

# **MANAGING THE RISK OF FRAUD IN PUBLIC FINANCE**

**By**

**\*Abiodun Popoola, PhD CNA MNES**

**Being a paper presented at the 2024 Mandatory Continuing Professional Development programme of the Association of National Accountants of Nigeria**

## **SECTION I- INTRODUCTION**

Public finance is a science that addresses the matters relating to finance and its management in the public sector. As part of the discipline of public sector economics, public finance deals with issues of public expenditure, public income, public debt and problems of government treasury in the complete sense, such as financial administration.

As in all human endeavours, there is no gainsaying the fact that risk affects many areas of activity of public sector organizations. Risk has been described and defined variously in literature. For instance, Asel (2009) presents risk as covering all situations that may take place in organizations with a specific probability while Rosa (1998), risk include situations or events which are estimated to involve a threat or the result of whose occurrence is uncertain. As defined by Campbell (2005), Weiner (1995), and Renn (2005) respectively, risk is the probability of an adverse event, an adverse result, or an uncertain consequence of an event or an activity to a specific area of an organization. In essence, risk can be described as the possibility of a negative event occurring that can make for non-realization of an objective or at least underperformance in an organization.

Basically, risk consists of two fundamental elements- the probability of its occurrence and the gravity of its consequences. These two components determine the uniqueness of risk and can be calculated in different ways using the probability model or the economic model (Kapuscinska & Matejun, 2014)). And since governments at all levels are economic agents and are subject to the vagaries of elements as well as the unpredictability of human beings, risks are then bound to affect almost activities of public sector organizations. Key risks in the public sector include

- a. Political Risks, e.g. policy changes and political instability
- b. Economic Risks, e.g. budget constraints, inflation, etc.
- c. Social Risks, e.g. demographic changes, social unrest, etc
- d. Technological Risks, e.g. cybersecurity threats and technological obsolescence
- e. Legal and Regulatory Risks, e.g. compliance issues, litigations, etc
- f. Environmental Risks, e.g. natural disasters and climate change
- g. Operational Risks, e.g. inefficiency and all manners of fraud, project failures, etc.
- h. Reputational Risks, e.g. media and public perception
- i. Human Capital Risks, e.g. talent shortages, skill gaps, employee dissatisfaction, etc.
- j. Foreign Sector Risk, e.g. global economic shifts, wars, regional preferences, etc.

The object of this paper is to address the issue of risk management in public sector organizations in terms of identification, recognition, measurement, determination of the scale of acceptance, and use of instruments that reduce risk. The emphasis however is on managing the risk of fraud. Public sector fraud is responsible for several inimical consequences including bankruptcy of nations, limited growth of infrastructure, inability of government agencies to deliver goods and services, reduced public trust in government, negative image of a country, and increased fraud (as more and more people believe that taking the national cake is a way of life, (Cavanagh & Benito, 2016; Adebisi & Gbegi, 2015))

Addressing the specific risks of fraud in public finance, this paper will offer insights into detecting and preventing fraudulent activities in government financial operations. After the delivery of this paper, participants are expected to be able to:

- ▶ Have an understanding of what fraud is and how it can happen in public agencies
- ▶ Know the consequences of fraud committed in the public sector

- ▶ Identify ways to prevent, detect, and recover from fraud risks
- ▶ Develop a customized fraud risk management approach for their organizations/units
- ▶ Apply preventive, detective, and recovery fraud risk measures.

Aside this introduction the paper discusses successively in Sections II-VI, peculiarities of fraud in public sector organizations, fraud risk factors, country examples of practical management of public sector fraud risk, creating a fraud risk management framework and the role and expectations of the professional accountant in managing the risk of fraud. Section VII concludes and proffers recommendations.

## **SECTION II- THE PECULIARITIES OF FRAUD IN PUBLIC SECTOR ORGANIZATIONS**

Fraud refers to deceptive activities or dishonest practices that occur within an organization and can take various forms. A Global Fraud Survey conducted in 2016 by the Association of Certified Fraud Examiners found that organizations of different sizes are exposed to different fraud risks. The survey showed that high corruption was more prevalent in larger organizations while everyday operational issues like check tampering, skimming, payroll schemes, and cash theft were twice as common in small organizations.

