

POLICY BRIEF

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The "Fraud Triangle": A Cornerstone for Establishing a National Framework to Combat Corruption in Nigeria.

Sixtus C. Onyekwere & Chisom Udora

SECTION 1: Introduction and Description of the Fraud Triangle Model.

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1. Introduction and Description of the Fraud Triangle Model

A nation cannot develop in the face of endemic corruption. The fight against corruption cannot be won unless the [rationale \(how and why\)](#) for the act of corruption is understood and intensive strategies to block those channels are implemented. The fight against corruption in Nigeria has always been focused solely towards its cure (aftermath) while ignoring its prevention (the how and why), which has resulted in no discernable success over the years ([Onyekwere et al., 2020](#)). Albert Einstein once said, "Insanity is doing the same thing over and over and expecting different results." As a result, Nigeria should try a different approach. Corruption has long plagued Nigerian society, stifling economic progress, eroding public trust, and impeding social development ([PwC, 2016](#)). Addressing this pervasive issue necessitates a multifaceted approach based on systems thinking, such as the use of the fraud triangle. While Nigeria has made progress over the years in establishing anti-corruption agencies for fighting corruption, such as the EFCC and ICPC, this only addresses one aspect of the problem. A comprehensive solution should go beyond the "clampdown on perpetrator's approach."

Curing something entails seeking for solutions after it has already occurred, such as taking malaria drugs after one has contracted it.

Similarly, Nigeria's corruption fight which relies on prosecution and punishing perpetrators after the crime is committed is like giving malaria drugs to the sick. The Fraud Triangle model proposed in this article for fighting corruption in Nigeria entails using intentional strategies to prevent corruption from happening or make it difficult to execute (This is like taking a vaccine that prevents malaria no matter how many mosquito bites you get). Preventing corruption is the fraud triangle model's priority.

The concept (Fraud Triangle) has emerged as a promising framework for understanding corruption by providing valuable insights into the motivations and conditions that give rise to corrupt behaviour (the how and why). The framework developed by [Cressey \(1953\)](#) highlights that if three conditions are met, such as facing a financial burden, termed "pressure", seeing an "opportunity" to commit the act. A reason to justify it, termed "rationalisation," it will be impossible to stop anyone from committing a corrupt act.

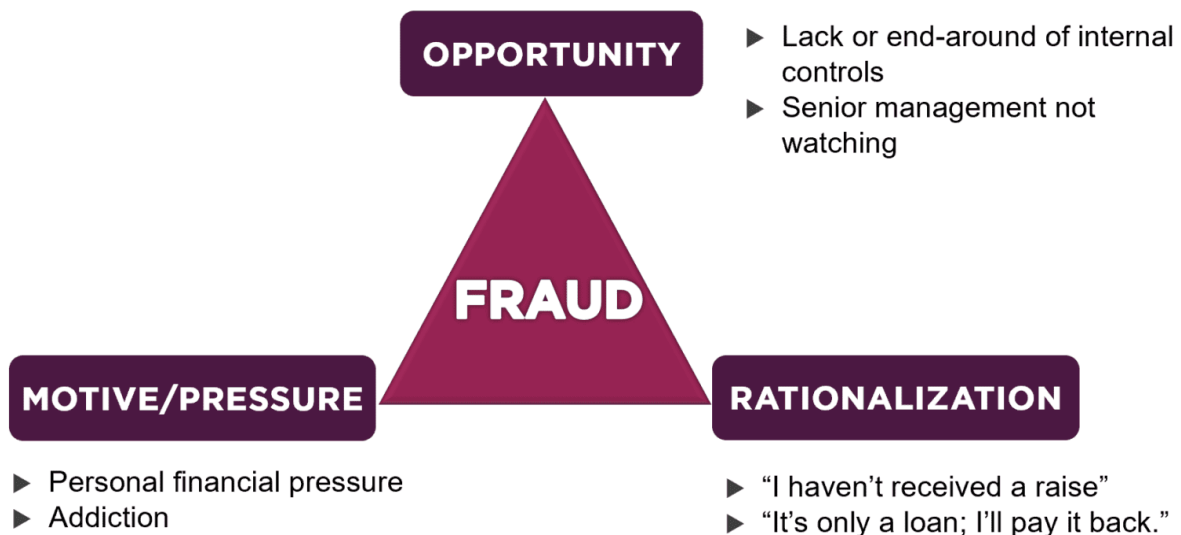


Fig. 1. The Fraud Triangle

The Fraud Triangle (made up of the three conditions; pressure, opportunity, and rationalisation) has gained popularity as a framework for understanding corruption. The classic example of the success of the fraud triangle in curbing corruption is the [case of Hong Kong](#). The country developed a three-pronged approach as a remedy based on the fraud triangle, which includes Law enforcement (to combat opportunity), education and sensitisation (to combat rationalisation and some aspects of pressure), and internal control techniques (that further reduce the opportunity to commit the act). In the case of Nigeria, only law enforcement has been widely deployed, leaving a huge gap in other areas.

