

## **FRAUD PREVENTION IN OUTSOURCE TASKS OF FEDERAL POLYTECHNICS IN NIGERIA**

By

**ACHIMUGU A.**

*Department of Accountancy  
Federal Polytechnic, Idah  
Kogi State*

**OCHENI, S.I, PhD**

*Department of Accountancy  
Kogi State University  
Anyigba*

&

**ONOJA E., Ph.D**

*Department of Accountancy  
Kogi State University  
Anyigba*

### **ABSTRACT**

Outsourcing peripherals of governmental operations such as the Federal Polytechnics and other public sector organizations currently engaged is an effort to reduce cost of public sector operations. However the level of corruption and fraud in the public sector may hinder this objective to the detriment of the society that benefit from government operations as a result of poor service delivery of outsource tasks employees. The internal control system instituted in organization determines how effective and efficient the functions of the organization are performed. Therefore the internal control mechanism to some extent determines the level of fraud and deficiencies in organization. This problem is more pronounced in the public sector. The study reviewed previous studies and the use of questionnaire was made to solicit for primary data upon which the findings were made, it was discovered that there was significant relationship between internal control and fraud in outsource activities of the federal polytechnics in Nigeria. Therefore the need for strong, effective and efficient application of internal control measures was recommend to enhance fraud free outsource task of federal polytechnics in Nigeria.

**Keywords:** Outsource Tasks, Fraud Prevention, Federal Polytechnics, Internal Control and Cost Reduction.

### **INTRODUCTION**

Outsource is an area that has long been recognized as being particularly vulnerable to fraud and corruption. The term outsourcing was introduced in the mid 1980s. However, the idea of hiring someone else to do specific jobs or of dividing labour has existed for hundreds of years (Kathawala; Zhang and Shao, 2005). In business, outsourcing can be found everywhere; whether big or small, simple or complex. During the pre-1900s, the outsourcing was primarily focused on labour intensive production tasks and business activities outside the company's core competitiveness, such as outsourcing printing press, food preparation and janitorial work, hiring the seasonal migrant farm workers and so on (Edward, 2003).

In industrial society, outsourcing began with manufacturing in order to reduce the cost after the great depression; manufacturers began to think of outsourcing complex production tasks instead of

building their core competencies through controlling the production process from end to end vertically (Lonsdale and Cox, 2000). Most large manufacturing firms have had outsourcing relationships for decades, such as the relationship of automobile industry to many different producers of metal, glass, rubber and electrical producers. By the end of the 1930s, two- third of Ford production came from outside sources (Graver, 1999). As a result of global outsourcing in the post- war economy, the cost savings and productivity benefits are achieved. Thus, many companies began turning over some or all of their production processes to business partners. Today, contract manufacturing is the norm in industries ranging from electronics to telecommunications to biotechnology and outsourcing of primary supply chain activities has been common in industries. Some outsourcers even offer service such as assembly, packaging and distribution, to ship customers' goods anywhere in the world.

In today's contemporary world advancement in information technology has turned the world into "Global village", outsourcing activities which were hitherto known to be practiced by only private manufacturing firms, now turned out to be practice of not only manufacturing firms but also government and its agencies. Practitioners, long ago have recognized outsourcing as an area vulnerable to fraud and corruption. This is true to all the components of the economy particularly the public sector where frauds are initiated by either the public contracting officials or the private supplier. The World Bank recently estimated that roughly 1.5 trillion dollars in public contracts awards globally, are influenced by 'fraud, particularly in the Third World Countries (World Bank, 2011). Fraud in outsource operations is often associated with cartels.

Similarly rough estimates suggest that the number of outsource activities in government doubled in recent years. This is always linked with commercial public enterprises in view of the relationship between profit motive and the underlying benefits of the approach. As the range of outsource operations expands, more and more organizations are turning to this option as a way to focus on their core business functions, reduced infrastructure costs, and stay competitive in the case of private organizations that have profit motives. Such relationship are however, fraught with potentials pitfalls and can leave unwary organizations open to a myriad of risks. Risks that can manifest before the contract are signed or during the lifetime of the contract.

