

THE CONTRIBUTION OF CONTROL ACTIVITIES ON FRAUD DETECTION ON GOVERNMENT FUNDS: A CASE STUDY OF GASABO DISTRICT

¹RUTAREMARA EMMANUEL, ²PATRICK MULYUNGI, PhD

¹Student at Jomo Kenyatta University of Agriculture and Technology, Kigali, Rwanda

²Lecturers at Jomo Kenyatta University of Agriculture and Technology, Kigali, Rwanda

Abstract: The purpose of this research was to assess the contribution of internal control activities on fraud detection on government funds and was carried out in Gasabo district headquarters. The objectives; to identify the influence of control policies on fraud detection on government funds in district, to examine the effect of control procedures on fraud detection on government funds in district and to analyze the contribution of control techniques on fraud detection on government funds in district. The literature and empirical review related to contribution of internal control activities on fraud detection on government funds were reviewed as well as the conceptual framework that shows the relationship between internal control activities and fraud detection. The research design used was both descriptive and analytical while the population was 120 employees of district and the sample size was 55 respondents. The purposive and simple random, data collection tools were questionnaires and interviews while desk review was consulted. The researcher found out that: elements of internal control techniques are important in fraud detection in district. Detecting fraud in the district are monitoring and evaluation so as to detect all the possible causes and forms of fraud, role separation so as to ensure that there is no duplication of work, cross checks to ensure that errors are detected in time and money handling polices and techniques to ensure that money is well handled to avoid any form of fraud. The internal control techniques in place are used to detect fraud in the district are monitoring and evaluation so as to detect all the possible causes and forms of fraud, role separation so as to ensure that there is no duplication of work, cross checks to ensure that errors are detected in time and money handling polices and techniques to ensure that money is well handled to avoid any form of fraud. The researcher recommended that Gasabo district should continue ensuring that internal control activities are adhered to so as to control or prevent any form of fraud.

Keywords: Internal control, Control activities, Fraud, Fraud detection.

1. INTRODUCTION

1.1 Background to the study

The emergence of internal control over specific segments of activities has been associated with management needs for evaluation of the consistency between the actual situation and development targets. Monitoring activities should enable detection and timely reaction to possible target-related deviations. While responding to complex market needs, companies are exposed to numerous internal and external influences, some of which may cause significant damage. Companies have realized that it is safer and cheaper to establish their own internal control systems in order to prevent such influences (Krstić, 2009).

Fraud is not a recent phenomenon associated to some highly-publicized cases of financial fraud from the last two centuries. It can be found early in the history of our world as men have made use of tricks, manipulation, and deceit in order to acquire money, land, goods, or trust, with the overall objective of making profit. The creation of accounting and audit are connected in economic history with the desire, especially on the part of the state and the church, to contain and prevent stealing and misrepresentation in their finances (Abushaiba & Zainuddin, 2012)

The emergence of internal control over specific segments of activities has been associated with management needs for evaluation of the consistency between the actual situation and development targets. Monitoring activities should enable detection and timely reaction to possible target-related deviations. While responding to complex market needs, companies are exposed to numerous internal and external influences, some of which may cause significant damage. Companies have realized that it is safer and cheaper to establish their own internal control systems in order to prevent such influences (Ahmad & Jusoff, 2009).

Internal controls are defined broadly as the measures an organization takes to protect life and property. Ranging from physical security and access controls to rules of conduct and procedure, internal controls do not guarantee elimination of the risk of errors or fraud. The main goal of internal control systems is to reduce the risk to an acceptable level. This benchmark often is referred to as a reasonable assurance or expectation that business transactions are reported accurately and honestly. A secondary goal of internal controls is to have methods in place to detect inaccuracy or fraud that has occurred (Abushaiba & Zainuddin, 2012).

In order to achieve a successful performance of internal control in fraud detection it is necessary to: acquire the knowledge of an internal control system it is necessary for management to acquire the knowledge of key elements of internal control and the way they function. It means the estimation of control usefulness and applicability whether the control, individually or in combination with other controls, effectively prevents, detects and corrects material errors. In Rwanda, the government has sent in place different internal control systems in place to ensure that fraud is detect, controlled and minimized. However, in some institutions cases of fraud still surfaces. This research assessed the contribution of internal control systems on detection of fraud with reference to Gasabo district as the case study.

