Internal Control and Fraud Prevention in the Ghanaian Local Government Service

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Abstract

This study investigated the relationship between internal control and fraud prevention in the local government sector. Primary data was collected from 35 local government institutions in Ghana through questionnaire. The study employed multiple regression analysis. The study revealed that risk assessment and information technology significantly deter fraud. Control environment, control activities, monitoring and information communication had no significant influence on fraud prevention even though they all had positive effect on fraud prevention. The study found further that poor background checks, monitoring and inaccurate records were some of the major challenges facing internal control in the local government sector. Staff were the worst culprit of fraud in the local government sector. The study thus recommend that, proper checks on all employees should be carried out before employment is given and information technology should be deployed in local government service to enhance efficiency and reduce fraud.

Keywords: Internal Control, Fraud Prevention, Ghanaian Local Government Service

1.0 Introduction

The Association of Certified Fraud Examiners (ACFE)'s bi-annual reports to the Nation show increasing cases of occupational fraud largely attributed to the weak control environment, ineffective internal control mechanism and ineffective court system to prosecute corporate fraud, corrupt behavour of top management among others. Failure to prevent and detect fraud has serious consequences for organisation and national development. A 2002 African Union study estimated that corruption cost the continent roughly US$150 billion a year. To compare, developed countries gave US$22.5 billion in aid to sub-Saharan Africa in 2008, according to the Organization for Economic Cooperation and Development (OECD) (Hanson, 2009 as cited in Osinibi, 2013).

In Ghana, the 2016 audit report on metropolitan, municipal and district assemblies (MMDAs) released by the Auditor General of Ghana revealed deficiencies in the operations of MMDAs that created avenues for mismanagement of fund and resources valued at approximately GH¢ 70.1 million. This amount showed a 32 per cent (almost GH¢17 million) increase in the 2015 financial irregularities of the assemblies that the Auditor-General's Report pegged at almost GH¢53.2million. This made up of Cash irregularities totaling GH¢32,684,459.20, contract irregularity amounting GH¢26,839,675.97, procurement and stores irregularity amounted to GH¢10,341,200.67 and tax irregularities with a total value of GH¢308,310.13. A special audit report on MMDAs liability by the Auditor General in 2016 also revealed grave questionable transactions at the Roads and Highway Ministry, leading to an overpayment in excess of over ¢25million to some contractors. The report showed that instead of ¢75,053,875.39 quoted to be the total debt owed some 24 companies as at December 31, 2016, the Chief Finance Director at the Ministry paid ¢100,679,315.28 prior to the end of 2016, representing an excess payment of GH¢25,625,439.89. In the report, each one of the companies were found to have received more money than was due them for the various services they discharged to the state. These happenings raise questions on the quality of internal controls and how it is impacting of fraud within the Public Service. This question arises because internal control is commonly regarded as a key deterrent of fraud.

According to the Committee of Sponsoring Organizations of the Treadway Commission [COSO] (2013), internal control is defined as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in (1) the effectiveness and efficiency of operations, (2) the reliability of financial reporting, and (3) the compliance of applicable laws and regulations. Therefore, a system of internal controls potentially prevents errors and fraud through monitoring and enhancing organizational and financial reporting processes as well as ensuring compliance with pertinent laws and regulations.

Nonetheless, COSO stresses that the objectives of internal control cannot always be achieved because there are threats to internal control resulting from possible management override or mistakes, unexpected shifts in government policy or programmes, changes in economic conditions, as well as competitor actions. The most important threats are management override, conflicts of interest, access to assets and form-over-substance (Ratliff, Wallace, Loebbecke, & Farlan, 1996). Wells (2004) indicate that fraud prevention and internal controls is not the same thing. Every organization has internal controls yet most, if not all of these, have fraud, so obviously controls by themselves are not the solution to fraud – they are important but not the whole answer. Management needs to know more about fraud prevention, which seems to be the 'missing link' in most

organizations (Wells, 2004) which require effective internal audit to do.

The purpose of this research is to establish the effect of internal control system on fraud prevention in Ghana's Local Government system. This research investigate and identify the different trends of fraud currently being experienced in Ghana's Local Government Service. It is imperative that corporate Ghana understands what are the underlying causes of fraud, how frequently fraud occurs, types of fraud, what amounts involved, who usually detects the fraud and what necessary measures are taken by organizations to prevent and detect fraud. The study also provide internal auditors, external auditors and all employees across organizations with adequate understanding of what exactly internal control and fraud are all about. This study thus contribute to literature on public sector management and fraud risk management in Ghana.