In the same regard, the size of the organization and the complexity of the business are important matters when it comes to fraud risk exposure. Smaller organizations have limited resources to devote to the development of anti-fraud controls and their internal control systems may often be not so well developed as large organizations. Smaller companies often lack in-house internal audit functions and are exempt from external audit requirements. These gaps in fraud prevention and detection leave small organizations more susceptible to frauds that can cause significant damage to their limited resources.

Quite interestingly, the survey further revealed that the government and public administration sector was the second most represented sector in incidences of fraud after the banking and financial services industry. Specifically, in the public sector which comprises of government

organizations, and agencies of government, the most common types of frauds are described hereunder:

**1. Corruption:** This may be in the form of

**a. Bribery:** The offering, giving, receiving, or soliciting of something of value to influence the actions of an official or other person in a position of trust.

**b. Nepotism:** Favoritism shown by government officials to their relatives or friends, often in the form of preferential treatment, appointments, or contracts.

**2. Embezzlement:** Embezzlement takes various forms including

**a. Misappropriation of Funds, i.e.** Outright theft or unauthorized use of public funds for personal gain.

**b. Ghost Employees, i.e.** Creating fictitious employees or beneficiaries to convert salaries, benefits, or other funds for personal use.

**c. Bogus placements:** This occurs in agencies that get funding for salaries or other entitlements from a central authority. The person(s) in charge of salary requisitions mislead the central authority by listing some staff as being in higher positions than they really are. For instance, Mrs F, a lecturer who is an Assistant Lecturer is forwarded as someone on Lecturer 1 position. The higher salary is sent to the institution while the actual salary is paid by the institution to Mrs. F and the difference goes to the fraudulent bursary staff.

**3. Procurement Fraud:** Frauds in the area of procurement are usually through

**a. Price inflation:** This involves making contractors and vendors of items to make quotations/receipts/invoices for a higher amount than the normal price of the item or amount of the contract and then collecting the inflated amount from the contract or vendor.

**b. Kickbacks:** A kickback is a payment made to government officials or employees in return for favorable treatment in the awarding of contracts.

**c. Bid rigging:** This refers to collusion among bidders to manipulate the competitive bidding process, ensuring that a particular bidder wins.

**4. Fraudulent Financial Reporting:** Other names for this include ‘Cooking the Books’, ‘window dressing’ etc. It is usually in the form of manipulating financial statements or accounting records to present a false picture of the operational results or/and the financial health of an organization.

**5. Abuse of Power:** Abuse of power is perpetrated usually through-

**a. Political Patronage, i.e.** Appointing individuals to positions based on political allegiance rather than merit.

**b. Intimidation and Coercion, i.e.** Using one's position to force or intimidate others for personal gain.

**6. Misuse of Public Resources:** Public resources can be misused in diverse ways including

**a. Travel and Expense Fraud:** This comes possibly by inflating travel expenses or using public funds for personal travel and entertainment.

**b. Misuse of Public Property:** This refers to unauthorized use or disposal of government-owned assets for personal benefit.

**6. Identity Theft and Fraudulent Schemes:** These include-

**a. Identity Fraud, i.e.** stealing personal information to impersonate someone else for fraudulent activities.

**b. Phishing and Cyber Fraud:** Using deceptive online tactics to trick individuals or organizations into revealing sensitive information or making fraudulent payments.

**7. False Claims and Billing:** The most common forms of these are:

**a. False Invoicing, i.e.** Submitting invoices for goods or services that were not provided.

**b. Bill inflation, i.e.** Submitting invoices or receipts for higher amounts than the actual cost of goods bought or jobs done on behalf of the government.

**c. Medicare and Medicaid Fraud:** Submitting false claims for reimbursement from government healthcare programs.

**8. Money laundering, i.e.** the transforming of profits of crime and corruption into legitimate assets

**9. Tax evasion, i.e.** the deliberate reporting of false information in tax reporting.

**10. Whistleblower Retaliation:** This is usually in form of retaliatory practices and involves punishing employees who report misconduct or fraud within the organization.

