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## ACCOUNTING AS A TOOL FOR CORRUPTION CONTROL IN THE PUBLIC SECTOR IN KENYA

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### **Abstract:-**

*The culture of corruption has grown deep roots in the Kenyan society and become endemic. Institutions, which were designed for the regulation of the relationships between citizens and the State, are being used instead for the personal enrichment of public officials. Corruption persists in Kenya primarily because there are people in power who benefit from it and the existing governance institutions lack both the will and capacity to stop them from doing so. This paper looked at the role of accounting on how to control corruption in the Kenyan Public Sector and the rate of existing internal control and accounting standards are helping to reduce the level of corruption. The main objective of the study is to establish whether internal control and accounting standards have significant relationship with corruption control in the public sector in Kenya. The study got primary data using a structured questionnaire while secondary data were obtained from reports. To test for reliability of result from data used, the Cronbach alpha coefficient was applied. Questionnaires were administered to staff in Kenyan ministries. Respondents were selected using stratified random sampling method. Multiple regression analysis result showed that both internal control and accounting standards do not have significant relationship and effect on corruption control in the Kenyan Public Sector. The recommendations of the study showed that management personnel should at least have basic knowledge of accounting while staff in the accounts and finance department needs to proceed regularly on capacity building to upgrade emerging accounting trends.*

**Keywords:-** Accounting Standards, Internal Control, Corruption Control.

## 1.0. INTRODUCTION

Corruption in Kenya has become a matter of great concern, both domestically and internationally, primarily because ‘it can hardly be said that corruption in [the country] is limited to a few rogue officials at the top. The culture of corruption has grown roots in society at large and become endemic’ (Mogeni, 2009, p. 1). As wrong (2014) noted from comments of Kenyans, everyone is corrupt in Kenya, even grandmothers. This entrenchment of corruption in Kenya points to the fact that something has gone wrong in the governance of the country. Institutions, which were designed for the regulation of the relationships between citizens and the State, are being used instead for the personal enrichment of public officials (politicians and bureaucrats) and other corrupt private agents (individuals, groups, and businesses). In particular, opportunistic bureaucrats and politicians have been successfully maximizing their take without regard for such perdition on the size of the overall pie and thereby accounting for the growth of corrupt activities and the particularly adverse impact that corruption has in the country (Hope, 1999, 2008, 2012; Hope & Chikulo, 2000; Kaufmann, 1997).

Corruption represents a governance ill. It is a characteristic of bad governance. It persists in Kenya primarily because there are people in power who benefit from it and the existing governance institutions lack both the will and capacity to stop them from doing so. Despite the existence of an anti-corruption commission- formerly the Kenya Anti-Corruption Commission (KACC) established in 2003 and reframed in 2011 as the Ethics and AntiCorruption Commission (EACC) – and several other measures that have been put in place to try to tackle the corruption problem, Kenya is still classified as one of the most corrupt States in the world (Hope, 2012, 2013; TI, 2009). This work takes a governance and development perspective to examine the causes and consequences of corruption in Kenya. It identifies the key factors and synthesizes and analyses available data, indicators, and other information in that regard.

### **Why corruption persists in Kenya: causes**

Where corruption persists, as it does in Kenya, it is an indication of things (such as governance institutions) falling apart. Corruption in Kenya is systemic and goes beyond individuals to the structural and institutional levels. As the former United States (US) Secretary of State Clinton (2009, p. 1) noted in a speech in Nairobi, ‘the absence of strong and effective democratic institutions has permitted on-going corruption, impunity, politically motivated violence and a lack of respect for a rule of law’. Clinton (2009, p. 5) further said that ‘true economic progress... also depends on responsible governments that reject corruption, enforce the rule of law, and deliver results for their people’.