The identification of fraud in outsourcing operations has had undoubtedly a major impact on development and functioning of public sector contracts in developing nations in the last one decade (Vintar, 2011). Apart from the positive results, many negative unexpected effects have been experienced as well. The first phases of outsourcing in governmental affairs were very promising in the field of improving the effectiveness and efficiency of public sector which was achieved. Problems came later when the euphoria gave way due to the introduction of dishonest means often coined and described as "fraud". Despite the high expectations, subsequent experience has shown that outsourcing cannot be a panacea for the majority of problems in the public sector which most frequently occurs due to poor long term strategy; or as Yunusa (2005) puts it, over strategy.

The basic reason why government outsourced certain tasks is to minimize cost and maximize benefits. While this is loadable aim evidence abound that organizations wished they never outsource such tasks. The reasons for regret are that the quality of service declines while cost minimization is not achieved. The question is, did these agencies put internal control mechanisms' to practice or they granted total freedom to those tasks outsourced, where there are internal control mechanisms, are they timely, effective and efficiently applied or not. If theses control mechanisms' are there, why are there reported cases of fraud in outsource tasks or reported declines in service quality in these agencies? Considering the pivotal nature of polytechnic education in the nation economy, these constraints have obviously affected the objective of creating a virile economy based upon technological education. It is in view of the above the study was conducted on fraud prevention in outsource activities to possibly get rid of fraud or reduced fraud to the barest minimum in outsources government operations.

## **METHODOLOGY**

A survey approach was employed to collect the data on the basis of which findings were made. This research design is considered appropriate for generalizing the findings over the federal Polytechnics across the country.

The population of the study is the total number of federal polytechnics in Nigeria, represented by the employees of these polytechnics. The population however, comprises management, academic and non-academic staff of these polytechnics. According to National Board for technical Education (NBTE) list, Federal Government owned polytechnics is twenty one as at 31<sup>st</sup> march, 2014. However,

considering the cost of going round all the twenty-one federal polytechnics, the researcher decided to cover six federal polytechnics, one in each geopolitical zones as it is hope that findings from these polytechnics could be replicated in other polytechnics, since the nature of outsource activities and activities of federal polytechnics are similar in all ramifications. Outsource tasks in these polytechnics include; security services, cleaning services, messengers and some parts of ICT services.

The researcher used a non-probability sampling (purposive sampling) to select the six federal polytechnics. The use of this method was based on the fact that federal government has twenty-one polytechnics which serve the same purpose and the nature of fraud committed in all the federal polytechnics appears to be the same in view of the objectives of these institutions. Two hypotheses guided the study:

1. Ho1: There are no relationship between internal control mechanism and fraud in outsource tasks of Federal Polytechnics in Nigeria and
2. Ho2: The internal control mechanisms installed to check fraud in outsource tasks are not effective in Federal Polytechnics in Nigeria.

Data generated through administration of instrument on the respondents were analysed by both normal descriptive statistics of frequencies and simple percentages. For testing hypothesis, the use of one-way analysis of variance (ANOVA) was made and the level of significance was determined at 0.05. These statistical tools were selected because the data were in clusters and ordinal in nature. The test were conducted with the aid of statistical package for social scientist (SPSS 19.0)

## Results

1. Ho1: There are no statistical relationship between internal control mechanisms and fraud in outsourced tasks in Federal Polytechnics in Nigeria.

Data from table 4.12 were used in testing hypothesis one (relationship between internal control and fraud in outsourced tasks in the federal polytechnics in Nigeria)

**Table 1**  
Respondents' responses on level of fraud in outsourced tasks.

Option	(x)	Number of respondents	(fx)	Percentage response	Cumulative percentage (%)
Very effective	5	75	375	19%	19%
Effective	4	101	404	26%	45%
Undecided	3	175	525	45%	90%
Ineffective	2	39	78	10%	100%
Very ineffective	1	0	0	0%	100%
Total		390	1382	100%	100%

Source: Field survey, 2014.