Asset misappropriation (represented by outright embezzlement of funds) seems to be the clear leader in terms of fraud types in African countries with bribery and corruption coming a close second, (Onuora et al, 2018; Kingsley, 2015). However, a study conducted in Europe of 300 cases of fraud discovered/reported in government-owned enterprises showed that the following types of fraud were prevalent with the following respective frequencies:

Asset misappropriation	138
Accounting fraud	56
Bribery and corruption	44
Theft of data	12
Insider Trading	10
Espionage	10
Money Laundering	6
Tax fraud	6
Price Fixing by cartels	6
Others	12

### **SECTION III- FRAUD RISK FACTORS (Triangle and Diamond)**

Fraud risk factors are conditions or situations that present opportunities for fraud to occur. These factors can increase the likelihood of fraud happening within an organization. Below is a non-exhaustive list of fraud indicators (“red flags”) that may be relevant for public sector entities:

- a. Pressure from an external party (e.g. political structure)
- b. Legislation, policies, and procedures that are not applied equally throughout public sector organizations;
- c. Poor IT systems and lack of appropriate IT security;
- d. Centralized decision making which risks undermining the necessary segregation between procurement, contracting, and approval;
- e. New programs or early stages of programs with effective controls not yet in place;
- f. Weak corporate culture, e.g. No procedure in place for punishment for fraudulent activities during extensive period;
- g. Lack of internal controls or weak controls within an organization;
- h. Insufficient human resources to implement control procedures;
- i. Overriding of controls by management and officers on grounds of urgent need;
- j. High turnover rate, dismissal, or reassignment of key employees;
- k. Capability to commit fraud, which may involve knowledge of the system, access to sensitive information, or a position of trust within an organization, technical skills, understanding of internal processes, and knowledge of weaknesses in controls.;
- l. Lack of technical expertise for assigned role;
- m. Senior managers under intense pressure to meet high targets may resort to unethical means to achieve their goals;
- n. Presence of non-routine transactions that lack proper approval or are not supported with appropriate documentation;
- o. Complex business transactions or convoluted financial structures especially if oversight and monitoring are not commensurate with the complexity of the organization's operations;
- p. Large volumes of related party activities undertaken outside of the normal course of operating activity;

- q. Lack of clear communication channels within an organization which may be exploited by individuals seeking to commit fraud. This can include poor communication between departments, hierarchical barriers, and a lack of transparency;
- r. Inadequate employee screening, for instance, poor hiring practices, including insufficient background checks, can lead to the recruitment of individuals with a history of fraudulent behavior or individuals who may be more susceptible to engaging in fraud; and
- s. Disgruntled employees who convey dissatisfaction with the job, compensation, or other factors.

The factors mentioned above as well as others are usually explained using the model known as the Fraud Triangle. The Fraud Triangle is a concept that was developed by Dr. Donald Cressey in the 1950s to explain why people commit fraud. It consists of three key elements that, when present together, create a higher risk of fraudulent behavior. These elements are often referred to as the "three legs" of the Fraud Triangle. They are:

**1. Pressure (or Incentive):** pressure is also known variously as incentive or motivation. The argument here is that individuals may experience certain things, e.g. financial difficulties, such as debt, medical expenses, or a desire for a higher standard of living, which can create a strong incentive to commit fraud. Non-financial pressures, such as addiction, gambling problems, or personal issues, can also contribute to this element.

**2. Opportunity:** This is the second leg of the triangle. Even if someone is under pressure, they will not ordinarily commit fraud unless they perceive an opportunity to do so without getting caught. Opportunities for fraud arise when there are weaknesses in internal controls, lack of oversight, or inadequate monitoring systems within an organization. A lack of checks and balances can provide individuals with the chance to exploit vulnerabilities for personal gain.

**3. Rationalization:** Rationalization involves the cognitive process that individuals use to justify their fraudulent actions to themselves. They convince themselves that what they are doing is acceptable or necessary due to the pressure they are under. Common rationalizations include thoughts like 'Everyone is doing it', 'The people at the top are feeding fat on our labours', 'I'm

just borrowing the money and will pay it back" or "I deserve this because I'm underappreciated at work."

