some key deterrence for fraud as noted by Brock (2012) were assessing the risk to delimit high risk areas (with the awareness that fraud occurs most frequently in the

finance department), conduct audits prior to hiring, especially for key positions (including police record, credit bureau), review employment contracts (whistleblowing, code of conduct) and set up a whistleblowing program and reporting mechanism (telephone line, mailbox or any other anonymous was of exposing an irregularity).

Similarly a study by Heerden (2011) in Switzerland revealed that weak internal control was the major factor that contributed to the on-going fraud. In addition, Heerden (2011) reported that misappropriation of assets is the most common fraud, and has been exposed by whistleblowing mechanisms. On the other hand, one in seven frauds has been discovered by chance. This puts a question mark on the effectiveness of controls and management review utilized in detecting and preventing fraud (Heerden, 2011). Heerden (2011) suggested that management review and basic internal control mechanism was rated as the most effective means for detection.

In a third research completed by Sidorsky (2006), it was emphasized that red flags can provide warning signs of fraud; however, it cannot indicate guilt or innocence. Nevertheless being able to recognized red flags is necessary not only for private accountants, but also for audits in the public sector where the potential for fraud to occur exists (Sidorsky, 2006).

Ajzen's theory of planned behaviour (1991) argues that the intentions of individuals will determine the actual behaviour towards something. Attitude is evaluative in that it leads to a judgment on the object and behavioural intention is the immediate predictor of the actual behaviour. The underlying assumptions of the theory are that: much human behaviour is planned and therefore preceded by intention towards that behaviour. Human beings are rational and make systematic use of information available to them when making decisions (Arjen, 1991). Park & Blenkinsopp (2008) & Zhang et al. (2009) note that in the whistleblowing concept,

whistleblowing intention is an individual's probability of choosing whistleblowing under certain circumstances. Therefore, an individual's whistleblowing intention can be strongly predictive of his or her final behaviour.

In view of the gravity of the fraud in our system, various organizations have employed different measures blowing, red flags with internal control as the most frequently suggested measure yet fraud has continued in upward trend. This has called the effectiveness of these measures into question.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The study adopted correlational research design. Since the work is aimed at gaining useful insight into public sector audit and fraud prevention in Nigeria public sector.

3.2 Population and Sampling Technique

The population comprises of all the Auditors in the selected Federal Ministries (Agriculture, Finance, Education, Health and Labour & Productivity). The population is 210. The sample size shall be determining using Yaro Yamane fromula to estimate it. According to Yamane (1967) the formulating is as stated below:

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

Where N is the population size

e is the margin error (assume 5%)

1=constant

n=sample size

e= 0.05%

$$n = \frac{210}{1 + 210(0.05)^2}$$

$$n = \frac{210}{1 + 210(0.0025)}$$

$$n = \frac{210}{1 + 0.525}$$

$$n = \frac{210}{1.525}$$

$$n = 137$$

3.3 Methods of Data Collection

The study collected primary data from the selected Ministries. The main instrument for data collection will be the questionnaires, with both structured and open ended questions. Structured questions allow for uniformity of responses to questions. The questionnaire is a fast way of obtaining data as compared to other instruments (Mugenda & Mugenda, 1999). Questionnaires will allow greater uniformity in the way questions are asked, ensuring greater compatibility in the responses. A four point non-comparative Likert scale will be used for the structured questions, the intent of the Likert is that the statement represents different aspects of the same attitude. Likert scale is simple to construct, and easy for the respondents to read, understand and respond appropriately to the statements put across. The Likert scale enhances the production of highly accurate results during analysis.

3.4 Technique of Data Analysis and Model Specification

In line with the research paradigm underpinning this study and in consistent with the objectives of this study, multiple regression technique of data analysis will be employ. The choice of regression as the tool of analysis in this study is informed by the fact that, the technique is effective in estimating the effect of one variable on another.

Model Specification

The regression equation will be;

Model 1

$$FP=B_0+B_1AI+B_2AC+B_3ASTN+e$$

Reliability and Validity

The reliability will be insuring by testing the instrument for the reliability of value (Alpha values) as recommended by Cronbach, (1946). Cronbach recommends analysis for Alpha value for each variable under study. According to Sekaran (2001) Alpha values for each variable under study should not be less than 0.6 for the statement in the instrument to be deemed reliable.

All the statement under variable will subject to this test and will be proven.

3.5 Justification of Methods

Survey research design will be adopted in the course of this research work. The instrument that will be used in collection of primary data is through questionnaire. The choice of this design is due to the fact that the researcher perceived it appropriate and because of its lack of control without manipulation of the sample subjects.

In examining the relationship between the variable under study, Ordinary Least Square (OLS) will be adopted to show strength of relationship. It is a widely used tool and effective in achieving the objective of study.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation

This section entails analysis of response rate, profile of respondents and descriptive statistics of variables incorporated in the study.