**Table 2**

One-way ANOVA results for test of hypothesis one (level of fraud in outsourced tasks in the federal polytechnics)

	Sum of squares	Df	Mean square	F	Sig
Between groups	284.829	2	142.415	1252.200	.000
Within groups	44.014	387	.114		
Total	328.844	389			

Source: Data Analysis (SPSS)

From the ANOVA table above, the calculated F-value was 1252.200 which are greater than the critical F-value of 6.63. Hence we reject Ho that there are no statistical relationship between internal control and fraud in outsourced tasks in the federal polytechnics and accept the alternative hypothesis that there are statistical relationship between internal control and fraud in outsourced tasks in the federal polytechnics. That is, with a significance (p) value of  $0.00 < 0.05$  this result is significant indicating that the alternative hypothesis should be accepted.

2. Ho2: The Internal control mechanisms installed to control fraud in outsourced tasks are not effective in Federal Polytechnics in Nigeria.

Data from table 3 and 4 were used to test hypothesis two (how effective is the Internal control mechanism in curtailing fraud in outsourced tasks)

Table 3

Summary of respondents' responses on the effectiveness of the internal control in curtailing fraud in outsourced tasks.

Option	(x)	Number of respondents	(fx)	Percentage response	Cumulative percentage (%)
Very effective	5	30	150	08%	08%
Effective	4	50	200	13%	21%
Undecided	3	80	240	20.5%	41.5%
Ineffective	2	80	160	20.5%	62%
Very ineffective	1	150	150	38%	100%
Total		390	900	100%	100%

Source: Field survey, 2014.

Table 4

One-way ANOVA results for test of hypothesis two (how effective is the internal control mechanism in curtailing fraud in outsourced tasks)

	Sum of squares	Df	Mean square	F	Sig
Between groups	582.153	2	296.077	1615.57	.000
Within groups	70.824	387	.183		
Total	663.077	389			

Source: Data Analysis (SPSS)

From the ANOVA table above, the calculated F-value was 1615.527 which is greater than the critical F-value of 6.63. Hence we reject Ho that internal control mechanism installed to check fraud in outsourced tasks in the federal polytechnic is not effective and accept Hi that internal control mechanism installed to check fraud in outsourced tasks in the federal polytechnic is effective. That is, with a significance (p) value of  $0.00 < 0.05$  this result is significant indicating that the internal control mechanism is effective to prevent fraud in outsourced tasks.

## DISCUSSION OF FINDINGS

The findings on hypothesis one showed that there was a relationship between internal control and fraud in outsourced tasks of Federal Polytechnics in Nigeria. The ANOVA test yielded an F-value of 1252.200 greater than the critical F-value of 6.63. At  $p = 0.000 < 0.05$ , the test result was statistically significant and the null hypothesis was rejected with a conclusion that there was statistical relationship between internal control and fraud in outsourced tasks in the federal polytechnics. This finding agrees with that of Abubakar (2010), but it was however noted that the level of fraud is positively in favour of vendors of outsourced tasks. This implies that where the internal control is strong and efficient the level

of fraud in outsource tasks will be minimal while the reverse is the case where internal control seems to be weak.

In addition, the findings on hypotheses two revealed that the internal control installed to check fraud in outsource tasks are said to be effective. The test yielded an F-value of 1615.507 which is greater than the critical F-value of 6.63. At  $p\ 0.000 < 0.05$ , the test result was statistically significant and we therefore reject the null hypothesis with the conclusion that internal control mechanism installed is effective. The effectiveness of internal control calls for further investigation in the sense that whether the internal control mechanism were installed for the manipulation of the vendors of outsourced tasks or to the benefit of the federal polytechnics as institutions. In other words, the effectiveness of internal control here is being utilized by outsourcing vendors. The effectiveness may therefore exist in principles and designs but not in application and implementation otherwise the reported cases of fraud could have been prevented.