The remainder of the paper is structured as follows: the next section provides the theoretical and empirical literature of the subject and develops the hypotheses; Section three presents methodology including sample and data. In Section four, empirical results are provided; and Section five concludes the paper, setting out future directions for empirical research in the field.

2.0 Theoretical Foundations and Empirical Literature
Definition of Fraud and Fraud Triangle Theory
Fraud can be seen as the intentional misrepresentation, concealment, or omission of the truth for the purpose of deception/manipulation to the financial detriment of an individual or an organization which also includes embezzlement, theft or any attempt to steal or unlawfully obtain, misuse or harm the asset of an organization (Adeduro, 1998). The Fraud Act 2006 of the United Kingdom indicates that three ways of committing fraud to include false representation, failing to disclose information, and abuse of position. According to Black's Law Dictionary, Fraud is defined as "A generic term, embracing all multifarious means which human ingenuity can devise and which are resorted to by one individual to get advantage over another by false suggestions or by suppressions of truth". It includes surprise, trickery, cunning, dissembling and any unfair way by which another is cheated. Fraud is any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain. Fraud in my mind is deliberate intent to steal.

Albrecht, Albrecht, Albrecht, & Zimbelman, (2009) postulate that, fraud is composed of three elements, namely a perceived pressure, a perceived opportunity and rationalization of the act of fraud; these three elements are called the fraud triangle. Every act of fraud, irrespective of whether it is done against an entity or on behalf of an entity, is always composed of the three elements (Albrecht et al., 2009). The three elements in the fraud triangle are interactive, for example, the greater the perceived opportunity or the more forceful the pressure, the less rationalization it takes for someone to commit fraud (Albrecht, Turnbull, Zhang, &Skousen, 2010). However, fraud is a complex matter and is a function of a combination of factors (Rae & Subramaniam, 2008). For example, in some cases, although internal controls were poor, there were no incidence of fraud, while in other cases even though good internal controls existed employees still managed to circumvent the internal controls to commit fraud (Rae & Subramaniam, 2008).

The primary responsibility of the prevention and detection of fraud rests with management of the organization. Therefore, an understanding of how opportunities, pressures and rationalizations contribute to fraud in organizations can assist management to easily recognize the areas of susceptibility to fraud and strengthen these areas (Albrecht et al., 2010). Fraud perpetrators must have some way to rationalize their actions as acceptable (Albrecht et al., 2009). Justification of fraudulent behavior is usually as a result of a fraudster's lack of personal integrity or other moral reasoning (Rae & Subramaniam, 2008). Individuals do not commit fraud unless they can justify it as being consistent with their own personal code of ethics, as personal integrity may be the key limiting factor in keeping a person from misappropriating assets (Hillison, Pacini, & Sinason, 1999). Rationalization by fraudsters emanates from their feeling that the victims owe them and that they deserve more than they are getting (Mutua, 2011 as cited in Kabue & Aduda, 2017). Some individuals possess an attitude, character or set of ethical values that allow them to knowingly and intentionally commit a dishonest act (Cohen, Ding, Lesage, & Stolowy, 2011). A strong moral code can prevent individuals from using rationalizations to justify illicit behavior; internal auditors however should assume that anyone is capable of justifying the commission of fraud (Hillison et al., 1999).

Fraud prevention requires the establishment of internal controls however, controls may not address all of an organization's fraud risks. Fraud risks, although a form of business risk, necessitate specific controls to mitigate them, which makes an organization's fraud risk assessment process essential to fraud prevention. In addition to implementing fraud preventive controls, it is important that the organization assess and continuously monitor their operational effectiveness to help prevent fraud from occurring. Prevention is the most proactive fraud-fighting measure. The design and implementation of control activities should be a coordinated effort spearheaded by management with an assembled cast of employees. The ongoing success of any fraud prevention program depends on its continuous communication and reinforcement. Among the many elements in fraud prevention are human resource procedures, strong internal controls, willingness of management to prosecute offenders, anti-

fraud training, authority limits and transaction level procedures.

Theory of Internal Control

System of effective internal control is a critical component of an organization's management and a foundation for its safe and sound operation. A system of strong internal control can help to ensure that the goals and objectives of an organization will be met, that it will achieve long-term targets and maintain reliable financial and managerial reporting. According to COSO (2013), internal control is defined as:

> *Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance (p.3).*

According to COSO (2013) indicate that, the definition of internal control is a reflection of certain fundamental concepts internal control is: Geared to the achievement of objectives in one or more categories—operations, reporting, and compliance; A process consisting of ongoing tasks and activities—a means to an end, not an end in itself; Effected by people—not merely about policy and procedure manuals, systems, and forms, but about people and the actions they take at every level of an organization to affect internal control; able to provide reasonable assurance—but not absolute assurance, to an entity's senior management and board of directors; and adaptable to the entity structure—flexible in application for the entire entity or for a particular subsidiary, division, operating unit, or business process.

The COSO internal control Framework provides for three categories of objectives, which allow organizations to focus on differing aspects of internal control:

Operations Objectives—these pertain to effectiveness and efficiency of the entity's operations, including operational and financial performance goals, and safeguarding assets against loss.

Reporting Objectives—these pertain to internal and external financial and non-financial reporting and may encompass reliability, timeliness, transparency, or other terms as set forth by regulators, recognized standard setters, or the entity's policies.

Compliance Objectives—these pertain to adherence to laws and regulations to which the entity is subject

Internal control consists of five integrated components: control environment, risk assessment, control activities, information and communication as well as monitoring activities.

The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. The board of directors and senior management establish the tone at the top regarding the importance of internal control including expected standards of conduct. Management reinforces expectations at the various levels of the organization. The control environment comprises the integrity and ethical values of the organization; the parameters enabling the board of directors to carry out its governance oversight responsibilities; the organizational structure and assignment of authority and responsibility; the process for attracting, developing, and retaining competent individuals; and the rigor around performance measures, incentives, and rewards to drive accountability for performance. The resulting control environment has a pervasive impact on the overall system of internal control.

Every entity faces a variety of risks from external and internal sources. Risk is defined as the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives. Risks to the achievement of these objectives from across the entity are considered relative to established risk tolerances. Thus, risk assessment forms the basis for determining how risks will be managed. A precondition to risk assessment is the establishment of objectives, linked at different levels of the entity. Management specifies objectives within categories relating to operations, reporting, and compliance with sufficient clarity to be able to identify and analyze risks to those objectives. Management also considers the suitability of the objectives for the entity. Risk assessment also requires management to consider the impact of possible changes in the external environment and within its own business model that may render internal control ineffective.

Control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews. Segregation of duties is typically built into the selection and development of control activities. Where segregation of duties is not practical, management selects and develops alternative control activities.

Information is necessary for the entity to carry out internal control responsibilities to support the achievement of its objectives. Management obtains or generates and uses relevant and quality information from both internal and external sources to support the functioning of other components of internal control. Communication is the continual, iterative process of providing, sharing, and obtaining necessary information. Internal communication is the means by which information is disseminated throughout the organization, flowing

up, down, and across the entity. It enables personnel to receive a clear message from senior management that control responsibilities must be taken seriously. External communication is twofold: it enables inbound communication of relevant external information, and it provides information to external parties in response to requirements and expectations.

Ongoing evaluations, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, is present and functioning. Ongoing evaluations, built into business processes at different levels of the entity, provide timely information. Separate evaluations, conducted periodically, will vary in scope and frequency depending on assessment of risks, effectiveness of ongoing evaluations, and other management considerations. Findings are evaluated against criteria established by regulators, recognized standard-setting bodies or management and the board of directors, and deficiencies are communicated to management and the board of directors as appropriate.

Empirical literature

Empirical studies on the effect of internal control system on the detection and prevention of fraud have focused on the private sector and mostly on financial institution. For example, Njenga and Osiemo (2013) indicated that the institutions have documented policies and procedures which are clearly communicated to all employees and that employee understand what fraud constitutes in all products of the deposit-taking microfinance while Anti-Fraud Policies affect organization performance to a great extent. Kiprop (2010) carried out a study on responses to fraud related challenges by Barclays bank of Kenya. The study concluded that the bank had put in place fraud detection systems. However, the study failed to assess the effectiveness of the fraud detection systems that had been put in place.

Kimani (2011) conducted a Fraud Risk Assessment Plan for Barclays Bank of Kenya. According to the researcher, majority of frauds are detected through tips reported by either employees, vendors or whistle blowers. Organizations that implement company-wide fraud awareness training cut fraud losses by 52%. Barclays Bank Kenya was not an exception to this status of increased fraud. The study concluded that in order for Barclays Bank of Kenya to be able to prevent and reduce frauds to the minimum, the fraud risk assessment team of the Bank should follow a fraud risk assessment strategy which provides guidelines that help to prevent, detect, manage and resolve fraud.

