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Forensic Accounting and Audit Failure in the Nigerian Public Sector

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ABSTRACT :

Audit failures, particularly those evident in financial misstatements and undetected fraud, continue to weaken the credibility of public financial management in Nigeria. Although regulatory reforms and periodic audits are in place, persistent shortcomings in detection and reporting have led developed nations to adopt stronger audit measures. In contrast, limited research has been conducted on this issue in developing economies. This study explores the relationship between forensic accounting practices and audit failure in Nigeria's public sector, applying quantitative content analysis to secondary data from 50 MDAs covering the period 2015–2023. Descriptive statistics, correlation analysis, and Ordinary Least Squares (OLS) regression were employed to assess these relationships. The findings reveal no significant link between forensic procedures and audit failure, measured by unreported misstatements. Similarly, an insignificant positive correlation was observed between flagged fraud cases and audit failure, measured by undetected fraud. Nonetheless, a review of empirical literature highlights the potential of forensic accounting to enhance audit quality when effectively implemented. The study concludes that institutionalizing forensic audit practices and strengthening auditor expertise could improve fraud detection and reporting accuracy in Nigeria's public financial oversight system.

Keywords: Forensic procedures, flagged fraud cases, audit failure, unreported misstatements, undetected fraud

Introduction

Audit failure, marked by material misstatements and undetected fraud, continues to erode the credibility of public financial reporting globally. In developed economies, regulatory initiatives such as the Sarbanes-Oxley Act in the U.S. and audit quality reviews in the U.K. have sought to address these failures. However, high-profile scandals such as Wirecard in Germany and Carillion in the U.K. illustrate ongoing vulnerabilities (Organisation for Economic Co-operation and Development (OECD, 2021). In contrast, developing nations, including those in sub-Saharan Africa, often experience audit failures due to institutional weaknesses, lack of auditor independence, and limited capacity of supreme audit institutions (Association of Chartered Certified Accountants (ACCA, 2022). In Nigeria, repeated reports by the Office of the Auditor-General for the Federation (OAGF) document persistent financial misstatements, irregular contract awards, and violations of procurement regulations that remain undetected by conventional audits (OAGF, 2023; ICAN, 2022). These deficiencies undermine public confidence and weaken the effectiveness of legislative oversight mechanisms.

Misstatements refer to inaccuracies or discrepancies in financial statements that distort the true financial standing of public entities, while undetected fraud reflects audit system failures to uncover fraudulent activity, often facilitated by collusion, control overrides, or auditor negligence (De fuentes & Porcuna, 2018). In alignment with Abdulrahman, (2019), the core of forensic accounting lies in deploying investigative techniques such as Benford's Law, digital forensics, data mining, and detailed audit trails to uncover concealed irregularities.

Forensic audit procedures also aim to limit opportunities and rationalizations for fraudulent activity, directly addressing elements of the Fraud Triangle Theory (Oyewole et al., 2021). Empirical research supports the potential of forensic accounting methods to reduce misstatement frequency and severity while improving fraud detection in public sector institutions (Oyerogba, 2021). By exploring the extent of forensic interventions in relation to audit failure, this study seeks to provide statistical and content-based evidence of how forensic accounting enhances audit quality within Nigeria's public sector.

This research holds significance for policy formulation, academic discourse, and practical audit implementation. It offers updated insights into evolving patterns of audit failure and highlights the role of forensic interventions in addressing these challenges in sub-Saharan Africa. Practically, the study provides a framework for auditors, oversight bodies, and anti-corruption agencies to strengthen audit systems and institutional accountability.

Nevertheless, audit failures persist despite institutional reforms and routine external audits (Abdulrahman, 2019; Oyerogba, 2021). Current literature reveals several gaps: limited reliance on content analysis of Auditor-General and Public Accounts Committee (PAC) reports, and insufficient exploration of empirical links between forensic accounting tools and specific audit failure indicators in Nigeria. This study addresses these gaps by analyzing secondary data from institutional audit reports and applying quantitative methods to examine correlations between forensic practices and audit outcomes.

In line with this objective, the study investigates whether a statistically significant relationship exists between forensic accounting practices and audit failure in Nigerian public financial management. The analysis focuses on two key variables application of forensic procedures and reported fraud cases and assesses audit failure through a composite measure of unreported misstatements and undetected fraud.

Literature Review

This section presents scholarly evidence and establishes the theoretical basis for the research.

2.1 Audit Failure and Public Financial Management

Audit failure, manifesting through material misstatements and undetected fraud, remains a critical challenge globally, undermining the credibility of financial reporting and public sector accountability. Developed economies have introduced regulatory frameworks such as the Sarbanes-Oxley Act in the United States and the audit quality review system in the United Kingdom to mitigate audit risks. However, major scandals, including Wirecard in Germany and Carillion in the United Kingdom, reveal persistent gaps in assurance systems (Organisation for Economic Co-operation and Development (OECD, 2021). In developing nations, particularly across sub-Saharan Africa, audit failures often stem from institutional weaknesses, insufficient auditor independence, and inadequate capacity within supreme audit institutions (Association of Chartered Certified Accountants (ACCA, 2022). In Nigeria, recurring reports from the Office of the Auditor-General for the Federation (OAGF) have highlighted serious financial misstatements, irregular contract awards, and procurement violations that often go undetected in routine audits (ICAN, 2022; OAGF, 2023). These systemic failures erode legislative oversight, diminish public trust, and hinder fiscal discipline.

2.2 Misstatements in Public Sector Financial Reporting

According to international auditing standards, misstatements refer to omissions or inaccuracies in financial statements that misrepresent an entity's economic condition. In Nigeria's public sector, misstatements are often linked to weak internal controls, low professional skepticism among auditors, and deliberate manipulation of data to serve political or bureaucratic interests (De fuentes & Porcuna, 2018). The OAGF's annual reports consistently highlight misstatements involving unexplained expenditures, duplicate transactions, and breaches of the International Public Sector Accounting Standards (OAGF, 2023). Persistent misstatements expose systemic audit deficiencies, including limited audit scope, inadequate auditor expertise, and political interference (Oyerogba, 2021). If left unchecked, they facilitate corruption, encourage financial mismanagement, and obstruct effective budget execution. Consequently, the prevalence of misstatements serves as a critical indicator of audit failure and a measure of the robustness of governance structures.

2.3 Undetected Fraud and Audit Ineffectiveness

Undetected fraud refers to financial crimes, such as procurement manipulation, asset misappropriation, and financial statement fraud, that escape detection by conventional audits. This issue reflects not just technical oversights but also institutional weaknesses in assurance systems. In Nigeria, such frauds are often systemic, enabled by collusion, exploitation of audit loopholes, and suppression of findings (Egbunike & Asogwa, 2021). Examples include ghost worker schemes, inflated contracts, and public fund diversion, many of which come to light through whistleblower reports or external investigations by anti-corruption agencies. Limited use of data analytics, outdated audit methodologies, and political influence contribute to these failures (ICAN, 2022). Undetected fraud represents a serious governance risk, underscoring the need for advanced forensic interventions.

2.4 Forensic Accounting Procedures

Forensic accounting techniques are investigative tools used to detect, analyze, and report financial crimes. Unlike traditional audits focused primarily on compliance and materiality, forensic audits investigate intent, uncover hidden patterns, and collect corroborative evidence (Oyerogba, 2021). These techniques include digital forensic audits, Benford's Law analysis, structured interviews, link analysis, and triangulation of financial data with operational records. They are especially effective in exposing procurement fraud, shell company activities, and undisclosed related-party transactions.
Despite their promise, adoption in Nigeria's public sector remains inconsistent due to inadequate training, technological limitations, and weak institutional mandates. However, enforcement agencies like the Economic and Financial Crimes Commission (EFCC) have successfully employed forensic methods to uncover frauds that traditional audits overlooked (Oyewole et al., 2021). The presence and frequency of forensic procedures not only indicate institutional investigative capacity but also act as a deterrent, contributing to both detection and prevention of financial crimes.

2.5 Flagged Fraud Cases as Indicators of Institutional Capacity

Flagged fraud cases represent incidents of financial misconduct identified and validated through audit or forensic reviews. This metric captures both fraud prevalence and detection capacity. Contrary to a negative interpretation, rising numbers of flagged cases may demonstrate improved detection systems and stronger enforcement of audit recommendations. In Nigeria, such cases, including misappropriations, unexecuted contracts, and procurement violations, are regularly reported in Auditor-General and Public Accounts Committee (PAC) reports and frequently referred to agencies like the EFCC and Independent Corrupt Practices Commission (ICPC).
The volume of flagged fraud cases serves as a barometer of forensic audit effectiveness. Studies show that increased fraud detection correlates with the expansion of forensic auditing practices and institutional reforms that enable auditors to go beyond compliance-based reviews (De fuentes & Porcuna, 2018; Egbunike & Asogwa, 2021). Forensic tools and flagged fraud cases are thus not only performance measures but functional mechanisms for reducing audit failures. When effectively applied, these interventions are expected to identify anomalies, reduce audit failures, and strengthen governance systems. The theoretical framework of this study is built on the expectation of an inverse relationship: as forensic accounting practices intensify, audit failures, measured by misstatements and undetected fraud, should decline.

2.2 Theoretical Review

This study is anchored on two key theoretical perspectives: the *Fraud Triangle Theory (FTT)* and the *Institutional Theory of Accountability (ITA)*.

2.2.1 Fraud Triangle Theory (FTT)

The Fraud Triangle Theory, developed by Donald Cressey, is a foundational framework for understanding occupational fraud and audit failures. It asserts that fraud occurs when three conditions, *pressure, opportunity, and rationalization*, coexist (Abdullahi & Mansor, 2015). Within public sector contexts, these conditions often manifest as financial or political pressures, weak internal controls or audit mechanisms (opportunity), and cultural or personal justifications for unethical behavior (rationalization). Research highlights the theory's relevance in Nigeria's public sector, where economic hardship, pervasive corruption, audit inefficiencies, and weak prosecution create an environment conducive to fraud (Oyewole et al., 2021). Ineffective audits that fail to uncover misstatements and concealment perpetuate this cycle.

Forensic accounting offers a countermeasure by addressing the *opportunity* element of the triangle. It employs data-driven anomaly detection, advanced investigative procedures, and broader audit coverage to identify irregularities early (Oyerogba, 2021). By proactively flagging suspicious activity, forensic methods reduce the likelihood of financial misconduct going undetected. Thus, FTT provides a practical lens for linking forensic interventions with audit failure indicators, particularly misstatements and undetected fraud.

2.2.2 Institutional Theory of Accountability (ITA)

The Institutional Theory of Accountability posits that public agencies and organizations adopt regulatory practices, transparency measures, and audit systems primarily to maintain legitimacy in the eyes of oversight bodies, citizens, and international stakeholders (Kauppi, 2022). Within this framework, audit failures are not only technical shortcomings but often stem from institutional inertia, weak enforcement, and superficial compliance with accountability norms. According to Egbunike and Asogwa (2021), forensic accounting can only succeed in environments where institutions are structurally accountable and responsive to audit findings. When reports from the Auditor-General or Public Accounts Committee (PAC) are ignored, even the most robust forensic evidence may fail to produce meaningful reforms.

While ITA offers valuable insights into institutional and governance-related barriers, it is less suited for analyzing the operational and behavioral factors behind fraud detection failures. By contrast, FTT provides a more actionable diagnostic framework, directly linking individual behavior, system vulnerabilities, and forensic accounting measures (De fuentes & Porcuna, 2018). For this reason, FTT is adopted as the *primary theoretical foundation* of this study. Its established empirical validity, adaptability to public sector contexts, and alignment with forensic auditing tools make it a stronger basis for analyzing how forensic interventions mitigate audit failures. ITA is acknowledged as a complementary lens for understanding systemic compliance challenges but is not the central theory guiding this research.

2.3 Empirical Review

2.3.1 Forensic Procedures and Audit Failure (Unreported Misstatements)

Numerous empirical studies have investigated how forensic accounting techniques, such as *Benford's Law analysis, audit trail mapping, and digital forensics*, help mitigate financial misstatements in public sector organizations. Misstatements, whether deliberate or accidental, are often associated with *weak internal controls, a lack of auditor independence, and poor ethical standards* in financial administration. Oyerogba, (2021) found that the introduction of forensic audit interventions in selected Nigerian ministries led to a *22% reduction in material misstatements* over three years. Their regression analysis demonstrated a significant inverse correlation between the application of forensic audit procedures and the incidence of accounting misstatements. Similarly, De fuentes and Porcuna, (2018), through an analysis of federal audit reports, observed that Ministries, Departments, and Agencies (MDAs) subjected to forensic reviews reported fewer instances of *budget padding, unsupported transactions, and asset reporting discrepancies*.

At a broader level, Egbunike and Asogwa (2021) confirmed that forensic accounting has a *statistically significant positive effect* on financial reporting reliability in Nigeria's public sector. Using panel data from 2010-2020 and content analysis, they established that forensic practices were strongly linked to improved IPSAS compliance and a decline in recurring audit qualifications. Similar results have been reported in East Africa; for instance, Mwangi and Rotich (2022) found that the establishment of forensic audit units within Kenyan public oversight agencies significantly enhanced audit quality. Collectively, these studies challenge the *null hypothesis* by providing strong evidence of a *negative relationship* between the deployment of forensic procedures and the frequency of material misstatements in public sector financial reporting.

2.3.2 Flagged Fraud Cases and Audit Failure (Undetected Fraud)

Research has also examined the relationship between the number of fraud cases flagged through forensic techniques and the amount of fraud that traditional audits fail to detect. *Flagged fraud cases serve as measurable indicators of forensic auditing effectiveness* and signal an institution's capacity for timely fraud detection. Adebayo and Edokwe (2022), in their study of Nigerian parastatals, found that higher instances of fraud identified by forensic procedures correlated with a *reduction in fraud cases later exposed by whistleblowers or investigative panels*, underscoring the proactive role of forensic audits in preventing audit failures. Similarly, Omesi, & Osamudiamen, (2024), in their study, revealed that forensic accounting contributes not only to detecting and investigating fraud but also to the design of stronger internal controls and regulatory frameworks in public financial management

Additional evidence comes from the ICPC's 2023 procurement audit, which reported that *over 70% of identified contract fraud cases were first flagged by forensic teams* within MDAs, preceding whistleblower reports. Alhassan, (2020) further demonstrated, through panel regression analysis, that the number of fraud cases identified in government financial reviews was *inversely related* to those uncovered by investigative commissions. These findings collectively reject the *null hypothesis*, affirming that *increased forensic detection capacity reduces the prevalence of undetected fraud* within Nigeria's public financial management framework. Overall, the reviewed empirical studies establish that *forensic accounting is not merely an enhancement to existing audit systems but a critical determinant of audit quality*. Evidence from Nigeria and comparable jurisdictions shows that

forensic interventions lead to *fewer misstatements, enhanced fraud detection, and reduced audit failures*. These findings reinforce this study's theoretical foundations and underscore the urgency of *integrating forensic practices across all public sector audit functions*.

3. Methodology

This study adopts a *quantitative content analysis research design*, relying on *secondary data* obtained from official government audit publications. Key sources include the *Office of the Auditor-General for the Federation (OAGF) annual reports*, *Public Accounts Committee (PAC) proceedings*, and *investigation summaries* from the *Independent Corrupt Practices Commission (ICPC)* and the *Economic and Financial Crimes Commission (EFCC)*. These documents were selected for their *consistency, credibility, and longitudinal coverage*, providing relevant data points on *forensic interventions* and *audit failures* across Nigeria's *Ministries, Departments, and Agencies (MDAs)* from *2015 to 2023* (ICPC, 2023; OAGF, 2023).
A *purposive sampling technique* was used to select *50 MDAs* that had been *repeatedly cited for financial irregularities* or subjected to *forensic audits* in Auditor-General reports. This sampling strategy ensures adequate representation and variability in the study's *independent and dependent variables* (Oyerogba, 2021). The dataset was analyzed using *descriptive statistics, Pearson correlation, and Ordinary Least Squares (OLS) regression* to assess the *strength and direction* of relationships between forensic accounting techniques and audit failure indicators (De fuentes & Porcuna, 2018). All statistical analyses were performed with *SPSS software*, ensuring reliable model estimation and enhanced validity of results.

3.1 Model Specification

The econometric model was adopted from the work of De fuentes & Porcuna, (2018) is specified thus: $AFI_{it} = \beta_1 + \beta_2 FP_{it} + \beta_3 FFC_{it} + \varepsilon_{it}$
Where AFI = Audit Failure Indicator (composite of misstatements and undetected fraud); FP = Forensic Procedures; FFC = Flagged Fraud Cases; and **ε** = error term.

Forensic accounting practices, captured through forensic procedures and identified fraud cases, are assessed using frequency counts and categorical measures derived from audit reports and Public Accounts Committee (PAC) records. Audit failure is represented by the occurrence of misstatements and undetected fraud, both of which are measured based on recorded audit violations and instances of delayed fraud detection (Adebayo & Edokwe, 2022).

4. Results and Discussion of Findings

This section presents and discusses the descriptive statistics of the data collected for the study. A summary of these statistics is shown in Table 1 below.

Table 1: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
Forensic Procedures	5.20	2.49	1	9
Flagged Fraud Cases	8.50	3.89	2	14
Misstatements	10.46	4.53	3	19
Fraud Not Detected	4.62	2.86	1	9
Audit Failure Indicator	15.08	4.60	6	27

Source: Researcher's Computation (2025)
The descriptive analysis highlights the central tendencies and variability of the study variables. On average, 5.20 forensic procedures (SD = 2.49) were applied across the sampled MDAs, reflecting moderate yet uneven adoption of forensic auditing, some entities employ these techniques extensively, while others show minimal or no usage, likely due to resource limitations or institutional constraints (Oyerogba, 2021).
The mean for flagged fraud cases is 8.50 (SD = 3.89), indicating a relatively high detection rate through forensic methods such as digital analytics and audit trail mapping, underscoring their growing role in Nigeria's anti-corruption initiatives (ICPC, 2023). In contrast, misstatements average 10.46 (SD = 4.53), reflecting persistent deficiencies in financial reporting, while undetected fraud averages 4.62 (SD = 2.86), highlighting the limitations of traditional audit approaches (Adebayo & Edokwe, 2022). The composite Audit Failure Indicator (AFI) of 15.08 (SD = 4.60) illustrates systemic audit weaknesses, as many MDAs simultaneously experience reporting inaccuracies and undiscovered fraud. All mean values fall within their respective ranges, supporting the internal consistency of the dataset.

Table 2 Correlation Matrix

Variable	Forensic Procedures	Flagged Fraud Cases	Misstatements	Fraud Not Detected	Audit Failure Indicator
Forensic Procedures	1.000				
Flagged Fraud Cases	0.055	1.000			
Misstatements	-0.095	0.112	1.000		

Variable	Forensic Procedures	Flagged Fraud Cases	Misstatements	Fraud Not Detected	Audit Failure Indicator
Fraud Not Detected	0.091	-0.089	-0.292	1.000	
Audit Failure Indicator	-0.037	0.055	0.804	0.333	1.000

Source: Researcher's Computation (2025)

The Pearson correlation analysis examines the linear relationships between the independent and dependent variables. The association between forensic procedures and audit failure is weakly negative (r = −0.037), suggesting that while greater use of forensic techniques may marginally reduce audit failures, the effect is negligible and statistically insignificant. This finding contrasts with theoretical expectations that forensic audits should strengthen fraud detection and minimize reporting errors (Egbunike & Asogwa, 2021).

The relationship between flagged fraud cases and audit failure is mildly positive (r = 0.055), which may indicate that increased fraud detection corresponds with higher observed audit failures either because improved scrutiny exposes pre-existing irregularities or because forensic interventions are often reactive, initiated after major audit lapses (Omesi, & Osamudiamen, 2024). Notably, misstatements exhibit the strongest positive correlation with the Audit Failure Indicator (r = 0.804), confirming their critical role as a key determinant of overall audit failure. Undetected fraud also shows a moderate positive correlation (r = 0.333), further underscoring its contribution to systemic weaknesses. Overall, the results imply that while forensic accounting tools are increasingly utilized, they have yet to serve as robust preventive or corrective mechanisms, likely due to inconsistent enforcement or operational inefficiencies within Nigeria's public sector.

Table 3 Regression Analysis (OLS Model)

Variable	Coefficient	Std. Error	t-Statistic	p-Value
Constant	14.894	2.077	7.172	0.000**
Forensic Procedures	-0.074	0.269	-0.276	0.784
Flagged Fraud Cases	0.067	0.172	0.391	0.698

R-squared: **0.005 → The model explains only 0.5% of the variance in audit failure.**

F-statistic: **0.109 (p = 0.897) → Not statistically significant.**

The regression analysis assessed the impact of Forensic Procedures and Flagged Fraud Cases on the Audit Failure Indicator (AFI). The results show a significant intercept (β = 14.894, $p < 0.001$), indicating a high baseline level of audit failures across MDAs. Forensic procedures have a negative but insignificant effect (β = −0.074, $p = 0.784$), while flagged fraud cases show a slightly positive, insignificant effect (β = 0.067, $p = 0.698$). The model explains only 0.5% of variance in audit failures ($R^2 = 0.005$), and the F-statistic (0.109, $p = 0.897$) confirms no overall significance. These findings suggest that current forensic interventions are insufficiently embedded in Nigeria's public financial management system to reduce audit failures effectively.

4.1 Discussion of findings

The first hypothesis examined whether the application of forensic techniques, such as Benford's Law analysis, data mining, and audit trail reconstruction, was associated with reduced unreported misstatements in public sector financial reports. Both the correlation (r = −0.095) and regression coefficient (β = −0.074, $p = 0.784$) indicated a negative but statistically insignificant relationship. This suggests that while forensic procedures may marginally reduce misstatements, their current implementation lacks sufficient depth to produce measurable improvements across MDAs. Factors such as inconsistent execution, inadequate institutional capacity, and limited integration into financial oversight systems likely contribute to this outcome (ICAN, 2022; OAGF, 2023). However, several studies report contrary findings. Oyerogba, (2021) observed a 22% reduction in material misstatements following the adoption of forensic auditing in select MDAs. Similarly, De fuentes and Porcuna (2018) and Mwangi and Rotich (2022) found that properly institutionalized forensic practices significantly enhanced audit accuracy in Nigeria and Kenya, respectively. The divergence between this study's findings and broader literature may stem from sample limitations, audit quality variations, or the relatively recent adoption of forensic techniques.

The second hypothesis explored the relationship between fraud cases identified through forensic audits and fraud left undetected. The correlation (r = −0.089) and regression coefficient (β = 0.067, $p = 0.698$) were weak and insignificant, suggesting that forensic interventions have yet to demonstrate a clear statistical effect on reducing undetected fraud. Nevertheless, prior research strongly supports the preventive value of forensic auditing. Adebayo and Edokwe (2022) linked increased flagged fraud cases with fewer whistleblower-driven discoveries, while Ajibade et al. (2021) reported that countries with established forensic frameworks exhibit lower rates of post-audit fraud exposure. ICPC (2023) similarly attributed over 70% of procurement fraud detections to forensic units within MDAs, reinforcing the tool's proactive potential. Alhassan (2020) further documented an inverse relationship between fraud uncovered through forensic audits and subsequent investigative findings, emphasizing their deterrent capacity.

Collectively, these results highlight a gap between observed statistical insignificance and empirical evidence supporting forensic auditing's efficacy. The findings underscore Nigeria's limited institutionalization of forensic practices, emphasizing the need for systemic reforms, enhanced capacity-building, and stronger integration of forensic accounting into public sector audit frameworks.

5. Conclusion and Recommendations

This study demonstrates that forensic accounting holds significant potential to strengthen audit quality and financial accountability in Nigeria's public sector, yet its implementation remains fragmented and weak. Regression and correlation analyses show negligible, statistically insignificant relationships between forensic procedures and audit failure indicators, despite extensive literature (2020-2025) confirming their effectiveness when systematically applied. The findings, therefore, point to an execution gap, not a conceptual limitation of forensic accounting.

Based on the above conclusions, several actionable recommendations are proposed. First, forensic procedures be made a compulsory element of annual audits for all MDAs under the oversight of OAGF and PACs. Second, b*uild audit capacity to p***r**ovide continuous training in forensic tools, analytics, and investigative techniques for auditors. Third, *f*oster stronger coordination between anti-corruption agencies (EFCC, ICPC) and audit institutions to expedite case resolution. Fourth, there should be an enactment of legal provisions requiring the timely implementation of forensic audit findings, reducing delays and political interference. Finally, **i***nvest in digital forensics to* upgrade technological infrastructure that will enable real-time anomaly detection, reducing reliance on whistleblowers and post-event probes.

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