Fraud occurs when all three elements of the Fraud Triangle are present. If any one of these elements is missing or significantly reduced, the likelihood of fraud decreases. For example, if an organization has strong internal controls and monitoring systems (reducing opportunity), or if individuals do not face significant pressures or can manage them in a lawful manner, the risk of fraud is diminished.

While the Fraud Triangle is a foundational concept, Wolf and Hermanson (2004) expanded it by putting forward the theory of Fraud Diamond. Their contribution was to add 'Capability' to the three factors of the Fraud Triangle. The authors argued that many frauds would not have occurred without the right person with the right capabilities implementing the details of the fraud.

They went on to suggest four observation traits for committing fraud which are:

First, authoritative position or function within the organization;

Second, capacity to understand and exploit accounting systems and internal control weaknesses;

Third, confidence, that he/she will not be detected or, if caught, he/she will get out of it easily; and

Fourth, capability to deal with the stress created within and otherwise when he or she commits fraud.

Going forward, the debate of whether the use of specific standards can help curb corruption is ongoing. Of note are studies on International Public Sector Accounting Standards (IPSAS). It is observed from literature that the consensus that the adoption of IPSAS is a useful tool against fraud is growing.

Particularly, Tawiah (2023) used a sample of 77 developing countries between 2005 and 2017 and found out that the adoption of IPSAS reduces corruption. According to the author, although IPSAS is an accrual-based accounting that gives space for potential misuse of discretionary measurement, its high disclosure and timely recognition requirements can prevent

corruption. The results remain qualitatively similar after accounting for the IPSAS experience and the adoption of other international accounting standards such as IFRS and ISA. In further analyses, Tawiah (2023) revealed that the benefits of IPSAS in curbing corruption is more pronounced in developing countries that have fully adopted IPSAS compared to the cash-basis IPSAS adopters. All the results lead to the conclusion that harmonisation of government accounting through the adoption of IPSAS provides an additional mechanism for developing countries in the fight against corruption.

The results above imply that quality accounting reporting through the adoption of international accounting standards can serve as a good mechanism for preventing corruption in developing countries. The findings also validate the push by international organizations for the adoption of IPSAS in developing countries in the fight against corruption and improving economic development. By this, studies such as Tawiah (2023), provide evidence to policymakers, especially non-adopting countries, of the benefit of adopting IPSAS, something which can increase global adoption of the standard.

The following data relating to efficacy of particular fraud detection methods comparing the public sector and private sector as revealed by a concentration of studies

<b>Fraud Detection Methods</b>	<b>Public Sector</b>	<b>Private Sector</b>
Tipoff external	31%	16%
Tipoff internal	14%	11%
By accident	14%	13%
Internal audit	8%	17%
Law enforcement	8%	3%
Fraud risk management	5%	14%
Formal whistle-blowing procedures	5%	7%
Suspicious transaction reporting	5%	5%
Rotation of personnel	5%	5%
Corporate security	2%	5%
Others	3%	4%

## **SECTION IV: COUNTRY EXAMPLES OF PUBLIC FRAUD RISK MANAGEMENT**

The United Kingdom is one of the few countries worldwide that have recognized the seriousness of the evil of fraud in the public sector and have decided to tackle it headlong. This paper deems it useful to mention a few specifics of managing the risk of fraud in the public service of that country.

Among other measures, the UK government established a special unit to fight public fraud on August 3, 2022. The unit, the Public Sector Fraud Authority (PSFA), was formed as an integrated partnership between the Cabinet Office (CO) and HM Treasury (HMT) to transform how departments and public bodies deal with fraud against the public sector. The mission of the organization was couched as:

- a. Modernise the fraud and error response by widening access and use of: leading practices, tools and technology - better protecting taxpayers' money.
- b. Build expert-led services developed in collaboration with experts in departments and public bodies to better fight fraud and error through: risk, prevention, data and enforcement techniques.
- c. Develop capability in the public sector to find, prevent and respond to fraud and error - both organisationally and individually.
- d. Put performance at the heart of the public sector fraud conversation - focusing on investments and outcomes.
- e. Aim to be seen as a beacon of fraud and error expertise and a destination for those wanting to make a difference in fighting public sector fraud.

The PSFA took over and expanded the scope and reach of The National Fraud Initiative (NFI) which was created in 1996 to help Local Authorities find fraudulent payments. The NFI was incorporated into its Data and Intelligence Services of the PSFA. Amongst other tools, the NFI runs a large data matching exercise every two years, bringing together data from over 1,100 bodies to identify anomalies and potential fraud. In 2022/23, the NFI undertook this exercise, and released matches to its stakeholders in January 2023 and its data matching exercises delivered benefits of £171m in 2022.

The PSFA also operates the International Public Sector Fraud Forum (IPSFF). The IPSFF is a group that brings together experts working to combat public sector fraud from across five countries- Australia, Canada, New Zealand, the United Kingdom, and United States). The Forum shares experiences and best practice and produces leading practice guides for use in governments, public bodies and more widely where appropriate.

The International Public Sector Fraud Forum has established 5 principles for public sector fraud. The principles which are useful for every professional accountant to mind are as follows:

- 1. There is always going to be fraud-** It is a fact that some individuals will look to make gains where there is opportunity, and organisations need robust processes in place to prevent, detect and respond to fraud and corruption.
- 2. Finding fraud is a good thing-** If you don't find fraud you can't fight it. This requires a change in perspective so the identification of fraud is viewed as a positive and proactive achievement.
- 3. There is no one solution-** Addressing fraud needs a holistic response incorporating detection, prevention and redress, underpinned by a strong understanding of risk. It also requires cooperation between organisations under a spirit of collaboration.
- 4. Fraud and corruption are ever changing-** Fraud, and counter fraud practices, evolve very quickly and organisations must be agile and change their approach to deal with these evolutions.
- 5. Prevention is the most effective way to address fraud and corruption-** Preventing fraud through effective counter fraud practices reduces loss and reputational damage. It also requires less resources than an approach focused on detection and recovery.

Overall, the PSFA set a target to deliver £180m in audited benefits in 2022/23 but exceeded this target and delivered a total of £311m in audited counter fraud benefits. These benefits represent fraud and irregular payments which were prevented and recovered as a result from a variety of projects.

In Nigeria, several public sector agencies are responsible for combating fraud and corruption. These agencies play very significant roles in addressing fraud and corruption in Nigeria's public sector, although the effectiveness of their efforts can vary due to challenges such as resource constraints, political interference, and systemic issues. Most prominent among them are:

**1. Economic and Financial Crimes Commission (EFCC):** The EFCC is one of Nigeria's primary anti-corruption agencies. Established in 2003, its mandate includes investigating financial crimes such as advance fee fraud (419), money laundering, and cybercrimes. The EFCC operates under the Economic and Financial Crimes (Establishment) Act.

**2. Independent Corrupt Practices and Other Related Offences Commission (ICPC):** The ICPC is another key agency tasked with combating corruption in the public sector. It was established in 2000 under the Corrupt Practices and Other Related Offences Act. The ICPC focuses on investigating and prosecuting cases of corruption, abuse of office, and related offenses.

**3. Code of Conduct Bureau (CCB):** The CCB is responsible for enforcing the code of conduct for public officers in Nigeria. It ensures compliance with the provisions of the Fifth Schedule to the 1999 Constitution, which outlines the code of conduct for public officers. The bureau investigates cases of non-compliance and breaches of the code of conduct.

**4. Nigeria Financial Intelligence Unit (NFIU):** The NFIU is the central agency in Nigeria responsible for receiving, analyzing, and disseminating financial intelligence reports on money laundering, terrorist financing, and other financial crimes. It provides actionable intelligence to law enforcement and regulatory agencies.

**5. Police Special Fraud Unit (SFU):** The SFU is a specialized unit within the Nigeria Police Force dedicated to investigating complex financial crimes, including fraud, forgery, and advanced fee fraud. It collaborates with other agencies and international partners in tackling financial crimes.