2. Application to Nigeria - Understanding the 'How and Why' of Corruption through the Fraud Triangle Lens.

This section describes each of the three conditions needed for a trust violation and links them to Nigeria's situation. A summarised version is shown in **Table 1**.

Opportunity: - the how

In the fraud triangle, the idea of "opportunity" gives an interesting point of view. One cannot achieve anything without being given the opportunity to do so. According to [Cressey \(1953\)](#), one cannot commit fraud just because of pressure; he/she needs a suitable atmosphere (opportunity) in the organisation to do so. The factors that, when present, provide this atmosphere for corruption are

enumerated in [Lister \(2007\)](#), [Dorminey et al. \(2007\)](#), and [Beasley & Salterio \(2001\)](#), which include poor internal controls, lack of transparency, poor supervision, ineffective anti-fraud programs, policies, and procedures, a weak ethical culture, and a lack of prosecution of perpetrators ([Onyekwere et al., 2020](#)). Reminiscing on this shows that Nigeria still has more work to do in this regard, as the opportunity to commit fraud exists due to these deficiencies. [Adebisi and Gbegi \(2015\)](#), for example, report a general lack of accountability in Nigeria, noting that Nigeria's public sector lacks a strong internal control system, and management's lack of integrity has influenced fraud prevention strategies in the sector.

Furthermore, the [lack of utilisation of modern digital technologies](#) that facilitate transparent and efficient working environments in Nigeria presents a significant vulnerability in the public sphere. Most organisations' continued reliance on physical documents and files impedes effective oversight, thereby creating an opportunity for corrupt practices. This current opportunity for corruption explains the rationale behind the inefficacy of antifraud initiatives, such as the implementation of whistleblowing, as reported by [Adebisi and Gbegi \(2015\)](#), in preventing fraudulent activities within organisational settings. Consequently, data from Transparency International on the [corruption perception index](#) shows that the establishment of the Economic and Financial Crimes Commission (EFCC) to complement the activities of the Independent

Corrupt Practises and Other Related Offences Commission (ICPC) by former President Olusegun Obasanjo has not yielded significant results, possibly due to challenges in procuring evidence stemming from inadequate digitalisation of procedures. Although little progress in curbing corruption was observed in 2002, when the EFCC was established, it started eroding from 2008 until now. Today, Nigeria ranks [150 out of 180](#) most corrupt nations

Pressure: - the Why

Individuals do not typically exhibit unethical conduct without a discernible cause. According to [Lister \(2007\)](#), one important factor that may contribute to fraudulent behaviour is the individual's personal pressure to finance a particular lifestyle or fulfil a need that cannot be easily shared to obtain assistance. According to [Dorminey et al. \(2011\)](#), various factors contribute to non-shareable financial needs. These factors may include sudden financial problems, extravagant spending habits, greed, unfavourable credit history, an inability to secure credit, unforeseen and substantial medical expenses, family or peer influence, gambling losses, expenses incurred due to drug or alcohol abuse, and the cost of engaging in extramarital affairs. Several of these reasons are widespread in Nigeria. The inadequate provision of youth empowerment initiatives such as start-up funding and credit accessibility, coupled with elevated levels of unemployment and poor living standards in Nigeria, create a heightened state of frustration among the populace which, in turn, creates pressure and impacts the prevalence of corruption within the country. The rise in the unemployment rate in Nigeria, which is attributed to the shrinking of the manufacturing sector, is of immense concern. Consequently, individuals fortunate enough to secure employment are often responsible for supporting their entire family and extended relatives, which exerts significant pressure to participate in unethical conduct

Rationalisation: - the justification

[Cressey \(1953\)](#) opines that before the fraud act is executed, there has to be a morally acceptable justification. The paper explains that the fraudster does not perceive him/herself as a criminal; thus, there must be a rational justification for his

misdeeds before he/she can go ahead to commit fraud. [Dorminey et al. \(2011\)](#) cite an example that a common rationalisation among perpetrators is to think that the money they are taking is a loan and that they will pay it back when they receive their salary. Other rationalisation factors are poor working conditions, no benefits and compensation schemes, the belief that the organisation does not care about their wellbeing and that anyone in the same position would do the same. By these, the individual sees the illegal act as acceptable, preserving his self-image as trustworthy.