The primary cause of corruption in Kenya is therefore related to a societal state of being whereby the basic institutions that underpin and support the rule of law and good governance have been deliberately undermined or neglected to the point where they can no longer uphold the rule of law or act in the best interests of the nation. That undermining and neglect have been systematically applied as Kenya’s institutions outside of the executive were weakened in favor of personalized presidential power and a centralized presidency that reached a crescendo under the Presidency of Daniel Arap Moi (Mueller, 2008) who ruled the country for 24 years from 1978 to 2002. In fact, according to the National Anti-Corruption Plan (NACP), the ‘emergence of wanton poor institutional governance, an atmosphere of impunity to the rule of law, low morale and inefficiency – contributed immensely to an environment that enabled corruption to thrive and reach devastating levels’ (NACP Secretariat, n.d., p. 3). The resultant cause as well as effect is the fact that ethical leadership and, therefore, public accountability became seriously lacking. Public account-ability means holding public officials responsible for their actions. It is also central to good governance. Such a lack of real accountability is a major bane of Kenya which has bred irresponsibility among public officials and has further led to much cynicism among Kenyans.

The centralized and personalized presidential power that emerged under President Moi resulted in what can only be characterized as the total exercise of all power attached to national sovereignty. This exercise of State power led to the supremacy of the State over civil society and, in turn, to the ascendancy of predatory forms of neopatrimonialism with its stranglehold on the economic and political levers of power, through which corruption thrived for it was through this stranglehold that all decision-making occurred and patron-age was dispensed (Bach, 2011). In fact, one analysis asserts that ‘controlling the state was the means [used by President Moi] to entrench an ethnically defined class and to ensure its enrichment’ (Mueller, 2008, p. 188). Another noted that, ‘under Moi, economic mismanagement, corruption, and wanton destruction of national resources became rampant’ (Khadiagala, 2009, p. 128). The ‘control of state power meant control of public wealth leading to patronage, looting and bribery’ (NACP Secretariat, n.d., p. 3). Consequently, no distinction was made between public and private interests and government officials simply plundered the Treasury and appropriated State assets. This further popularized the Kenya vernacular ‘eating’ – which means gorging on State resources.

Such was the pervasiveness of corruption in Kenya that the citizenry adapted to it. Individuals, as well as those people in positions of authority and/or influence, tended to shift their loyalties and allegiances to the ruling regime for reasons of both personal survival and economic gain. The system of patronage therefore thrived and corrupt behavior cascaded down to the society at large (Hope, 2012). Being part of, or regarded as belonging to, particular groupings became a more acceptable qualification for a given position or contract, for example, than actual capabilities. The result was that the stage became set for corruption to become rampant. It became truly ubiquitous, reaching into the private sector as well. It also became a way of life, particularly for transactions at a governmental level or with public officials. Those trans-actions sought to do no more than secure objectives that were private and personal and not in the interests of the country and thereby corroded popular confidence in Kenya’s public institutions. In fact, one publication observed that under President

Moi 'the impact of State House's system of authorized looting a Minister later estimated to have cost the taxpayer a total of 635

Kenya is more likely to fall prey to corruption because as a multi-ethnic country it has failed to manage ethnic conflicts to the satisfaction of the citizens. Kenyans identify more to themselves in line with ethnic affiliation which conflicts with nationalism. As a result, citizens are more concerned with developing their regions rather than the country as a whole. This situation has led to gross underdevelopment in most parts of the country since officials are more interested in diverting resources to their relatives, families and those within their immediate clan (Shilgba, 2009).

In the opinion of (Waziri, 2007), corruption in the public sector in Kenya are in various forms such as using stationery meant for office use for private usage, altering contract papers and payment vouchers, misuse of travel allowance by senior officials of government, arbitrary inflation of contract sum by top public officers, payment for jobs not executed, undue inflation of salaries and allowances, diversion of government revenue by public officers, illegal printing of receipts by those entrusted to collect revenue on-behalf of government, forgery of signatures on cheques, payment of ghost workers and falsification of financial account.

Corruption according to (Smith, 2007) is more noticeable in Kenya because no-body has been brave enough to stop political corruption resulting from bad leadership which has led to poverty and gross inequality.

(Obayelu, 2007) also opined that corruption is prevalent in Kenya because of weak institutions, poor legal system, use of discretionary power due to absence of clear codes and rules.

### **Financial Accounting Standards**

International Financial Reporting Standards (IFRS) is a reporting standard of firm's finances that has gained a great recognition all over the world and is a more consistent framework of accounting. It has become the main Generally Accepted Accounting Practice (GAAP) worldwide and thus widely used. In the year 1998, Institute of Certified Public Accountants of Kenya (ICPAK) embraced international accounting standards for financial reporting in Kenya and required all the companies incorporated in Kenya to prepare their financial statements in accordance with IAS and such financial statements to be audited in accordance with international standards on auditing. Since 1999, auditor's opinion in the financial statement states that these statements are to be prepared and be presented in accordance with IAS. One may however ask whether in reality the financial statements fully comply with the requirements of IAS (Chege, 2005).