1.2 Statement of the problem

For effective service delivery in government institutions, there is need to ensure that the available government resources are used effectively and efficiently while reducing cases, avenues and possibilities of fraud. In doing this, government institutions enhance or put in place strong internal control activities adherence of which is considered vital in fraud control and minimization. However, in some government institutions, control activities are either weak or given less consideration leading to cases of fraud due to failure to effectively use or understand the contribution of internal control systems on detection of fraud. It is against that background that the researcher carried out this research on the contribution of internal control activities on fraud detection in government institutions with reference to Gasabo district.

1.3 Objectives of the study

The major objective of this research was to assess the contribution of internal control systems on detection of fraud in governmental institutions and specific objectives involve:

- i. To identify the influence of control policies on fraud detection on government funds in Gasabo district. (ii)To examine the effect of control procedures on fraud detection on government funds in Gasabo district. (iii)To analyze the contribution of control techniques on fraud detection on government funds in Gasabo district

1.4 Research questions

This research was guided by the following research questions:

- i. What is the influence of control policies on fraud detection on government funds in Gasabo district?
- ii. What are the effects of control procedures on fraud detection on government funds in Gasabo district?
- iii. What is the contribution of control techniques on fraud detection on government funds in Gasabo district?

1.5 Conceptual framework

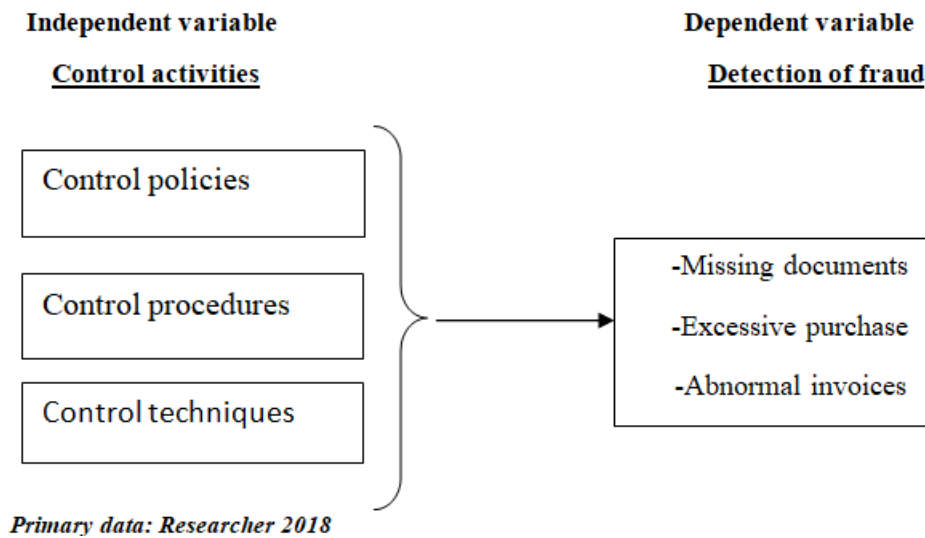


Figure 1: The conceptual framework

Internal control systems in government organization through integrity of control system, risk management activities, control activities and information communication and monitoring leads to detection of fraud through effectiveness and efficiency and accountability of government funds. However, there may be other factors from the environment like nature of employees and operational environment.

1.6 Empirical literature

1.6.1 The influence of control policies on fraud detection on government

Any financial institution can be vulnerable to fraudulent financial reporting. Fraud can get into a corporate financial reporting system undetected and can spread silently involving more people and affecting more accounts to the extent that anyone responsible for the fraud cannot tell to what extent it has spread. Fraud therefore is a risk that is an inherent part of business. Quite a considerable number of financial institutions have made frantic efforts to address fraud related activities through addressing supervisory issues that encourage sound risk management practices. An internal control structure is a significant component of any financial institution and a foundation to safe operation within it. Abiola (2013), posits that internal control concept is very important for proper management of an organization's risk, which may constitute barriers to the attainment of its set objectives if neglected.