## CONCLUSION

Despite the importance of outsourcing as a public policy issue in Nigeria and world over and the level of research devoted to public sector outsourcing, the determinants of successful public sector outsourcing are still unknown. Traditional analyses of the issue have focused on issues relating to competition and ownership as the key determinants of success without concurrent issue of corruption and fraud apparent in the public sector. Also recent researches have seen a move away from these issues towards issues related to standard theories of outsourcing contracts. These developments reflect an underlying shift in the services being outsourced by the government. Historically, simple services such as cleaning and refuse collections were outsourced, whereas now more complex services are being transferred to private hands.

The theme of this work is fraud prevention and its effects on outsourced tasks. However, the issues in public sector outsourcing are best analyzed through two complementary views. One, incentives was seen to play an important role in the analysis because transferring production services from the public to the private sector involves a shift in the fundamental incentive structures faced by employees within organizations. It is typically argued that moving from the public sector to the private sector should result in improvements in productive efficiency. This view is somehow naïve since it implies that the private sector will always be more productively efficient, argument that is not supported by theoretical or empirical research. On the other hands recent research has emphasized the role of intrinsic motivations in public sector service provision and the reduction in cost generally affected service delivery in the system. Two, risk is seen as an important factor to consider in most productive environments and outsourcing necessitates consideration of how this risk will be allocated among the parties. While it is well established in the theoretical literature that transferring risk to an agent involves a trade off with incentives, this has rarely been applied to the analysis of public sector outsourcing.

On the whole, the theoretical and empirical evidence presented in this study suggests that outsourcing does generate reductions in government expenditure. However, there is a couple of important problem with this conclusion. First, is that there is some evidence indicating that quality of service may suffer in certain circumstances as a result of outsourcing and that workers may be worse off. Secondly, is that the savings may be transitory, although the empirical evidence is very little, there is some evidence to suggest that hold-up is a problem in outsourcing contracts. Third, is the problem that some public services may be less suited to outsourcing than others, this is because of reason of incentives and intrinsic motivation.

## RECOMMENDATIONS

1. The need for strong, effective and efficient internal control cannot be over emphasized as there was significant relationship between internal control and fraud in outsource asks. Management of each institution should therefore ensure adequate internal control measures to safeguard their institutions and improve outsourced functions.
2. Where there is internal control measures in place, management should endeavour to implement them to the last letter. The existence of internal control mechanism alone does not prevent fraud in organizations, rather it's the implementation of these mechanisms in proper form that prevent fraud and other sharp practices in organizations, outsource tasks cannot be an exemption, proper

implementation of control mechanisms is therefore required in the federal polytechnics to ensure fraud free in outsource tasks.

3. There is need to create the awareness and knowledge among the entire staff of the institutions of the roles of outsource tasks; employees. This will enable individuals who benefits from the tasks insist on the adequate performance of the duties involved in outsource tasks by the employees engaged by the vendors.

## **REFERENCES**

- Edward, J. (2003). ON rewarding Work and Creating Opportunities: Paper Presented at Georgetown University Washington D. C. June 17.
- Greaver, M. F. (1999). Strategic Outsourcing: A Structural Approach to Outsourcing Decisions and Initiatives, American Management Association (AMA) Business.
- Kathawala, D., Zhung, P. E. and Shao, V. (2005). The Economics of Outsourcing in manufacturing, New Delhi, John Wiley Sons Inc.
- Lonsdale, D. B. and Cox, E. (2000). Production Economics, New York, Sharedole Publishing Inc.
- The World Bank(2011). "Procurement Fund in Developing Economics", Procurement Sector Report No3478/10 Washington D.C
- Vintar, M. (2011). Evaluation of impact of outsourcing on efficiency of public sector organization. International journal of business and management studies, Vol. 3 (2)
- Yunusa, A.A (2005). Strategic planning in public sector organization, Lagos, JBA publications Ltd