In the same vein, Nigeria has been engaged in various reforms aimed at enhancing public financial management (PFM) practices in the country. These reforms are critical for improving

transparency, accountability, and efficiency in the management of public funds. Some key reforms in public financial management in Nigeria include:

**a. Adoption of International Public Sector Accounting Standards (IPSAS):** Nigeria has been gradually transitioning from cash-based accounting to accrual-based accounting, in line with international best practices. The adoption of IPSAS enhances transparency and provides more accurate financial information for decision-making.

**b. Budgetary Reforms:** The Nigerian government has been implementing reforms to improve the budgeting process, including the preparation, execution, and monitoring of budgets. Efforts have been made to enhance the credibility, comprehensiveness, and transparency of the budgetary process.

**c. Treasury Single Account (TSA):** The implementation of the Treasury Single Account has been a significant reform in Nigeria's public financial management. It consolidates all government funds into a single account held at the Central Bank, thereby improving transparency, minimizing leakages, and enhancing cash management.

**d. Public Procurement Reforms:** Nigeria has been reforming its public procurement system to enhance transparency, competition, and efficiency in the procurement process. The aim is to ensure value for money in public expenditures and to curb corruption.

**e. Capacity Building and Institutional Strengthening:** Capacity building initiatives and institutional strengthening efforts are underway to enhance the skills and capabilities of public financial management officials. This includes training programs, workshops, and the recruitment of qualified personnel.

**f. Use of Technology:** The adoption of technology in public financial management processes, such as the use of electronic payment systems and financial management information systems (GFMIS), has been encouraged to improve efficiency, transparency, and accountability.

Despite these reforms, multiple challenges remain in the public financial management system of Nigeria. Chief of these challenges are weak institutional capacity, inadequate infrastructure, and the persistence of corruption.

## **SECTION V- CREATING A FRAUD RISK MANAGEMENT FRAMEWORK**

There is no gainsaying the fact that fraud poses a significant risk to the integrity of government programs and erodes public trust in government. Therefore, it is incumbent upon us as professionals in the public service in Nigeria to maintain the primary responsibility for enhancing program integrity. One way of doing this is to design (or improve) a fraud risk management framework for our various organizations in order to address their vulnerabilities to internal and external fraud. Internal control weaknesses are frequently used by perpetrators to commit fraud. A fraud risk assessment, when used to understand these weaknesses and the risk environment, can assist management in developing a mature risk management plan.

Fraud risk management frameworks help perform, evaluate, and report the results of the fraud risk assessment. When compared to the cost of fraudulent activity, performing regular fraud risk assessments is a small investment. As the Association of Certified Fraud Examiners's 2020 Global Fraud Study shows, worldwide fraud schemes cause losses of more than \$3.6 billion dollars annually.

To establish a fraud risk management framework, a suggested 10-step process is outlined below:

1. Commit to combating fraud by creating an organizational culture and structure conducive to fraud risk management.
2. Plan regular fraud risk assessments
3. Identify potential inherent fraud risks and schemes
4. Assess the likelihood of identified inherent fraud risks to determine a fraud risk profile
5. Assess the impact of identified inherent fraud risks
6. Evaluate regarding which people and departments are most likely to commit fraud
7. Identify and map existing controls to relevant fraud risks
8. Evaluate whether the identified controls are operating effectively and efficiently

9. Design and implement a strategy with specific control activities to mitigate assessed fraud risks and the residual fraud risks that need to be mitigated
10. Collaborate to help ensure effective implementation

## **SECTION VI- WHAT WE NEED TO BE DOING ON THE JOB**

The expertise of professional accountants in financial management and accounting principles positions them as key players in identifying, preventing, and addressing fraudulent activities. Thus, more than any other set of professionals, we should play an important role in the management of fraud in Nigeria's public sector. Some of the areas in which our roles and responsibilities as professional accountants are evident or/and are needed to be strengthened are outlined and discussed below:

**1. Risk Assessment:** We should be responsible for conducting risk assessments to identify potential areas of vulnerability to fraud. This involves evaluating financial systems, the internal controls, and the operations and processes of an organization to determine the likelihood and impact of fraudulent activities.

**2. Internal Controls:** To us belong the designing and implementation of robust internal controls that can help prevent fraud. Such useful control procedures include segregation of duties, delineation of authorization processes as well as periodic and spot monitoring and checks of financial transactions to detect any irregularities. Financial policies and procedures should therefore be reviewed regularly and updated to address emerging risks and changes in the operating environment

**3. Fraud Detection:** Although the average professional accountant's work is not that of a detective, he is nevertheless trained to analyze financial data for signs of fraudulent activities. For this, advanced technology tools such as data analytics, trend analysis, and anomaly detection can be used to identify unusual patterns or transactions that may indicate fraud. Fraud detection algorithms and monitoring systems can be implemented to identify potential fraudulent activities.

**4. Reporting and Communication:** Accountants are responsible for communicating findings related to fraud to relevant stakeholders, including management, regulatory bodies, and law enforcement agencies. Timely and accurate reporting is needful for addressing fraud effectively. Promoting transparency in financial reporting will provide stakeholders with a clear understanding of financial activities. Standardized reporting practices should therefore be implemented and financial information disclosed in a timely manner.

**5. Whistleblower Programs:** We should play active roles in implementing and managing whistleblower programs in our various organizations and units. These programs encourage employees and other stakeholders to report suspected fraudulent activities confidentially. Accountants may investigate and address reports of fraud received through these channels. Robust whistleblower protection programs should thereby be established and communicated to encourage individuals to report suspected fraudulent activities without fear of retaliation. The confidentiality and anonymity of individuals reporting fraud should also be ensured.

**6. Forensic Accounting:** In cases where fraud is suspected or detected, professional accountants with expertise in forensic accounting can be engaged. These will conduct detailed investigations, gather evidence, and provide support in legal proceedings related to fraud.

**7. Strengthening of Procurement Controls and Cybersecurity measures:-** Stringent controls should be put in place in the procurement process to prevent bid rigging, corruption, and other fraudulent activities. Procurement policies should also be regularly reviewed and updated to align with best practices. On the side of cybersecurity, robust measures should be implemented to protect financial systems and sensitive data from cyber threats. Regular security audits should also be carried out to identify and address vulnerabilities in information systems.

**8. Compliance and Ethics:** More than ever before, we need to contribute to the development and enforcement of ethical standards and compliance policies within the public sector. This includes promoting a culture of integrity and accountability to deter fraudulent behavior.

**9. Training and Awareness:** Accountants must be involved in training programs to educate employees and other stakeholders about the risks of fraud and the importance of ethical behavior. Increasing awareness can help prevent fraud by fostering a culture of ethics, integrity, as well as

vigilance. Training should therefore be provided for employees especially those involved in financial processes to recognize potential fraud indicators.

**10. Continuous Monitoring:** We need to engage in continuous monitoring of financial transactions and systems to quickly detect and respond to any emerging threats or patterns indicative of fraud. In this wise, independent audit by external auditors to review financial records and internal control systems should be conducted regularly. Another thing to do is to ensure audit reports are transparent and accessible to the public.

**11. Collaboration:** Collaboration with other government agencies, law enforcement, and regulatory bodies to share information and best practices in fraud prevention is essential. Such cross-functional collaboration is essential for a coordinated response to fraud. We as accounting professionals in the public sector also need to participate in industry fora from time to time so as to stay updated on the latest fraud trends and prevention strategies. Collaboration can also be extended to sharing information and pacts with bodies outside the country to effect the arrest of perpetrators of fraud and repatriation of the proceeds of frauds that might have been taken outside the country.

## **SECTION VII- CONCLUSIONS AND RECOMMENDATIONS**

The issue of fraud is a global phenomena. Statistics indicate that the public sector is well behind the private sector in terms of the number of frauds detected by internal audit or risk management. The private sector is found to have an edge in this area by the effective use of information technology tools as part of the fight against fraud. Thus, this paper recommends that public sector organizations in Nigeria should as a matter of priority also invest in IT techniques, such as data analytics.

The fraud triangle and fraud diamond are two of the theories that provide a framework for understanding the factors that contribute to fraudulent behavior. By addressing pressure, opportunity, rationalization as well as capacity to commit fraud, organizations can implement effective strategies to prevent and detect fraud within their operations. It is clear especially that, for the average person, the more opportunities to commit fraud, the more the likelihood of fraud,

most especially in the public sector. Therefore, public sector organizations should strive deliberately to minimize opportunities for fraud.

Professional accountants play a multifaceted role in the management of fraud in the public sector. Their expertise is instrumental in maintaining the financial integrity of public sector organizations and ensuring accountability to the public. Therefore, this paper suggests that every participant in this training (especially those who work in the public sector) should reassess himself/herself as to his/her current practice in the matter of preventing, detecting, and reporting of fraud. Doing this will from time to time will enhance one's integrity quotient as well as help the image of the Association.

There is no gainsaying the fact that an effective fraud risk assessment need be carried out in most public sector organizations in Nigeria. Such will identify potential fraud threats and weaknesses. Such a risk assessment done in good faith to cover both internal and external threats and weaknesses may also lead to the discovery of past frauds that have been unnoticed/unaddressed. This paper has given suggested steps towards this direction for every participant to be able to design or improve a fraud risk assessment framework.

On a final note, it is suggested that ministries, departments, and agencies of government in Nigeria should be more joined up to collaborate so that appropriate information can be shared about people who transferred from one MDA/area of operation to another. This will serve to identify moving staff who have been known to have a preponderance towards fraud and perhaps prevent such people from settling into sensitive positions. It may be needful to also collaborate with bodies outside the country so as to arrest culprits of fraudulent practices and as well bring back their stolen funds.

## **REFERENCES**

- Adebisi, J. F. & Gbegi, D. O. (2015) Fraud and the Nigerian public sector performance: The need for forensic accounting, *International Journal of Business, Humanities, and technology*, 5(5) October 2015.
- Asel, I. (2009) Currency Substitution in the Economies of Central Asia: How Much Does It Cost?, *Conference on European Economic Integration*, Vienna, Austria - oenb.at

- Brusca, I. & Martinez, J. C. (2015) Adopting International Public Sector Accounting Standards: a challenge for modernizing and harmonizing public sector accounting, *International Review of Administrative Sciences* 82(4) DOI: 10.1177/0020852315600232
- Cavanagh, J. & Benito A. F. (2016) Public accounting and fiscal credibility, *Public Financial Management in Latin America*, 2016 Available at [elibrary.imf.org](http://elibrary.imf.org)
- GAO (2015) A Framework for Managing Fraud Risks in Federal Programs  
Available at <https://www.gao.gov/assets/gao-15-593sp-highlights.pdf>
- Kapuscinska, K., & Matejun, M. (2014). Risk Management in Public Sector Organizations: A Case Study. *International Journal of Business and Management Studies*, 3(3), 129-143.
- Kingsley, A. M. (2015) Fraud and corruption practices in the public sector: The Cameroon experience. *Research Journal of Finance and Accounting*, 6(4).
- Manes Rossi, F., Cohen, S., Caperchione, E., & Brusca, I. (2016) Harmonizing public sector accounting in Europe: thinking out of the box, *Public Money & Management* 36(3), February 2016, DOI: 10.1080/09540962.2016.1133976
- Natalizi, D. (2022) Public sector accounting contexts in the EPSAS change: a comparative study of Italy and Sweden, *International review of Administrative Sciences*, Volume 88, Issue 1, <https://doi.org/10.1177/0020852319894680>
- OECD (Organisation for Economic Co-operation and Development) (2017) *Accrual Practices and Reform Experiences in OECD Countries*. Paris: OECD Publishing
- Onuora, J. K. J., Akpoveta, E. B., & Agbomah, D. J. (2018) Public Sector fraud in Nigeria, *Accounting and taxation review*, 2(4), December 2018
- Public Sector Fraud Authority Annual Report 2022-2023. Available at <https://www.gov.uk/government/publications/public-sector-fraud-authority-annual-report-2022-2023/public-sector-fraud-authority-annual-report-2022-2023-html>
- Tawiah, V. (2023) The impact of IPSAS adoption on corruption in developing countries, *Financial Accountability & Management in Governments, Public Services and Charities*, 39(1), February 2023 <https://doi.org/10.1111/faam.12288>

<https://financialcrimeacademy.org/the-7-step-fraud-risk-assessment/>