Companies employ security guards and alarm systems to safeguard property from outside threats. Company employees need access to financial and other sensitive data and systems in order to do their jobs. Internal control policies and procedures are checks and balances that help protect a company from internal threats, such as theft, embezzlement and mismanagement of funds by employees, suppliers or customers (Badara & Saidin, 2013).

Restricted Computer Access, company computer systems and databases contain confidential employee information as well as sensitive company financial and proprietary data. Computer logins and passwords that allow employee access on a need-to-know basis safeguard confidential company information. An internet policy restricting employees from using the Internet for personal use or social networking can protect computer systems from viruses and unauthorized access (Badara, 2015).

Internal Audits, internal audit policies and procedures are the first line of defense against employee mismanagement or quality issues. Instead of relying on customer complaints, recalls or external financial audits, scheduled internal audits by trained auditors catch problems before they cause harm or attract media attention. They make employees accountable for following procedures, financial responsibility and product quality.

Safety and Security, safety programs designed to follow Occupational Health and Safety Administration guidelines act as internal safety control policies and procedures. Pre-employment criminal background checks, drug screening and credit

checks help ensure a safe work environment. Employee identification policies and procedures use employee badges, time clocks and recognition systems to safeguard access to company buildings, systems and property.

2. RESEARCH METHODOLOGY

2.1 Research design

Research design is considered as a plan for research, dealing with at least four problems: which questions to study, which data are relevant, what data to collect, and how to analyze the results. The best design depends on the research question as well as the orientation and the researcher used both descriptive and analytical design.

2.2 Target population and Sample size determination

The targeted population of this study was 120 respondents and Sample size of 55 was determined by use of Slovene's formula as stated below. The formula applied is $n = \frac{N}{1+N(e)^2}$ as quoted by (Kara, 2012).

Where n is the sample size while N is the total population and e is the sampling error (0.01)

$$n = \frac{120}{1 + 120(0.1)^2}$$

$$n = \frac{120}{1 + 120(0.01)}$$

$$n = \frac{120}{1 + 1.20}$$

$$n = \frac{120}{2.2}$$

$$n = 55$$

Therefore the sample size was 55 respondents selected from the total population.

The Sampling techniques were purposive and simple random and in addition, the data collection employed are Questionnaires, Interview guide, Documentary review.

3. DATA ANALYSIS AND RESULT PRESENTATION

3.1. The influence of control policies on fraud detection on government funds in Gasabo district

The researcher in this section made a presentation, analysis and interpretation of the views given by respondents concerning the influence of control policies on fraud detection on government funds in Gasabo district so as to facilitate making of relevant study conclusions that can facilitate decision making.

Table 1: The extent to which respondents agree that internal control activities are important in fraud detection

Extent	Frequency	Percentage
Strongly agree	34	55
Agree	19	34
Neither agree nor disagree	6	11
Disagree	0	0
Strongly disagree	0	0
Total	55	100

Source: Primary data, 2018

This led the researcher to the realization that internal control activities in Gasabo district contribute to fraud detection. These internal control activities are more dedicated and focused at the work they do which in turn leads to improved fraud detection.

Table 2: The extent to which respondent's rate internal control activities in Gasabo district

Extent	Frequency	Percentage
Strongly agree	30	55
Agree	21	38
Neither agree nor disagree	4	8
Disagree	0	0
Strongly disagree	0	0
Total	55	100

Source: Primary data, 2018

As per the opinions of the majority of respondents the researcher came to the understanding that internal control activities strongly contribute to fraud detection in the district.

Table 3: The extent to which respondent's agree that commitment to ethical values are important in fraud detection in Gasabo district

Extent	Frequency	Percentage
Strongly agree	26	47
Agree	20	36
Neither agree nor disagree	8	15
Disagree	1	2
Strongly disagree	0	0
Total	55	100

Source: Primary data, 2018

In regard to the views of the respondents, employees comply with ethical values it makes them do what is right or legal and this helps not to engage in fraud issues. This made the researcher come to the realization that compliance with ethical values contributes a lot to fraud detection in Gasabo district.