Agyemang (2015) assessed the effect of internal controls on fraud prevention of Banks in Ghana. The study found that, the internal control measures put in place by management have helped the bank in preventing fraud. It was again revealed that management has put in place all necessary measures needed to prevent and detect fraud. Also, majority of the respondents (91.4%) were of the view that there is an effective supervision and implementation of internal control system capable of revealing fraudster's mode of operations in the bank.

Whilst these studies provide some empirical background on internal control and fraud prevention, these studies focused on the financial sector and therefore their applicability to the public sector and non-financial sector may be questionable.
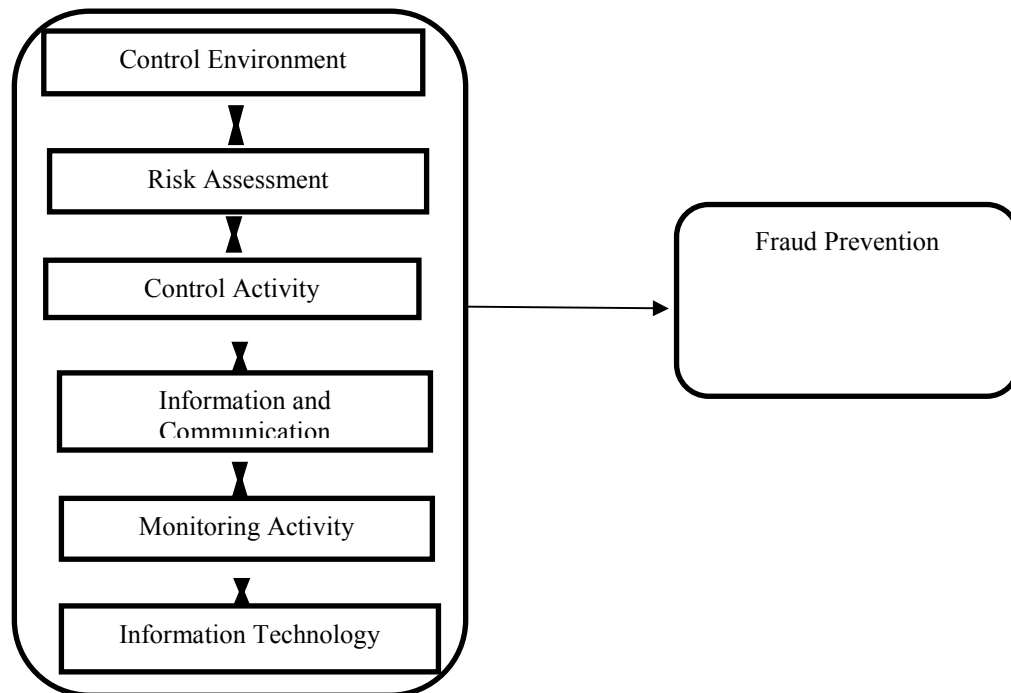
2.3 Conceptual Framework

From the literature, the following conceptual framework is derived. Internal control is effective when all the components work effectively and integrated manner. It is hypothesis that each component of internal control as indicated in the Figure above help to prevent occupational fraud.

3.0 Data and Methodology of the Study

The study employed quantitative research design to establish the relationship between internal control and fraud prevention. Stratified random sampling was used to ensure that key subgroups of the population, especially small minority groups were included in the sample. The local government sector has structures namely: regional, metropolitan, municipal, districts and institutions hence questionnaires were administered on all these structures. Simple random sampling technique was also employed to select the institutions in each of the stratum. Stratified and simple random sampling techniques were used to sample fifty (50) institutions in the local government sector, however only 35 was received representing 70% response rate. Data was collected using questionnaire.

3.1 Definition of Independent Variables

The independent variable for this study were the key component of internal control, namely: control environment, risk assessment, control activity, information and communication, monitoring and supervision. These element were measured using Likert-Scale ranging from 1 to 5. 1 = very weak, 2= weak, 3 = neutral, 4= strong and 5= very strong. These variables are expected to have positive effect on fraud prevention.

Information technology was measured as a dummy variable. A value of 1 is assigned for a yes response to the effectiveness of the information technology and a value of 0 is assigned for a No answer. The expectation for information technology is positive.

The dependent variable (fraud prevention) was measured using a Likert scale ranging from 1 representing very low, 2 representing low, 3 representing neutral, 4 representing high and to 5 representing very high the extent to which the internal control system is helping in the prevention of fraud.

To determine the internal consistency and build confidence in the data collected and used, Cronbach's Alpha test was employed to measure reliability. The overall Cronbach's Alpha test results was .970.

3.2 Model Specification

Multiple regression model was used to determine the effect of internal control system on fraud prevention. The general regression model is given as

$$Y = \alpha + \beta X$$

Where Y is the dependent variable (fraud prevention), α is the intercept, β is the slope or coefficient of the independent variable and X is the independent variable (internal control). The model for this study is specified as

follows:

$$FraudPrv = \alpha + \beta\_1\, CEnviron + \beta\_2\, RiskAss + \beta\_3\, ConAct + \beta\_4\, InfCom + \beta\_5\, Monit + \beta\_6\, ITech$$

$$+ \varepsilon \qquad\qquad\qquad (1)$$

Where

$FraudPrv$

(Dependent variable) = fraud prevention.

$CEnviron$

= control environment

$RiskAss$

= Risk Assessment,

$ConAct$

= Control Activity

$InfCom$

= Information and Communication

$Monit$

= Monitoring and Supervision

$ITech$

= Information Technology

ε

= Error terms

The z calculated was compared to the z critical to identify the factors that were significant. The z-statistics is given as:

$$Z - Statistics = \frac{\beta}{SE(\beta)}$$

Z-Statistics =

Where:

β = coefficient of the independent variable and SE (β) = standard error of the independent variable. An estimated coefficient is said to be significant if the z-calculated is greater than the z-critical given by the z-table at the specified degrees of freedom and a 90 percent confidence interval. Hence we do not reject the null hypothesis, which states that the estimated parameter is not different from zero; otherwise we do not reject the alternate hypothesis.

4.0 Results and Discussion

4.1 Characteristics of the Organizations

Distribution of Institutions

From Table 1, a total of 35 responses from institutions in the local government sector in Ghana were received for the analysis. The respondent from the various institutions were senior executives in the internal audit department and other departments of their respective institutions and that they had knowledge about the internal control mechanism in their institution. In addition, the respondents had worked in their various institutions for a very long time and that they had acquired enough experience over the years and were very much conversant with the internal control mechanism of their institutions

4.2 Length of establishment of Internal Audit

Table 2 provides details of the length of establishment of internal audit unit. As shown in Table, 88.57% of the Institutions have had internal audit departments between 3 to 5 years and 11.43% of the institutions have had internal audit departments for over 10 years. This result implies that all the institutions sampled have had internal audit departments for quite a considerable number of years and that it can be said that at least there has been an effort in the local government sector to help curb fraud. This suggest that an effective working of the internal audit departments of these institutions will help control the level of fraud and corruption associated with the operations in the public sector of Ghana.

4.3 Effect of Internal Control on Fraud Prevention

Table 3 presents the descriptive statistics for the variables in the sample organisation. On average, fraud prevention high (mean of 3.49) at a standard deviation of 1.02. This indicate that institutions in the local government sector have a high rate of preventing fraud. However, there was weak control environment (average

of 2.43) very weak risk assessment (average of 0.89). These notwithstanding, the Local Government Service has strong control activities, information communication and monitoring mechanism. Information technology was low with a mean of 0.42. This means that there isn't advance use of technology in the local government sector.

Regression Results

The result of the regression from Table 4 indicates that the constant value of 0.01 was significant at = 0.01. This means that when all the independent variables (internal control components) are zero, fraud prevention will be 0.01. This means that fraud prevention will be very low if all the components of internal control are non-existence. The results also show the coefficient of control environment to be positive 0.075 and p-value of 0.704. This means that control environment is not significant in explaining fraud prevention in the local government sector. The positive coefficient of control environment means that there is a direct relationship between fraud prevention and control environment. That is an improved control environment increases the rate of fraud prevention and vice versa. The coefficient of risk assessment is positive with a value of .400 and p-value of 0.032 which is significant at 0.05. Therefore risk assessment is significant in explaining fraud prevention in the local government sector. The positive coefficient of risk assessment means that there is a direct relationship between fraud prevention and risk assessment i.e. a higher risk assessment leads to fraud prevention.

Control activities were not significant in explaining fraud prevention in the local government sector with p-value of 0.504. However its coefficient was positive with a value of 0.155 which meant that there is a direct relation between fraud prevention and control activities i.e. effective control activities prevents fraud. A p- value of 0.329 for information communication was also not significant in explaining fraud prevention in the local government sector. The coefficient value of 0.173 however was positive showing that better flow of communication results in fraud prevention.

Monitoring in the local government sector was also not significant at 0.10 with a p-value of 0.360 but also showed a positive effect on fraud prevention with a coefficient value of 0.172. Lastly information technology was significant at 0.05 in explaining fraud prevention with a p-value of 0.046. It also showed a positive effect on fraud prevention with a coefficient of 0.362.

The adjusted R^2 is the percent of the variance in the dependent variable (fraud prevention) explained jointly by the independent variables and is 18.9% from Table 5.

The F statistic is used to test significant of the model and from Table 6, we see that the model is fit with F statistics 2.32 and is significant with p-value 0.061. It shows significant at = 0.10. So we can conclude that changes in the dependent variable (fraud prevention) are explained by its association with the independent variables; control environment, risk assessment, control activities, information communication, information technology and monitoring.

4.4 Fraud Detection in the Local Government Sector of Ghana

Number of Times of Fraud Detected

From Table 7, all the institutions have detected fraud in their institutions before. The number of times that fraud has been detected varies from institution to institution. About 57.14% of the institutions have detected fraud between 1 – 3 times and 14.28% had detected fraud between 4 – 6 times. The result implies that the internal audit departments of the local government institutions are not working effectively because it is good to detect fraud but however it is much better rather to prevent fraud. It further suggests that much needs to be done in the internal audit departments to be able to prevent fraud.

Further, it must be emphasized that the inefficient operation of the internal audit departments must have allowed some fraudsters to beat the system. The more serious point is that 28.57% of the institutions reported that they were unsure of the number of fraud detected over the years. This suggests that internal control matters and fraud prevention are not taken serious in these institutions.

4.5 Cost of Fraud

As shown in Table 8, all the institutions reported that the cost of fraud were all below GH¢50,000. These were monies that were supposed to be used in the regions, metropolitan, municipality and districts to help alleviate poverty but found itself in the hands of individuals depriving developmental projects in these areas. This suggests that these institutions must put in place necessary mechanism in place to help prevent fraud because usually monies lost through fraud are not recovered even when the culprits are sent to court.

4.6 Type of Fraud

As shown in Table 9, 62.85% of the institutions reported of general fraud, 17.14% reported of bribery and corruption, 11.42% reported of financial misrepresentation and 8.57% reported of procurement fraud. The results show that there are a wide range of fraud activities in the local government sector which is quite disturbing because it deprives the institution the necessary funds needed for their operations.

4.7 Fraud Detection Unit
As indicated in Table 10, 71.42% of the institutions reported that their internal audit unit reported of the fraud and 5.71% reported it was from external audit. The results imply that the internal audit departments are undertaking their responsibility very well. Fraud detected by external audit points out that some of the internal audit departments are not functioning properly. Also 11.42% reported that fraud was detected through a whistle blower. This suggests that the introduction of the Whistle blower Bill will really help to curb fraud in the local government sector. Further 8.57% of the institution reported that management detected the fraud and 2.85% reported that fraud was detected through a thorough investigation.

Management's involvement in fraud detection process implies that there is conscious effort by management to get everybody involved in the detection of fraud and does not make it solely the responsibility of the internal audit unit of the institution.

4.8 Fraud Culprits
As evidenced in Table 11, 74.29% of the institution reported that most of the fraud in the local government sector is perpetuated by staff, 5.71% reported that fraud was committed by those in middle management, 8.57% reported that fraud was committed by suppliers and 11.43% reported that fraud was perpetuated by customers. Lastly, 0% reported that there hasn't been any involvement of by senior management. This is a sign of good leadership especially coming from the background that management gets involved in the detection and prevention of fraud and it will serve as a bad signal if senior management are found also committing the same offence.

4.9 Challenges of Internal Control
As shown in Table 12, the greatest challenge facing internal control in the local government sector is the inability of the institutions to conduct proper checks on employees. All the institutions (100%) reported that they are not able to conduct effective background checks on their staff before employing them. The main reason that was given was that, many of the employees are employed not on merit but are brought by higher authorities and for that matter they are not able to question the credibility of these employees when they are brought by a higher authority. It must be said that this practice is not good enough because less competent persons may be employed as well as leading to the employment of fraudsters.

The next pressing challenge is the maintenance of inaccurate records. From the results, 94.28% of the institutions are unable to keep proper records. This was not surprising because earlier on it came to light that less competent staff may be employed as a result of activities of people in higher authorities. However the official reason given for inaccurate records was that training programs were not regularly organized. This notwithstanding, 5.7% of the institutions reported that they keep proper records. Even though 5.7% is too small, it is refreshing to see that at least few have no challenge in keeping proper records.

Also there is ineffective monitoring conducted in the local government sector. It came to light that 85.71% of the institutions in the local government sector reported of monitoring as a challenge. They reported that no regular or routine monitoring is carried out to fish out any fraud or corrupt activities in the local government sector so the fraudsters are able to carry on or perpetuate their activities for a very long time before they are caught. However 14.28% of the institutions reported that they are quite satisfied with level of monitoring in their institutions.

Further there is also the challenge of transparency. About 77.14% of the institutions claim that there is lack of transparency in the internal audit departments of their institutions. The result implies that things are done in secrecy and are not made available to all those that have an interest in it. The reason that was given for the lack of transparency was that the institutions reported that because the Right of Information Bill had not been assented, employees do not see the need to make available official documents. The absence of transparency means that fraud perpetuated may not immediately come to light because of the unavailability of official documents to other people. However it must be pointed out that not all the institutions have transparency problems because 22.86% of the institutions said they were satisfied with the level of transparency.

Lastly there is the problem of adherence to accounting policies. This was not that much of a serious challenge because only a few 8.57% reported that they face this challenge. Those that reported of this indicated that there are usually huge work load on them and so therefore device a simple way of keeping records. However majority of the institutions (91.43%) reported of adhering to good and standard accounting policies.

5.0 Conclusion
This study attempt to find out the effect of internal control on fraud prevention in the Ghana's Local Government system. This research also explore trends of fraud currently being experienced in Ghana's Local Government Service, the underlying causes of fraud, how frequently fraud occurs, types of fraud, what amounts involved, who usually detects the fraud and what necessary measures are taken by organizations to prevent and detect

fraud. This study used a quantitative research methodology approach. A well-structured questionnaire was used in collecting data from a total of 35 local government institutions in Ghana.

The results of the study shows that all the institutions have had internal audit departments for quite a considerable number of years. It came to light that 88.57% of the Institutions have had internal audit departments between 3 to 5 years and 11.43% of the institutions have had internal audit departments for over 10 years. Fraud prevention generally in the local government sector is high. The internal control environment in the local government sector is poor. The institutions in the local government sector are risk averse and always want to find out ways to reduce risk. There is a satisfactory way of controlling activities in the internal audit departments of the local government sector. Information communication is high in internal audit departments in the local government sector. Monitoring is also high in internal audit departments of local government institutions. There isn't advance use of information technology in the local government sector.

Control environment is not significant in explaining fraud prevention in the local government sector but however there is a direct relationship between fraud prevention and control environment. Risk assessment is significant in explaining fraud prevention in the local government sector and there is a direct relationship between fraud prevention and risk assessment. Control activities were not significant in explaining fraud prevention in the local government sector however it has a direct relation between fraud prevention and control activities. Information communication was not significant in explaining fraud prevention in the local government sector however it has a positive effect on fraud prevention. Monitoring in the local government sector was not significant but also showed a positive effect on fraud prevention. Information technology was significant and also had a positive effect on fraud prevention.

Changes fraud prevention are explained by its association with the independent variables; control environment, risk assessment, control activities, information communication, and information technology and monitoring. About 57.14% of the institutions have detected fraud between 1 – 3 times and 14.28% had detected fraud between 4 – 6 times. Also 28.57% of the institutions were unsure of the number of fraud detected over the years. Cost of fraud were all below GH¢50,000. From the findings, 62.85% of the institutions had suffered general fraud, 17.14% of bribery and corruption, 11.42% of financial misrepresentation and 8.57% had suffered procurement fraud.

It came to the fore that 71.42% of the institutions had their internal audit unit reporting of the fraud and 5.71% was from external audit. Also 11.42% had fraud being detected by a whistle blower. Further 8.57% of the institution had their management detecting the fraud and 2.85% had official investigation revealing the fraud. Most of fraudulent activities are committed by staff. All the institutions are not able to conduct effective background checks on their staff before employing them. There is a challenge of maintaining accurate records eg 94.28% of the institutions are unable to keep proper records. There is ineffective monitoring conducted in the local government sector. There is also the challenge of transparency. About 77.14% of institutions in the local government sector are not transparent in their dealings.

Based on the findings of the study, the following is hereby recommended;
- Institutions in the local government sector should conduct thorough risk assessment. Proper background checks should be conducted on staff before they are employed. The institutions should be able to resist any attempt by people in higher authorities to place their favorites in positions in the internal audit department.
- Local government institutions should adopt computer aids as tool for fraud prevention and control. That is, the involvement of management information system (MIS). Good computer software will allow the internal audit unit to cover more grounds in less time and will also enhance the production of a more accurate report.
- Regular training should be conducted for internal audit staff. The training should cover ways of detecting fraud and also audit skills.
- There should be more transparency in the local government sector. Official documents should be made easily accessible to all staff so that proper scrutiny can be made on them.
- Effective monitoring of the internal audit unit should be conducted. Regular monitoring by an outside agency is recommended.

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Table 1 Distribution of Institutions

Institution	Frequency	Percentage (%)
Internal Audit Agency	1	2.85
Regional Coordinating Council	2	5.71
Metropolitan Assembly	4	11.42
Municipal Assembly	8	22.87
District Assembly	20	57.14
Total	35	100.00

Source: Data survey 2017

Table 2 Length of establishment of Internal Audit

Length of Existence	Frequency	Percentage (%)
2 years and Below	0	0
3-5 Years	31	88.57
6-8 Years	0	0
9-10 Years	0	0
Above 10 Years	4	11.43

Source: Data survey 2017

Table 3 Descriptive statistics

Variable	Mean	Std. Deviation	N
Fraud prevention	3.6857	1.02244	35
Control environment	2.4286	1.17036	35
Risk assessment	.8857	.32280	35
Control activities	2.9714	.85700	35
Information communication	3.7429	1.14642	35
Monitoring	3.5714	1.06511	35
Information Technology	0.42	0.11	35

Source: Data survey 2011

Table 4 Regression Results

Variables	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	5.927	1.065	0.01	5.564	.000
Control environment	.066	.172	.075	.383	.704
Risk assessment	1.266	.561	.400	2.257	.032
Control activities	.137	.203	.115	.678	.504
Information communication	.154	.156	.173	.993	.329
Monitoring	.165	.178	.172	.930	.360
Information technology	.387	.185	.362	2.090	.046

Source: Data survey 2017

Table 5 Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.576	.332	.189	.92081

Source: Data survey 2017

Table 6 ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	11.802	6	1.967	2.320	.061
Residual	23.741	28	.848		
Total	35.543	34			

Source: Data survey 2017

Table 7 Fraud Detection in Local Government Institutions

No. of time of Fraud Detection	Frequency	Percentage (%)
1-3 times	20	57.14
4-6 times	5	14.28
7-10 times	0	0
Not sure	10	28.57

Source: Data survey 2017

Table 8 Cost of Fraud

Cost of Fraud	Frequency	Percentage (%)
Below GH¢50,000	35	100.00
GH¢50,000-GH¢100,000.00	0	0
GH¢100,000.00-GH¢300,000.00	0	0
GH¢300,000.00-GH¢500,000.00	0	0

Source: Data survey 2017

Table 9 Type of Fraud

Type of Fraud	Frequency	Percentage (%)
Asset Misappropriation	0	0
Cheque Fraud	0	0
Procurement fraud	3	8.57
General fraud	22	62.85
Financial misrepresentation	4	11.42
Bribery and Corruption	6	17.14

Source: Data survey 2017

Table 10: Fraud Detection Unit

Detection	Frequency	Percentage
Internet Audit	25	71.42
External Audit	2	5.71
Whistle Blower	4	11.42
Investigation	1	2.85
Management	3	8.57

Source: Data survey 2017

Table 11: Fraud Culprits

Fraud Culprits	Frequency	Percentage (%)
Senior Management	0	0
Middle Management	2	5.71
Staff	26	74.29
Suppliers	3	8.57
Customers	4	11.43

Source: Data survey 2011

Table 12 Challenges of Internal Control

Variable	Frequency		Percentage	
	Yes	No	Yes	No
Inaccurate records	33	2	94.28%	5.7%
Disregard of accounting policies	3	32	8.57%	91.43%
Lack of transparency	27	8	77.14%	22.86%
Ineffective monitoring	30	5	85.71%	14.28%
Poor background check of staff	35	0	100.00%	0%

Source: Data survey 2017