4.2. Descriptive Statistics of

This section shows the descriptive statistics of the constructs, FP, IA, AC and ASTN. The rule for the analysis was that any mean responses of 1-2.49, 2.50-3.49 and 3.505.00 are rated below average, average and above average respectively. The study used the likert scale of 1 to 5 for interpreting FP, AI, AC and ASTN with respect to minimum and maximum.

Table 4.1: Descriptive Statistics for Competence of Audit Staff

	N	Minimum	Maximum	Mean	Std. Deviation
Is your educational qualification up to HND/BSC?	129	0	4	.66	.537
Do you have recognized professional qualification e.g. ICAN/ANAN	129	0	5	.63	.626
Your internal auditing experience	129	0	3	1.61	.520
Annual participation in continuous professional development program	129	0	5	.66	.643

Valid N (listwise)	129				
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Source: Output from SPSS, 2019

Table 4.1 shows the descriptive statistics on the competence of internal audit department in Nigeria public sector. The mean average variable of all the questions from question one (1) to four (4) items are all below average that is, between the value of 1-2.49 with a minimum score of 0 and a maximum score of between 3-5 of all the four items while the standard deviation is with scores of low and high standard deviation of .520-.643 respectively. These results indicate a low extent exhibition of competence of internal audit staff in the selected ministries . It can be justified that the nature of questions for COMP which were not in 5-likert scale are the reason for low mean.

Table 4.2: Descriptive Statistics for Staff strength

	N	Minimum	Maximum	Mean	Std. Deviation
SIZE1	129	1	10	4.60	2.482
Valid					
N (listwise)	129				

Source: Output from , 2019

Table 4.2 shows the descriptive statistics for size of internal audit department in the selected miniseries. The mean average variable of all the questions from question one (1) to ten (10) are all above average that is above the value of 4.6 with a minimum score of 1 and a maximum score of 10 of all the ten items while the standard deviation is with scores of average standard deviation of 2.50 meaning that no internal audit department

that has the staff strength beyond 10 based on five likert scale. This result indicates high level of agreement with the statements in the administered questionnaire.

Table 4.8: Descriptive Statistics for Independence of Internal Audit Department

Table 4.3 shows the descriptive statistics for the independence of internal audit department in Nigeria public. The mean average variable of all the questions from question one (1) to nine (9) are all above average that is above the value of 3.50-5.00 with a minimum score of 1 and a maximum score of 5 of all the nine items while the standard deviation is with scores of .821-1.217 respectively. This result indicates some levels of agreement with the statements shown in the administered questionnaire.

4.3 Correlation Analysis

A correlation analysis was conducted to establish the strength of the relationship between the independent and the dependent variables. Table 4.9 presents summary of the correlation matrix.

Table 4.3: Correlation Matrix

Variables		FP	AI	AC	ASTN
FP	Pearson Correlation	1			
	Sig. (2-tailed)				
AI	Pearson Correlation	.137	1		
	Sig. (2-tailed)	(.121)			
AC	Pearson Correlation	-.042	.064	1	
	Sig. (2-tailed)	(.638)	(.469)		
ASTN	Pearson Correlation	.342 **	.160	.067	1
	Sig. (2-tailed)	(.000)	(.174)	(.108)	

Source: Correlation Matrix Results Using SPSS Output

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

Table 4.3 shows the overall correlation result of all independent and dependent variables to be significant at $p < .01$. fraud prevention was found to be strongly and correlated with the independence, competence

and staff strength of public sector audit ($r > 0.5$). Thus, the variables are correlated to one another indicating absence of auto serial correlation and fitness of the model.

4.5 Interpretation of Regression Result

The Summary of the regression result obtained from the model of the study is presented in Table

4.4.

Table 4.4: Model Summary_b

Variable	Model	R	R ² Square	Adjusted R Square	Std. Error of the Estimate	DurbinWatson	F-Statistic	Sig.	Tolerance/VIF
AI AC ASTAN	1	.615 ^a	.379	.354	6.292	1.839	15.000	.000	.959/1.043 .924/1.083 .801/1.248

a. Dependent Variable: Internal Audit Effectiveness

Source: SPSS Output

The result in Table 4.4 indicates that the three variables accounts for 35.4% (adj $r = 0.354$) change in the fraud prevention in Nigeria public. It also indicates strong relationship between the variables ($r = 0.379$). While durbin-watson statistics is 1.839 indicating absence of auto serial correlation and fitness of the model. The study interprets the result of the R-square based on Cohen (1988) who classified R-square of 0.02, 0.15, 0.35 as weak, moderate and substantial respectively. The R-square of the current model (0.354) can be considered strongly correlated. It implied that the three variables of the study explained 35.4% of fraud prevention, while rest 64.6% could be answered by other variables not considered in the current research model.

The beta coefficients, t-statistics and probability values are shown in Table 4.6.

Table 4.6: Variable Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	20.194	4.715		4.283	.000
AI	.548	.230	.009	2.388	.018**
AC	.072	.182	.063	3.395	.002***
ASTN	.765	.145	-.039	5.278	.000***
			.497		

Source: SPSS Output

The sum of square, mean square and F Sig. are presented in Table 4.7 which shows the ANOVA regression results.

Table 4.7: ANOVA^b

Model	Sum of Squares	Df	Mean Square	F Sig.
1 Regression	2968.913	5	593.783	15.000
Residual	4869.056	123	39.586	.000 ^a
Total	7837.969	128		

Source: SPSS Output

The ANOVA regression result as shown in the Table 4.7 produces a p-value of .000, which obviously lies below the significant values. So, it can be concluded that, the regression is significant and could possibly say that fraud prevention changes or affects significantly the competence, audit staff, size and independence audit department.

4.6 Test of Hypotheses and Discussion of Findings

H_{01} : Audit Independence has no significant effect on fraud prevention in Nigeria public sector.

The regression result revealed that Independence of Auditor-General has a t-value of 2.388, a coefficient of .548 and a p-value of .018. This means that Independence of Auditor-General has a significant positive relationship with fraud prevention. The significant relationship means that audit Independence does have statistically significant influence on fraud prevention. However, the value of the coefficient of beta shows, mean that the relationship between Independence of Auditor-General and fraud prevention is positive. This find result implies the study has found substantial evidence to reject the null hypothesis one of this study. The implication of the result is that Independence of Auditor-General has a strong influence on fraud prevention in Nigeria public sector.

H_{02} : Audit competence has no significant effect on fraud prevention in Nigeria public sector.

For audit competence as a determinant of fraud prevention, the result reveals that competence has a significant positive impact on fraud prevention with coefficient of .072, t- value of 2.04 and p- value of 0.02. It implies that every 1% increase in audit competence leads to a 7% increase in fraud prevention holding other variables constant.

H_{03} : Audit Size has no effect on fraud prevention in Nigeria public sector.

The audit size coefficient shows a positive significant effect on fraud prevention in Nigeria public sector since the coefficient is .765, t- value of 5.278 and p- value of 0.00. This implies that for every 1% increase in staff strength, there is resulting 7% increase in fraud prevention and significant at 1% holding all other variables constant.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The study examined the effect of public sector audit on fraud prevention in Nigeria public sector. A multiple regression model was applied with a view to explaining and predicting empirically the fraud prevention in Nigeria public sector. The model employed for this study estimates the association and effects of three explanatory variables with the aid of least squares technique. The study is premised on the fact that public sector audit is a lingering issue that deserves attention in the academia, business environments, regulatory bodies, agencies amongst others. However, the study sought to examine the effect of public sector audit and fraud prevention. The exogenous variables of this study constitute the determinants or factors of fraud prevention. The three determinants of fraud prevention form the bases of hypotheses one to three of the study.

The findings of this work are strictly on the data or instrument from primary source only. The data, which are quantitative in nature, have been extracted from respondents through self-administered questionnaire to comply with the stated research objectives, as responses is coded using five likert scale from 1 (strongly disagree) to 5 (strongly agree) which is in line with the previous studies in the current research field developed by (Belay 2007). This is administered to provide a robust source of information and guaranteed validation of the findings.

5.2 Conclusions

As a corollary of the discussion and analysis of the results, the study concludes as follows. Firstly, the study makes an attempt in statistically and empirically providing

evidence on the combination of three independent variables (independence, competence of staff and staff strength) that constitute the determinants of fraud prevention. Secondly, this study was found to have a positive significant association between the Independence, competence and size and fraud prevention. It is therefore concluded that, Independence, competence and size are powerful determinant of fraud prevention as it plays a significant role in explaining fraud prevention in Nigeria public sector.

5.3 Recommendations

The study recommends as follows:

- 1) To gain suitable scale of independence of internal audit unit, the internal audit chief internal auditors and their deputies should inform, report and interact directly with the stakeholders to secure its independence and credibility. Internal auditors should state their opinions liberally and make recommendations where necessary without any bias or restrictions.
- 2) Regular training of the staff of internal audit departments is necessary to sharpen their skills of implementation of necessary procedures
- 3) Management of Organizations should motivate staff of internal audit departments to painstakingly implement internal audit procedures.

5.4 Limitations of the Study

This work has accomplished its purposes and objectives. However, as it is also a feature of other study of this type, a lot of handicaps are recognized and stated as follows. The first weakness of this research is that, the study is limited to selected ministries Nigeria. The second limitation give an account to the fact that this study rely on perceptions of Chief internal auditors and their deputies, may not cast back the real situations or

positions of the respondents. For example, participants may answer questions to satisfy the researcher's expectations or they may be overstated on the other side, so as to focus psychology to a more identified problem. Other groups such as Senior Internal Auditors and other key staff of MDAs could contribute to better understanding of the issue.

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