Table 4: The extent to which respondent's agree that level of approval contributes to fraud detection in Gasabo district

Extent	Frequency	Percentage
Strongly agree	20	36
Agree	18	33
Neither agree nor disagree	16	29
Disagree	1	2
Strongly disagree	0	0
Total	55	100

Source: Primary data, 2018

Referring to the opinions of the interviewed respondents, the activities, documents and other undertakings in the district are approved by the district governing body; this makes the district comply with the central government requirements, loss of money and leads to increased and improved fraud detection. The researcher went with views given by the majority respondents and came to the realization that compliance with ethical values contributes a lot to fraud detection in Gasabo district.

Table 5: The extent to which respondent's agree that process segregation contributes to fraud detection in Gasabo district

Extent	Frequency	Percentage
Strongly agree	20	36
Agree	18	33
Neither agree nor disagree	16	29
Disagree	1	2
Strongly disagree	0	0
Total	55	100

Source: Primary data, 2018

The researcher went with views given by the majority respondents and came to the realization that segregation of processes and activities contribute a lot to fraud detection in Gasabo district.

Table 6: The extent which respondents agree that restricted access to institution systems contributes detection of fraud in government institution

Extent	Frequency	Percentage
Strongly agree	30	55
Agree	10	18
Neither agree nor disagree	8	14
Disagree	7	13
disagree	0	0
Total	55	100

Source: Primary data, 2018

The researcher's confirmation is in line with the views of the majority respondents that restricted access to institution systems contributes a lot to fraud detection in Gasabo district.

Table 1: The extent which respondents agree that institution structures in place contributes detection of fraud in government institution

Extent	Frequency	Percentage
Strongly agree	32	58
Agree	12	22
Neither agree nor disagree	10	18
Disagree	1	2
disagree	0	0
Total	55	100

Source: Primary data, 2018

The majority respondents confirms that the realization that institution structures contributes a lot to fraud detection in Gasabo district.

3.2 The effect of control procedures on fraud detection on government funds in Gasabo district

The researcher in this section made a presentation, analysis and interpretation of the views given by respondents concerning the effect of control procedures on fraud detection on government funds in Gasabo district so as to make relevant study conclusions that can facilitate decision making in relation to the topic.

Table 8: The extent to which respondents agree that internal control procedures contribute to fraud detection

Extent	Frequency	Percentage
Strongly agree	39	71
Agree	11	20
Neither agree nor disagree	5	9
Disagree	0	0
Strongly disagree	0	0
Total	55	100

Source: Primary data, 2018

The researcher's judgment is based on the opinion of the majority respondents that the realization that internal control procedures contributes a lot to fraud detection in Gasabo district.

Table 9: The extent to which respondents agree that reconciliations contribute to fraud detection

Extent	Frequency	Percentage
Strongly agree	30	54
Agree	18	33
Neither agree nor disagree	5	9
Disagree	2	4
Strongly disagree	0	0
Total	55	100

Source: Primary data, 2018

The majority respondents' view state the reconciliations contribute to fraud detection in Gasabo district.

Table 10: The extent to which respondents agree that review and authorization of expenses contribute to fraud detection

Extent	Frequency	Percentage
Strongly agree	31	56
Agree	17	31
Neither agree nor disagree	4	7
Disagree	3	6
Strongly disagree	0	0
Total	55	100

Source: Primary data, 2018

The respondents opinion assert that the district contribute to detection of any form of possible fraud by ensuring that nothing is done without authorization hence avoiding any for fraud and manipulation of the process to fraud government funds. The researcher went with views given by the majority respondents and came to the realization that reviews and authorizations contributes to fraud detection in Gasabo district.

Table 2: The extent to which respondents agree that safe guarding and reconciliation of petty cash contribute to fraud detection

Extent	Frequency	Percentage
Strongly agree	33	60
Agree	15	27
Neither agree nor disagree	4	7
Disagree	3	6
Strongly disagree	0	0
Total	55	100

Source: Primary data, 2018

The researcher conclusions are in line with the views of majority respondents and came to the realization that reconciliations and safeguarding of petty cash contributes to fraud detection in Gasabo district.