The common belief in Nigeria is that organisations do not provide adequate incentives to motivate workers to be positive at work. According to [John \(2011\)](#), Nigerians who work in the petroleum industry, for example, believe that they are being cheated and not being provided with the adequate benefits they deserve. According to [Onyekwere et al., \(2020\)](#), most of the reports from citizens point to the direction that some managers have a habit of cutting off a percentage of their employee's salaries and benefits for their gain. Thus, frustration due to poor working conditions in Nigeria, little or no benefits and deprivation of compensation schemes has meant that people could easily justify fraudulent acts. With the current [minimum wage](#) in Nigeria pegged at 30,000 less than \$40, most citizens were barely making ends meet. In 2019, this minimum wage could get about two bags of 50kg of rice. Currently, this Minimum wage can not get one bag of 50kg of [rice](#). The fuel subsidy removal and the unification of the exchange rate have caused the cost of living to increase, which means that there will be a major decline in living standards and, as expected, corruption will be on the rise. Again, there is a wide belief among Nigerians that everyone in Nigeria is corrupt and, as such, might lose the chance for the corrupt act to someone else if they fail to act on the opportunity quickly. Thus, there is a likelihood that rationalisation may have a high impact on corruption in Nigeria. A survey conducted by EY reveals that 86% of Nigerians agree that bribery and corrupt practices happen widely in business in the country, and 76% are ready to justify their corrupt practices ([Stulb, 2016](#)).

Table 1. Why is corruption endemic in Nigeria?

PRESSURE	OPPORTUNITY	RATIONALISATION
<ul style="list-style-type: none"> • Sudden financial shortfalls • Living beyond one’s means • Greed • Poor credit standing • Inability to obtain credit • Unexpected significant medical expenditures 	<ul style="list-style-type: none"> • Poor internal controls • Poor supervision • Ineffective antifraud programs, policies, and procedures • Lack of prosecution of perpetrators • Has confidence that he/she will not be detected 	<ul style="list-style-type: none"> • Poor working conditions • No commensurate benefits and compensation schemes • Believe that the organisation do not care about their wellbeing • Believe that anyone in the same position would do the same

3. Presentation of a Framework Rooted in the Fraud Triangle for the Prevention of Corruption in Nigeria

The fraud triangle approach is a systemic approach to combatting corruption as it clarifies the diverse factors that underlie corrupt practices, rather than attributing it to a singular cause. It underscores the need to address all the factors involved, as tackling only one in isolation would not suffice in resolving the issue. This phenomenon is recognised in the [Hong Kong approach](#), which used the fraud triangle to develop a framework comprising education (the human approach), strengthening internal control systems in institutions, and law enforcement. Implementing these measures resulted in decreased corrupt practices within the nation.

Presently, Hong Kong ranks as the [12th least corrupt country](#) out of 180 nations.

[The framework](#) recognises multiple elements that lead to the three conditions of fraud and how to eliminate them. This framework can still work in Nigeria, but some modifications must be made. For instance, Nigeria suffers from some additional factors that lead to rationalisation and pressure, such as poor compensation systems in institutions, a low minimum wage, poor working conditions, an ineffective healthcare insurance system, the high cost of accessing amenities, et cetera., which further erode trust in the government. Thus, modifying the Hong Kong framework is necessary as these enumerated factors constitute a significant weight on pressure and rationalisation to commit corrupt acts in Nigeria. Thus, Figure 1 below shows a modified version for the Nigerian context.

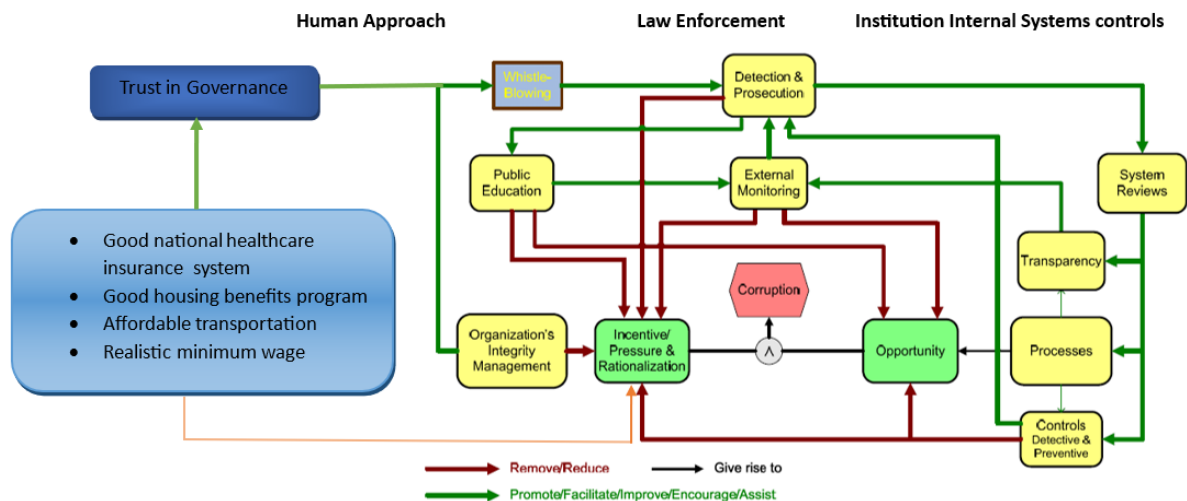


Figure 1. Corruption Prevention Framework for the Nigerian Context

Explanation of the Framework

The framework generally shows how different factors interact with the three fraud conditions in the fraud triangle, thereby giving a visual clue on how to truncate the satisfaction of these three conditions necessary for corruption to occur.

As described in the diagram legend, the green arrows indicate what to encourage, facilitate, and promote in order to prevent the satisfaction of the three conditions, and the red arrows show how these individual factors to be promoted will lead to the reduction or removal of the three conditions necessary for corruption to occur. On the other hand, the black arrows indicate that the convergence of the three conditions (opportunity pressure and rationalisation) leads to corruption. For a better understanding, the framework is further disintegrated into its human aspect, law enforcement aspect, an institution's internal controls aspect to detail recommended strategies for achieving a corruption-free nation. Table 2 provides a concise version of the recommended strategies.

Human Approach

This aspect deals with strategies that appeal to the human conscience and raise awareness of the negative effects of corruption (see Fig. 1). The goal is to help reduce employees' incentives to commit bribery, modify their attitudes, and reduce their rationalisation of fraudulent behaviour. Strategies to deploy include education of the public against corruption and each organisation's own integrity management program (Code of Conduct, integrity training, et cetera.). Public education also reduces the public's tolerance for corrupt behaviour and encourages them to report any corrupt behaviour observed, while an organisation's integrity management programme can encourage whistleblowing. These facilitate the detection of corruption.

Additionally, the provision of basic necessities of life, such as national health insurance, affordable transportation, and a minimum wage, that reflect realities of the cost of living, et cetera, will boost confidence in the government, eliminate some reasons for rationalisation which would, in turn, encourage reporting of perpetrators through whistleblowing.

Law Enforcement Approach

The Law Enforcement Approach is the predominant strategy in use in Nigeria though its effectiveness seems to have eroded. While this is key to deterring corruption, it needs to be supplemented by the human approach and the system's internal control approach.

Detecting and prosecuting corrupt individuals is essential as it potent means of discouraging corrupt practices, thereby reducing the motivation to engage in bribery and altering one's attitude towards such activities. The act of enforcement also fulfils a public education function by enlightening individuals about the nature of corruption, the repercussions of engaging in corrupt practices, and the efficacy of our law enforcement mechanisms. This, in turn, fosters a culture that encourages individuals to report instances of corruption.

Strengthening Institutions' Internal Systems Control Mechanisms Approach

The essence of this is to eliminate any possible opportunity to commit a corrupt/fraudulent act. Companies can make it more difficult to commit fraud by altering their internal environmental factors. The most common counter-fraud measure in today's environment is the [use and application of data analytical systems](#). This will enable routine system evaluations to detect potential corruption risks and system vulnerabilities that may facilitate corrupt activities. Subsequently, measures are taken to enhance controls and business procedures. Thus, the way to eliminate the opportunity for corruption in Nigeria is through the digitalisation of business processes in our institutions (especially the public sector). With digitalisation, trails of transactions, communications, and activities can be tracked, monitored, and reported. Digitalisation will also facilitate the achievement of transparency.

Transparency is key to Nigeria's case, as it enables external oversight by various stakeholders such as customers, business partners, and the general public. Implementing internal detective controls and external monitoring mechanisms enhances the ability to identify corrupt practices, ultimately resulting in legal action.

Table 2: Summary of Recommended Strategies

HUMAN APPROACH	LAW ENFORCEMENT APPROACH	INTERNAL SYSTEMS CONTROL APPROACH
<p>- Education of the public: This involves raising awareness about corruption and its consequences and fostering a culture of intolerance towards corrupt practices.</p> <p>- Encouraging integrity management programs: Organisations can implement codes of conduct and provide training to promote ethical behaviour. Whistleblowing mechanisms can also be established to facilitate reporting of corrupt activities.</p> <p>- Providing necessities: Ensuring citizens have access to essential services like healthcare, affordable transportation, and fair wages can reduce the incentive for corruption and increase trust in the government.</p>	<p>- Strengthening prosecution strategies: By enhancing enforcement efforts and imposing stricter penalties for corruption, the aim is to deter individuals from engaging in corrupt practices.</p>	<p>- Digitising operation processes: Implementing digital systems and processes can increase transparency and reduce opportunities for corruption.</p> <p>- Civil service integrity policies: Establishing policies and guidelines within the civil service to promote ethical conduct and prevent corruption.</p> <p>- Routine system evaluations: Regular assessments of public offices' systems can help identify potential corruption risks and vulnerabilities, enabling proactive measures to mitigate them.</p>