### **Effective internal control system:**

Glance (2006) provided that internal control system refers to "the local government process and procedure that is been established with the aim of objective achievement." 125 of (IAG, 2008) stipulated that "local government should provide a sound system of internal control system which should assist toward the achievement of objective." Similarly, the internal control system also serves as a process that guides an organization towards achieving its established objectives (Amudo&Inanga, 2009; Baltaci&Yilmaz, 2006; Jokipii 2010). From the above definition of internal control system, it can understand clearly that it all about the provision that will assist to the achievement of objectives. Therefore, for the purpose of this study effective internal control system refers to the effective control measures established by an organization with the aim of safeguarding their assets ensure the reliability of records both financial and non-financial as well as compliance with relevant policies and procedure that will ensure the achievement of organizational objective. In this context, local government should ensure that their internal control system is well established in order to assist internal audit towards objective achievement of organization. Similarly, quality of an organization internal control system has significant impact on the accuracy of management guidance, likewise firms that disclose ineffective internal controls system have larger tendency of experiencing management errors in their operation than those firms that report effective internal controls system (Feng, Li &McVay, 2009). Therefore, it is the responsibility of management of an organization to ensure that effective internal control system is put in place that will ensure the achievement of organizational established objectives. This is because establishment and supervision of effective internal control systems are the responsibility of management, not auditors (Changchit et al, 2001). At the same time effective internal controls system are fundamental drivers toward earnings quality (Church & Schneider, 2008). In the same vein, effective internal control system has an essential role to play in a firm's success (Jokipii, 2010); in line with the above issue, effective internal control system could also play an important role in the effectiveness of internal auditors particularly at local government.

All of government ministries and agencies should improve the effectiveness of internal control system, internal audit function and organization commitment because they improve good governance (Eko&Hariyanto, 2011) in addition, such effective internal control system can provide information to management about the entity's progress, or lack of progress toward the achievement of their objectives (Changchit et al, 2001; Jokipii, 2010; Nilniyom&Chanthinok, 2011; Vijayakumar&Nagaraja, 2012; Verdina, 2011). Therefore, Baltaci and Yilmaz (2006) observed that establishing internal control system and audit practices at the local government level has received little or no attention. And without establishing an effective internal control system at local government level, detection and control of misconduct in the local government would not be possible. Therefore, implementing and maintaining such effective internal control system will ensure compliance with laws and regulations even in health care section (Amudo&Inanga, 2009; Gundling, 2000). Meanwhile, it is good for local government to improve the effectiveness of their internal control system in order to

enhance the effectiveness of internal audit. Furthermore, the main responsibilities of internal control system in local government covers; ensuring full protection of council's assets; ensuring proper utilization of councils resources; proper authorization of revenue and expenditure; proper expenditure monitoring; removal of any misconduct in finances (Kwanbo, 2010). Due to the world recognition of the important of effective internal control system establishment at local level, some countries still have weak internal control system at their local level, for instance; Baltaci and Yilmaz (2006) discovered some of the world countries that has weak internal control system at their local government level which include; Argentina, Bosnia, China, Columbia, India-Karnataka State, Indonesia and Philippines. This is similar to the study of (Adeyime, 2012; Kuta, 2008; Kwambo 2009; Musa, 2012) which also found that local government in Nigeria has weak internal control system, which need to be improved. Also firms need to improve the effective and efficiency of their internal control system (Nilniyom&Chanthinok, 2011). Similarly, Vijayakumar and Nagaraja (2012) show concerned that governing bodies of public sector entities need to ensure effective system of internal control because is one of the several factors that influence the performance of an organization and it plays a vital role in achieving management intended objectives that would lead to the successful operations. It is not enough for an organization to have internal controls system over their critical processes but is to ensure that those controls are effective (Candrea, 2006).

Al-Twaijry et al (2004) also found that effectiveness of internal control system helps external auditors to rely on the work of internal auditors and thereby improve their effectiveness. Therefore, internal control systems are integral component of the management processes of a public sector which should be establish in order to provide reasonable assurance that the operations are carried out efficiently and effectively. Effective internal controls systems are essential to the effectiveness of local governments operation because it deals with the activities or procedures that are designed to provide reasonable assurance that operations are performing according to plan and these can also influence the effectiveness of internal audit. COSO also provides the basic principles representing the fundamental concepts of effective internal control in five components of the framework (Candrea, 2006; Sudsomboon&Ussahawanitchakit, 2009). Though Amudo and Inanga (2009) argued that the weakness of the COSO mechanism is failure to recognize Information Technology as one of the major control components of internal control system and Information Technology is very crucial to internal control framework. That is why most organizations today used Information Technology for authorization, initiation, recording and processing of transactions, because its ensures effectiveness of internal controls system and thereby making it six. At the same time advancements in technological have increased the importance placed on internal controls system (Rezaee et al, 2001). These components must be present and functioning effectively for any internal control system to achieve organizational objectives (COSO):

- Control environment: Is the major aspect of managing an organization this is because is a reflection of the attitude and the policies of management in regard with the importance of internal audit in the economic unit (Theofanis, et al 2011). It has influence over organization goals achievement (Aldridge & Colbert, 1994). However, it is the foundation for the other components of internal control and providing structure (Sudsomboon&Ussahawanitchakit, 2009). Control environment assist toward reducing the level fraudulent activities within organizational operation also the quality of an entity's internal controls system depend on the function and quality of their control environment (Amudo&Inanga, 2009). Therefore, providing a proper control environment for a local government is very essential to the effectiveness of their operation.
- Risk assessment: This is the identification and analysis of relevant risks associated with the achievement of the management objectives (Theofanis, et al 2011), similarly (Sudsomboon&Ussahawanitchakit, 2009) view risk assessment as the process of identifying and analyzing management relevant risks to the preparation of financial statements that would be presented fairly in conformity with general accepted accounting principle. In this situation, management must determine the level of risk carefully to be accepted, and should try to maintain such risk within determined levels. Therefore, local governments are required to frequently assess the level of risk their experiencing in order to take necessary actions.
- Control activities: These are policies, procedures and mechanisms that ensure management's directives are properly carry out (Aikins, 2011; Rezaee, Elam &Sharbatoghlie, 2001). Proper documentation of policies and procedural guidelines in these aspects help to determine not only how the control activities are to be executed but also provide adequate information for auditors examination of the overall adequacy of control design over financial management practices (Aikins, 2011). This control activities ensure that all necessary actions should be taken with the aim to address risks so that organizational objectives are achieves. Example of control activities include; segregation of duties, daily deposit of cash receipts, bank reconciliations and limiting access to check stock

### 1.1 Research Problem

According to (Gire, 1999) the rate at which corruption has grown in Kenya is such that it looks as if it has been legalized. The studies on corruption conducted by the Transparency International in 1996 placed Kenya as among the most corrupt nations with Pakistan coming second from the rear out of 54 nations used in the study (Moore, 1997). As at year 2012, Kenya was still among the twenty most corrupt countries in the world (Obayelu, 2007). This study seeks to confirm whether what is portrayed by accountants and auditors from published financial reports are actually true from the perspective of both internal control and accounting standard.

## 1.2 Research Question

The main purpose of this research is to find out whether accounting in the past had effect on corruption in the public sector in Kenya. The specific research questions are:

1. Do Internal Control have any significant relationship with corruption control in the public sector in Kenya?
2. Do Application of Accounting Standards have any significant relationship with corruption control in the public sector in Kenya?

## 2. Theoretical framework

The theory considered for this research is the theory of neo-patrimonialism. The term neo-patrimonialism has been used to mirror the political problem experienced by most African and developing countries (Roth, 1968). Neo-patrimonialism also involves the use of state resources to get the loyalty of "godfathers" within a population.

According to (Gambo, 2006) "godfathers" could be described as the unilateral power and overwhelming influence of an individual to decide who picks a party ticket and who eventually wins within the Nigerian politics. In a bid to satisfy these "godfathers" public office holders squander state funds (Ogundiya, 2009). The agitation by the political class that presidency should be rotated or zoned among the various ethnic groups in Nigeria is believed to be a way for these ethnic groups to have access to the wealth of the country (Ogundiya, 2009). The idea of zoning is hoped to be a good representation of the centre, and that was why the idea of the federal character was entrenched in the 2010 constitution of the federal republic of Nigeria (Ogundiya, 2009).

The inclusion of the federal character in the 1999 constitution was not a genuine motive but an avenue to settle differences among ethnic groups over the distribution of resources within the Nigeria state (Ogundiya, 2009). Success of each zone within the ethnic groups is measured in terms of political appointments secured which determines the percentage of share accruing from the "national cake" (Ogundiya, 2009).

Therefore, it is a normal norm to steal from the common wealth in Nigeria (Ogundiya, 2009). Neo-patrimonialism as a theory has been used for this study to give a picture of what transpired within the colonial era which has features of illegitimacy and exploitation, and the political situation in Nigeria which involves corruption and cheating of the system which has denied the population of basic amenities because of the selfish interest of the political class. Since the colonial era, corruption has continued in Nigeria unabated (Ogundiya, 2009).

### 2.1 History of Corruption in the Public Sector in Kenya.

The history of corruption in the public sector in Kenya can be traced to the era of the colonial masters. The colonial masters were successful in colonizing the country via the use of both direct and indirect rule by engaging the services of local officers from different parts of the country. Those whose services were engaged were not indigenes of the region assigned to them. Some of the local officers abused their new found power and influence for their selfish interest (Owolabi, 2007). After independence, the politicians that were elected into office and other public servants exhibited traces of corrupt tendencies. During the period of election, there was manipulation of votes while some went to the extent of hiring thugs to intimidate and sometimes eliminate political opponents. At the assumption of Office, these public officials were more particular about their selfish interest at the expense of the public (Owolabi, 2007).

The military in 1966 took over power citing the massive corruption of public officials as the major reason for their intervention. However, the military regime proved to be worse than their civilian counterparts which ultimately led to the proliferation of corruption in the country as each military regime was identified with arbitrary use of power, non-transparency and lack of being accountable. The foregoing trend created a culture of corruption within government while public officers saw it as an avenue to continue with their financial recklessness (Owolabi, 2007).

### 2.2 Accounting and Corruption

Maintaining proper books of records throughout the life of an establishment is very important (Thurston, 1997). The role of accountants in fighting corruption will be more felt if certain controls are in place such as making sure that those caught perpetrating corrupt acts are dealt with under the laws of the land irrespective of their status, ensuring that proper cover is given to those who expose corrupt practices, having a good tax reform, system of reporting accounting transactions enhanced, proper way of knowing how well civil servants have performed established, and giving more powers to those who are known as watchdogs like the auditor (Pope, 1998). A study on what causes corruption in the public sector in Nigeria was conducted by (Ogundiya, 2009) and he discovered that weak internal control in public organizations account for fraudulent practices which include over reliance on an employee by a senior officer in the discharge of certain duty, arbitrary procedure of authorization, lack of constant appraisal of performance, less emphasis on detail, lack of accounting knowledge by management, lack of proper training of staff, inadequate separation of accounting duties, irregular review of the accounts department and improper documentation of accounting records.

(Abubakar, 2011) carried out a research on the compliance to accounting standards at both the public and private sector in Nigeria and he found out that there was compliance at both sectors as required by the Accounting Standards Board, but the rate of compliance was below 91% which is the global benchmark. As for (Grunner, 1993) accounting will have effect on corruption if proper disclosures are reported accordingly and such disclosures should not be historic in nature but very timely.

### 3. Research Methodology

The Procedure of the study is descriptive and it belongs to the generic research design called survey design (Adepoju, 2013). The population involves staff in five selected ministries in Kenya

#### 3.1 Sampling Frame and Technique.

The sample size of this study is made up of 132 respondents while the sampling procedure adopted is random sampling because it is the generally acclaimed method of probability (Adepoju, 2013).

Proportional stratified random sampling was adopted. The sample was divided into three strata with each stratum comprising of 44.

#### 3.2 Research Instrument

A questionnaire was used as the instrument of the research. The choice of a questionnaire was convenient because it is less expensive. The opinion of respondents to the various assertive questions was achieved through the use of Likert Scale format which is a scale of psychometrics usually used for questionnaires. The five point Likert Scale was adopted and weights were attached accordingly as follows; Strongly Agreed 5, Agreed 4, Undecided 3, Disagreed 2, Strongly Disagreed 1. The use of both the primary and secondary method of collecting data was applied. The primary data consist of the questionnaire design and the analysis of the response of respondents.

The Secondary data includes previous work carried out by scholars on how accounting has impacted on corruption.

#### 3.3 Validity and Reliability of Data

The content of the research instrument was validated to confirm that it measures the variables under investigation in the study. The first draft of the questionnaire was given to three senior academic colleagues. Their critique was noted and improvements were made. The improved copy was given to two other professional colleagues who also contributed positively. Their input was incorporated in the final copy which was used as the basis for carrying out the study. To confirm reliability of data the Cronbach Alpha Coefficient was used because it is the most widely adopted technique to test for reliability of result. A Cronbach Alpha of 61.4% was achieved. This shows that the data used are reliable.

#### 3.4 Method of Data Analysis

In this study the multiple regression analysis will be used because there is more than one independent variable.

### 4. Data Analysis

In this section, result of the research objectives is presented using Multiple Regression Analysis.

#### Research Objective

1. Do internal controls have any significant relationship with corruption in the public sector in Kenya?
2. Do Application of Accounting Standards have any significant relationship with corruption in the public sector in Kenya?

**Table 1. Coefficients**

Model	Unstandardized		Standardized	T	Sig.	95% Confidence Interval for B		Correlations		
	Coefficients		Coefficients			Lower Bound	Upper Bound	Zero-order	Partial	Part
	B	Std. Error	Beta							
1 (Constant)	25.009	6.368		3.927	.000	12.409	37.609			.102
InCont	.249	.209	.123	1.196	.234	-.163	.662	.221	.105	.146
AStdCont	.488	.284	.176	1.717	.088	-.074	1.050	.245	.150	

**Table 2. Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
					1	.265 <sup>a</sup>	.070	.056	12.29155	

- a. Predictors: (Constant), AStd, InCont
- b. Dependent Variable: CCont

**Table 3. Correlations**

		CCont	InCont	AStdCont
Pearson Correlation	CCont	1.000	.221	.245
	InCont	.221	1.000	.560
	AStdCont	.245	.560	1.000
Sig. (1-tailed)	CCont		.005	.002
	InCont	.005		.000
	AStdCont	.002	.000	
N	CCont	132	132	132
	InCont	132	132	132
	AStdCont	132	132	132

From table (1) above, a model is derivable as follows:

$$Y = 2.5.009 + 0.25x_1 + 0.49x_2$$

Where:

Y = Corruption

X1 = Internal Control

X2 = Application of Accounting Standards.

From Table (2) above the percentage of contribution explained in the dependent variable (corruption control) by the predictors (Internal control and Accounting Standards) is only 5.6% as indicated in the Adjusted R- Square which is not significant. Also, from table (1) it is obvious that both Accounting Standards and Internal Control do not have Significant impact on corruption control with a beta of approximately 0.18 and 0.12 respectively.

However, from table (1) it is easy to safely conclude that both Internal Control and Accounting Standards have 25% and 49% impact respectively on corruption control which is also grossly insignificant, which means a change in Accounting Standard and Internal control will not result in a significant change in corruption control.

Although, a positive correlation exist between each of the predictors (internal control and accounting standard) and the dependent variable (corruption control) from the Pearson correlation in figure (3); the correlation is weak and near zero and also statistically insignificant.

## 5. Conclusion and Recommendation

From both primary and secondary data considered, it has been observed that although there are traces of the existence of internal control and the application of guidelines as issued by the Accounting Standards Board of Kenya; the level of compliance has been very weak to combat the level of corruption in the public sector in Kenya. Top management personnel should have basic accounting knowledge while management should also ensure that payroll is regularly reviewed such that payment of salary is only to legitimate workers of an establishment to erase the possibility of paying ghost workers.

In addition, management of each ministry should make sure that there is training and retraining of staff and their accounting responsibility well spelt out.

Government is advised to ensure that accounting policies and procedures are structured taking into consideration the legal aspect of financial operations that involves the public sector. The legal aspect should have strict punitive measures to deter others from viewing government appointments as an avenue to amass wealth.

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