Table 12: The extent to which respondents agree that separation of duties contribute to fraud detection

Extent	Frequency	Percentage
Strongly agree	34	62
Agree	14	25
Neither agree nor disagree	4	7
Disagree	3	6
Strongly disagree	0	0
Total	55	100

Source: Primary data, 2018

In regard to the views of the respondents the separation of duties contribute to detection of any form of possible fraud by ensuring that nothing is done by anyone who is not authorized to do so. The researcher went with views given by the majority respondents and came to the realization that separation of duties contributes to fraud detection in Gasabo district.

Table 3: The extent to which respondents agree that standardized documentation contribute to fraud detection

Extent	Frequency	Percentage
Strongly agree	34	62
Agree	15	27
Neither agree nor disagree	3	5
Disagree	3	6
Strongly disagree	0	0
Total	55	100

Source: Primary data, 2018

The researcher is with the view given by the majority respondents and came to the realization that standardized documents contributes to fraud detection in Gasabo district.

Table 4: The extent to which respondents' rate fraud detection in Gasabo district

Extent	Frequency	Percentage
Very high	30	55
High	17	31
Neither high nor low	6	9
Low	3	5
Very low	0	0
Total	55	100

Source: Primary data, 2018

According to the opinion given by the majority respondents and came to the realization that fraud detection in Gasabo district is very high leading to safe custody and usage of government funds..

3.3 The contribution of control techniques on fraud detection on government funds in Gasabo district

In this section, the researcher makes a presentation, analysis and interpretation of the views given by respondents concerning the contribution of control techniques on fraud detection on government funds in Gasabo district so that relevant study conclusions can be made to facilitate decision making.

Table 15: The extent to which respondents agree that monitoring activities contribute to fraud detection

Extent	Frequency	Percentage
Strongly agree	35	64
Agree	14	25
Neither agree nor disagree	4	7
Disagree	2	4
Strongly disagree	0	0
Total	55	100

Source: Primary data, 2018

The researcher went with views given by the majority respondents and came to the realization that monitoring activities contributes to fraud detection in Gasabo district.

Table 16: The extent to which respondents agree that role separation contribute to fraud detection

Extent	Frequency	Percentage
Strongly agree	33	60
Agree	16	29
Neither agree nor disagree	3	5
Disagree	3	6
Strongly disagree	0	0
Total	55	100

Source: Primary data, 2018

The answers given by respondents' state that the role separations facilitate detection and monitoring of different activities that would lead to high fraud detection by those employees entrusted with the respective role. The researcher went with views given by the majority respondents and came to the realization that role separation contributes to fraud detection in Gasabo district.

Table 17: The extent to which respondents agree that money handling documentation contribute to fraud detection

Extent	Frequency	Percentage
Strongly agree	31	56
Agree	16	29
Neither agree nor disagree	5	9
Disagree	3	6
Strongly disagree	0	0
Total	55	100

Source: Primary data, 2018

The respondents said that money handling and documentation facilitate effective and safety of cash in the district. The researcher went with views given by the majority respondents and came to the realization that money handling and documentation contributes to fraud detection in Gasabo district.

Table 18: The extent to which respondents agree that cross checks documentation contribute to fraud detection

Extent	Frequency	Percentage
Strongly agree	32	58
Agree	15	28
Neither agree nor disagree	4	7
Disagree	4	7
Strongly disagree	0	0
Total	55	100

Source: Primary data, 2018

The respondents state that, cross checks and documentation facilitate examining documents regularly and identifying whether there is anything that is not going wrong. The researcher went with views given by the majority respondents and came to the realization that cross checks and documentation contributes to fraud detection in Gasabo district.

4. SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

4.1 Summary of the findings

This part presents the summary of the research findings in view of the objectives of the research. The researcher found out that control policies as well as internal control activities in general in Gasabo district contribute to fraud detection. Internal control procedures, policies and techniques contribute to fraud detection. The control policies that control to fraud detection in Gasabo district are commitment to ethical values, level of approval, process segregation, restricted access to institution systems and institution structures in place

The researcher further found out that respondents strongly agreed that internal control procedures contribute to fraud detection. The internal control policies that contribute to fraud detection are reconciliations, review and authorization of expenses as well as safe guard and reconciliation of petty cash. Separation of duties and standardization of documents contribute to fraud detection. The level of fraud detection in Gasabo district is very high due to improvements and reduced fraud detection in the district that is in place as a result of internal control procedures.

The researcher found out that elements of internal control techniques are important in fraud detection in Gasabo district. The internal control techniques in place that are used to detect fraud in the district are monitoring and evaluation so as to detect all the possible causes and forms of fraud, role separation so as to ensure that there is no duplication of work, cross checks to ensure that errors are detected in time and money handling polices and techniques to ensure that money is well handled to avoid any form of fraud.

4.2 Conclusions

The researcher concluded that control policies as well as internal control activities in general in Gasabo district contribute to fraud detection. The control policies that control to fraud detection in Gasabo district are commitment to ethical values, level of approval, process segregation, restricted access to institution systems and institution structures in place

The internal control policies that contribute to fraud detection are reconciliations, review and authorization of expenses as well as safe guard and reconciliation of petty cash. Separation of duties and standardization of documents contribute to fraud detection. The level of fraud detection in Gasabo district is very high due to improvements and reduced fraud detection in the district that is in place as a result of internal control procedures.

The internal control techniques in place that are used to detect fraud in the district are monitoring and evaluation so as to detect all the possible causes and forms of fraud, role separation so as to ensure that there is no duplication of work, cross checks to ensure that errors are detected in time and money handling polices and techniques to ensure that money is well handled to avoid any form of fraud.

4.3 Recommendations

Gasabo district should continue ensuring that internal control activities are adhered to so as to control or prevent any form of fraud.

Trainings should always be offered to the district employees in the internal control systems and activities in order to further enhance fraud detection.

Employees should always be committed towards the work that they do since it is their responsibility to ensure fraud control and detection

4.4 Areas for future research

The researcher suggested that in future research should be carried out on the contribution of internal control activities on fraud detection.

In future research should be carried out on the benefits of employee commitment on fraud detection in local government.

Research should also be carried out on the other factors necessary for fraud detection in government institutions

REFERENCES

- [1] Abushaiba, I. & Zainuddin, Y. (2012). Performance measurement system design, Competitive capability, and performance consequences - A conceptual like. *International Journal of Business and Social Science*, 3 (11), 184-193.
- [2] Ahmad, H. & Jusoff, K. (2009). The effectiveness of internal audit in Malaysian public sector. *Journal of Modern Accounting and Auditing*, 5 (9), 53-62.
- [3] Arena, M. & Azzone, G. (2009). Identifying organizational drivers of internal audit effectiveness. *International Journal of Auditing*, 13 (1), 43-60.
- [4] Badara, M. & Saidin, Z. (2013). The journey so far on internal audit effectiveness: A calling For expansion. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 3 (3), 240 -351. DOI: 10.6007/IJARAFMS/v3-i3/225.
- [5] Badara, M. (2015). Empirical Evidence of Performance Measurement of Internal Audit Function on its Effectiveness. *Academic Journal of Management Science Research*, 1 (1), 1- 10.
- [6] Hopwood, S. and Young, R. (2009). *Forensic Accounting*. New York: McGraw-Hill/Irwin. Google Scholar
- [7] Idowu, A. (2009). *An Assessment of Fraud and its Management in Nigeria Commercial Banks*. European Journal of Social Sciences. 10, (4), 628-640.
- [8] Krstić, J. (2009). *The Role of Forensic Accountants in Detecting Frauds in Financial Statements*. *Facta Universitatis*, Vol. 6, No. 3, p. 295-302. Google Scholar
- [9] Kara, H. (2012). *Research and Evaluation for Busy Practitioners: A Time-Saving Guide*, p.102. Bristol: The Policy Press.
- [10] Abiola, I. & Oyewole, A.T. (2013). Internal control system on Fraud: A Nigerian Experience. *Journal of accounting and finance*, 13 (5), 141-153
- [11] Nyamu, R. (2012). An overview of fraud and money laundering in the East Africa financial services industry. Deloitte forensic Nairobi: