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# INTERNAL CONTROL SYSTEM COMPONENTS AND FRAUD PREVENTION IN THE NIGERIAN BANKING SECTOR

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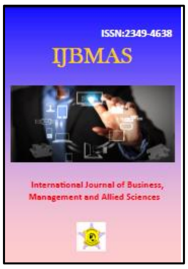


**ABSTRACT**

This study examine the relationship between components of banks' internal control system and fraud prevention in the Nigerian Banking sector. The study adopted a survey research design using Spearman Ranked Correlation (rho) to analyse the proposed hypotheses. The study revealed that compliance to internal control system, routine review of internal control system, employees training and job segregation exhibit a significant positive relationship with fraud prevention while independence of internal audit department from top management and management integrity exhibit an insignificant positive relationship with fraud prevention in the Nigerian banking sector. The study recommends that internal control system should be reviewed frequently in order to prevent lapses that could lead to fraud perpetration and training techniques should be aimed at improving not just technical skills but the personality and integrity of employees.

**Keywords**: Internal control, fraud, Job segregation and employees training.

**JEL Classification**: M4, M42

## 1. Introduction

The banks and non-bank financial institutions form the financial industry of an economy. However, the banking sector is described as the main corner stone of the economy (Owolabi, 2010). According to Adeyemo (2012), the banking sector is important in an economy because of the role it plays in the provision of an efficient payment system, financial intermediation, and facilitation of the implementation of monetary policies. Thus, the very essence and functions of this sector in any economy cannot be over emphasized. However, in recent times, the integrity and survivability of the above laudable functions of the banking sector most especially in Nigeria has been called into question in view of incessant frauds and accounting scandal. According to Oseni (2006), it is getting to a level at which stakeholders in the banking industry are losing their trust and confidence in the industry because of the rampant frauds in the industry. Casting our minds to the intervention of the Apex bank in the banking sector between 2005 and 2010, specifically, the case of the five banks (Intercontinental Bank, Spring Bank, Union Bank, Bank PHB and Oceanic Bank) that were on the verge of collapse, revelations gathered therefrom have revealed that the decay in the banking sector in Nigeria were caused by weak internal control systems, absence of or non-adherence to limits of authority, excessive risk taking, disregard for cannons of prudent lending, override of internal control measures, absence of risk management processes, insider abuses and fraudulent practices (Soludo, 2004). Similarly, the National Deposit Insurance Commission report (2011) shows a total of 2,352 cases of attempted fraud and forgery involving N28.40 billion with expected contingent loss of about N4.071 billion. All these presuppose that the fraud pervading the banking industry needs urgent solutions. This is because fraud has the effect of reducing the assets of an organisation and increasing the liabilities. Specifically, fraud in the banking industry, is likely to engender crises of confidence among the banking customers, reduces the going concern status of the bank and ultimately leading to bank failure. And bank failure will invariably affect the economy negatively

Literature also show that studies related to the subject matter, especially in Nigeria have not concentrated on the preventive mechanism of fraud through internal control system but rather on the negative effect of fraud. For instance, Idowu (2009) investigated and carried out an assessment on "Fraud and its management in Nigerian commercial banks"; Akindele (2011) was on ''Fraud as a negative catalyst in the Nigerian banking industry'', Adeyemo (2012) was on ''Frauds in Nigerian banks: Nature, deep-seated causes, aftermaths and probable remedies'', while Owolabi (2010) was on ''Fraud and fraudulent practices in Nigeria banking industry''.

Aside the above, the study of Idowu and Adedokun (2013), which focused on ''Internal control system and fraud detection: Nigeria experience'' was reactive in approach rather than a preventive approach to fraud. Akani and Oladutire (2013), Adebayo (2013) who considered this area of interest did not approach it from the angle of the New Fraud Diamond thus, making this study different. Outside Nigeria, the closest to this study to the best of the researchers' knowledge is the study of Ashu and Bindu (2009) which was principally on the perception and awareness of bank employees towards preventive mechanisms of fraud. Thus, giving the paucity of research work on internal control system as a preventive mechanism of fraud, the researchers were motivated to fill this specific gap in knowledge. Therefore, the broad objective of this study is to examine the relationship between the components of banks' internal control system and fraud prevention in the Nigeria. The specific objectives are to:

(1) assess the relationship between compliance to internal control system and fraud prevention in the Nigerian banking sector;

(2) examine the relationship between routine review of internal control system and fraud prevention in the Nigerian banking sector;

(3) investigate the relationship between independence of internal audit department from top management and fraud prevention in the Nigerian banking sector;

(4) ascertain the relationship between management's integrity and fraud prevention in the Nigerian banking sector;

(5) examine the relationship between employees training and fraud prevention in the Nigerian banking sector; and

(6) ascertain the relationship between segregation of duties among/between staff and fraud prevention in the Nigerian banking sector.

In line with the above objectives, the following hypotheses were tested in the course of this study:

**$H_{01}$:** There is no significant relationship between compliance to internal control system and fraud prevention in the Nigerian banking sector.

**$H_{02}$:** There is no significant relationship between routine review of internal control system and fraud prevention in the Nigerian banking sector.

**$H_{03}$:** There is no significant relationship between independence of internal audit department from top management and fraud prevention in the Nigerian banking sector.

**$H_{04}$:** There is no significant relationship between management's integrity and fraud prevention in the Nigerian banking sector.

**$H_{05}$:** There is no significant relationship between employees training and fraud prevention in the Nigerian banking sector.

**$H_{06}$:** There is no significant relationship between segregation of duties among/between staff and fraud prevention in the Nigerian banking sector.

Subsequent sections of this paper are as follows: section 2 which reviewed the various theories on which the study is anchored. Section 3 focused on the methodology, section 4 is on data presentation, analyses of result and hypotheses testing while section 5 is the conclusion and policy recommendations.

## 2. Conceptual and Theoretical Review

### *Concept of Fraud*

The issue of fraud cannot be spoken of without speaking of corruption. Corruption is fast becoming a household name in Nigeria. According to Waziri (2010), corruption operates when there is perversion or change in the generally acceptable laws and regulation for selfish reasons and motive. According to her, the behaviors that indicate corruption are embezzlement, bribery, fraud, nepotism or favoritism, misappropriation and conversion of public funds for personal gains, falsification of financial records...

Ackerman (2004) defines corruption as the misuse of power for either political or private gains. She further opines that corrupt activities that fall within this definition are paying and receiving bribes, fraud, embezzlement, conflicts of interest, and providing favors or payments in return for campaign gifts. Corruption is basically the generic name for acts of misconduct and unethical practices.

Fraud, which is a type of corrupt practice, has been defined by various groups. The Collins English dictionary defines fraud as a criminal offence in which a person acts in a deceitful way. According to Matsheza and Kunaka as cited in Hansen, Phute, Dembe, and Chikanza (2005), Fraud is the unlawful and intentional misrepresentation, which results in potential or actual loss. The Association of Certified Examiners of Fraud (ACEF, 2004:1) defines fraud as the "use of one's occupation for personal enrichment through deliberate misuse or misapplication of the employing organizations' resources or assets". Hansen et al (2005) opines that fraud can be either internal or external. When it is committed by those within any organization, it is viewed as internal and when it is done by outsiders, it refers to external fraud. Furthermore, they argue that fraud is prevalent in any system where the corporate governance structure or framework is weak or corrupted. They further emphasized that fraud differs from errors in that the latter is intentional and motivated while the former is not. However, Saksena (2012) assert that there are fundamentally three types of fraud: corruption, asset misappropriation, and fraudulent financial reporting and irrespective of the classification, the impact is similar for every organization.

Tiscini and Donato (n.d) argues that financial misreporting which is one of the many fraudulent acts perpetuated is a fall-out of weak corporate governance structure; they continue this argument by stating that choice as well as economic or financial conditions can also increase the probability of fraud in an organization. They also went further by stating that the presence of a sound corporate governance structure or mechanism like an efficient internal control system or independent audit committee would serve as deterrent to management that might want to indulge in fraudulent actions. In all, fraud is an act of corrupt practice aimed at gaining in an illegal way at the expense of others. It operates in systems where we have poor ethics and governance; where morals and best practices are thrown into the wind.

According to Wilhelm (n.d), there is no one single tool for preventing the occurrence of fraud in an organization however; some measures wherein fraudulent actions can be curbed will include the following: develop a sound corporate governance structure with accountability, responsibility, transparency, and fairness as core values. Two major players needed to curb fraud are the management staff and the auditors hence, these two should be well equipped to perform their roles. Auditors should be appointed and given an independent conducive atmosphere to work in while management staff should be people of integrity and given the necessary motivation especially in the area of remuneration. Strong internal control measures and independent internal audit department are also requisite tools that can be employed in fraud prevention and also, to mitigate fraud, stakeholders should apply good audit quality of adapting the performance sensitivity of managerial pay to staff or both (Pagano & Immordino, 2008)

***Concept of Internal Control System***

Internal control can be seen as a process put in place by the board of directors, management and other staff of an entity designed to provide reasonable assurance with respect to the achievement of objectives (COSO framework, 1992). The American Institute of Certified Public Accountants (AICPA) sees internal control as the plan of the organization and all of the associated measures and methods to ensure the accuracy and reliability of its accounting data, safeguard its assets, attain efficiency in its operations and ensure adherence to prescribed management polices. The Auditing Standards and Guidelines of both the councils of the Institute of Chartered Accountants of England and Wales, the Institute of Chartered Accountants of Scotland and the Institute of Chartered Accountants in Ireland is regarded as the most accepted definition of internal control. ' According to the Standards and Guidelines, internal control is the whole system of controls, financial and otherwise, put in place by management in with a view to carrying on the business of the organization in an orderly and efficient manner, ensure so far as possible the completeness and accuracy of the record, ensure adherence to management policies, and safeguard the assets.. This presupposes that internal control is made up of sub-controls.

According to Asuquo (2005), Internal Control consists of internal audit, internal checks, accounting controls and other forms of controls like budgetary and physical control.

In summary, internal control system is one of the checks put in place to prevent and control for fraudulent activities. According to Voon, Voon and Puah (2008), Isa (2011), the major contributing factor to the occurrence of fraud in any organization is a weak or absence system of internal controls, heightened by personal financial pressure and expensive lifestyle. However, internal control policies and procedures alone cannot prevent fraud without management ensuring strict compliance to such policies and procedures (Isa, 2011; Kapp & Heslop, 2011). Even at that, consistent also with literature on fraud prevention is ethics and training. Machines do not commit fraud, rather people are the culprit thus, Viviers and Venter (2008) submit that any internal control policy and procedure aimed at preventing fraud must make provisions for ethics, integrity awareness and training. Employees must be seen to have internalized the organization's ethics and integrity policies if fraud must be prevented. Finally, in the opinion of one of the auditing giants (KPMG), a sound internal control system that will effectively tackle the problem of fraud must have three fundamentals viz preventive, detective and responsive fundamentals.

***Fraud Diamond Theories***

The fraud diamond model was introduced by Wolf and Hermanson (2004) as another view of the factors that cause fraud. The fraud diamond added 'capability' as a fourth variable to the three factor theory of the fraud triangle. According to Wolf and Hermanson fraud cannot take place when there is no person with the right capabilities to execute the details of the fraud. They therefore asserted that there are four observation traits to indicate the capacity to commit fraud: Authoritative position or function within the organization, capacity to understand and exploit accounting systems and internal control, confidence that he/she will not be caught, or if caught, he/she will get out of it easily and capability to deal with the stress created within a ''good'' person when he or she commits a bad act. In summary, the authors therefore believe that the fraud triangle could be enhanced to better understand both fraud prevention and detection by considering a fourth element (capabilities). Also to addressing incentive, opportunity, and rationalization, the authors' four-sided "fraud diamond" also considers an individual's *capability*: personal traits and abilities that play a major role in whether fraud may actually occur even with the presence of the other three elements. The four factors to fraud as presented by Wolf and Hermanson (2004) in the fraud diamond are shown in figure 1 below:

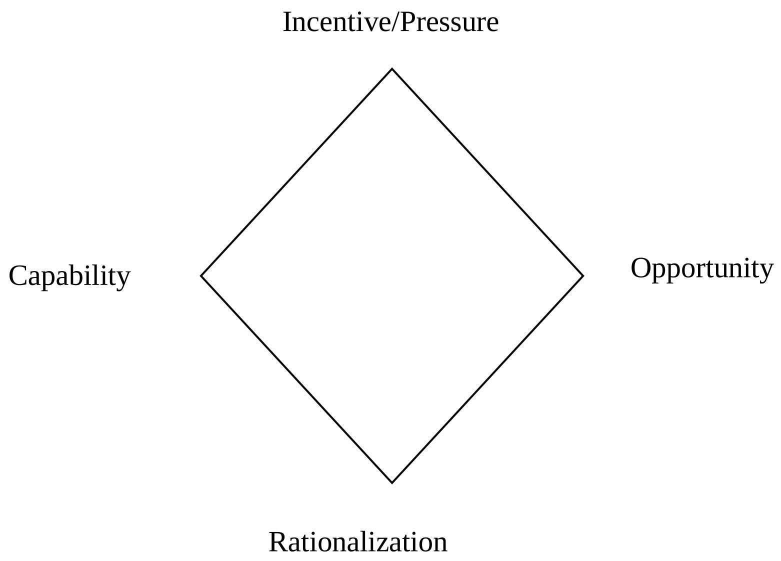


**Fig 1:** Fraud Diamond

**Source**: Adapted from Wolf and Hermanson (2004)

Although the fraud diamond added the fourth variable "capability" to the fraud triangle and filled the gap in that theory of fraud, the model alone is an inadequate tool for investigating, deterring, preventing and detecting fraud. This is because, two sides of fraud diamond (incentive/pressure and rationalization) cannot be easily observed, and some important factors like national value system and corporate governance are ignored (Gbedi & Adebisi, 2013). This study thus adopted the fraud theory of Gbedi and Adebisi (2013) known as "New Fraud Diamond." In this theory, motivation of fraud perpetrators, which is one of the sides in the new fraud diamond, may be more appropriately expanded and identified with the acronym: NAVSMICE that stands for NAVS – National Value System; M = Money; I = Ideology; C = Coercion; and E = Ego. Our present National Value System in Nigeria is not good, little or no premium is put on things like honesty, integrity and good character. Another important theme of the model is corporate governance, which is the nature and extent of accountability of people in the organizations. Corporate governance is the principle and value that guides an organization in the conduct of its day-to-day activities and how stakeholders interrelate among one another (Anandarajah, 2001). Therefore, the model further suggests corporate governance as the lock to all the factors that cause fraud to take place in Nigeria. The New Fraud Diamond Model is pictorially shown below in figure 2:

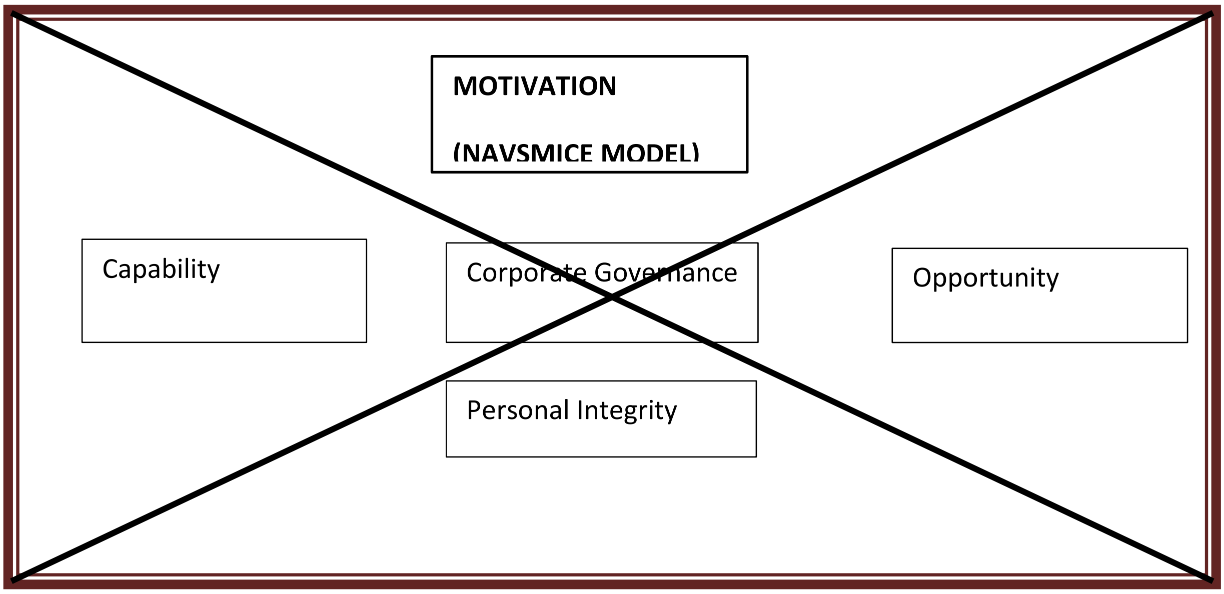


**Fig 2:** New Fraud Diamond

**Source:** Adapted from Gbegi and Adebisi (2013)

In line with the new fraud diamond theory, this study adapted the following proxies for internal control system: the capacity of an employee to commit fraud could be from the practical training on the job he has gotten over the years; the opportunity to commit fraud could stem from absence of segregation of duties between/among staff, irregular review of internal control system in place and the absence of internal audit independence; personal integrity was proxy by managements' integrity while adherence to internal checks was measured using compliance to internal control system in place.

### *Agency Theory*

Due to the inability of owners to adequately observed actions of agents, there is often information asymmetry and as such there should be a basis for the governance of the firm through various internal and external frameworks (Barac & Klepo, 2006; Weir, Laing & McKnight, 2002; Roberts, McNulty & Niles, 2005). One of such internal check is internal control system and audit committee which are part of the overall corporate governance to check the agency problem. Jensen and Meckling (1976), define agency relationships as a contract which one or more persons (the principals) engage another person (the agent) to perform some services on their behalf which involves delegating some decisions making authority to the agent. The work of Berle and Means (1932) was shaped by Jensen and Meckling in the context of the risk-sharing research popular in the 1960s and 1970s to develop agency theory as a formal concept. Agency theory explains the applications of controls as been primarily based on economic cost benefit analysis, where controls are installed in order to reduce information asymetries between principals and owners and to help check the excesses of agents (directors). The theory believes primarily that controls are installed by the principal because: they reduce risk and infomation asymetries, they are based on rational economic cost-benefit analysis, controls exist primarily for their technical functionality, controls change and develop based on change in risk exposure and information asymetries between different principals-agents relationship and people are self-interested, rational and risk –averse.

## 3. Methodology

This study adopted a survey research design. The population consist of the staff of commercial banks quoted in the Nigerian Stock Exchange (NSE) as at December 2014. Due to the large number of commercial bank staff, this article considered a sample size of four hundred (400) staff across commercial bank branches which was randomly selected across south-south (Edo and Delta States) and South-west (Ondo and Lagos States).

This study made use of primary data. The researcher instrument used was the questionnaire and was designed in a Likert-scale format to enable the researchers scale/measure the strength of responses elicited from the various respondents (See appendix for sample questionnaire). A total of four hundred (400) copies of questionnaires were administered of which three hundred and two (302) which represents 75.5% were retrieved. The Spearman Ranked Correlation (rho) was used to analyze the data. The choice of this statistical tool is that it helps reveal the relationship and strength between qualitative variables as well as the level of significance. The decision rule is to accept the null hypotheses if the significant criterion is greater than 0.05, otherwise the alternate hypotheses are accepted (significant criterion less than 0.05).

## 4. Data Presentation

**Table 1: Categorization of Respondents**

| Question Number | Branch Manager | % | Operations Manager | % | Operations Staff | % | Internal Audit Staff | % | Others | % | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 14 | 4.6 | 23 | 7.6 | 53 | 17.5 | 53 | 17.5 | 159 | 52.6 | 302 |

**Source: Researchers Compilation 2015.**

Table 1 above revealed that 4.6% of the respondents were branch manager, 7.6% operations manager, 17.5% operation staff, 17.5% internal audit staff while 52.6% were other staff.

**Table 2: Years of Experience of Respondents**

| **Question Number** | **0-5 Years** | **%** | **6-10 Years** | **%** | **11 Years and above** | **%** | **Total** |
|---|---|---|---|---|---|---|---|
| 2 | 11 | 3.6 | 112 | 37.1 | 179 | 59.3 | 302 |

**Source: Researchers Compilation 2015.**

Table 2 revealed that 3.6% of the respondents had 0-5 years working experience, 37.1% had 6-10 years working experience while 59.3% had working experience of 11 years and above.

**Table 3: Education Qualification of the Respondents**

| **Question Number** | **M.Sc** | **%** | **B.Sc** | **%** | **HND** | **%** | **OND** | **%** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| 3 | 16 | 5.3 | 85 | 28.1 | 36 | 11.9 | 165 | 54.6 | 302 |

**Source: Researchers Compilation 2015.**

On education qualification, 5.3% of the respondents had M.sc degree, 28.1% had B.Sc degree, and 11.9% had HND degree while 54.6% had OND degree.

**Table 4: Professional Qualification of the Respondents**

| Question Number | ACA | % | ACCA | % | None | % | Total |
|---|---|---|---|---|---|---|---|
| 4 | 43 | 14.2 | 15 | 5.0 | 244 | 80.8 | 302 |

**Source: Researchers Compilation 2015.**

On professional qualification, 14.2% of the respondents had ACA while 5.0% had ACCA. The remainder did not have either ACA or ACCA.

**Table 5: Questions relating to internal control and fraud proxies and their descriptive statistics**

| Question Numbers | SA | % | A | % | U | % | D | % | SD | % | Mean | S.D | Max | Min. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 5 | 23 | 7.6 | 217 | 71.9 | 54 | 17.9 | 8 | 2.6 | - | - | 2.16 | .581 | 4 | 1 |
| 6 | 23 | 7.6 | 208 | 68.9 | 61 | 20.2 | 9 | 3.0 | 1 | 0.3 | 2.20 | .625 | 5 | 1 |
| | VLE | | LE | | U | | PE | | VPE | | - | - | - | - |
| 7 | 19 | 6.3 | 201 | 66.6 | 67 | 22.2 | 13 | 4.3 | 2 | 0.7 | 2.26 | .669 | 5 | 1 |
| 8 | 19 | 6.3 | 168 | 55.6 | 97 | 32.1 | 16 | 5.3 | 2 | 0.7 | 2.38 | .714 | 5 | 1 |
| | SA | | A | | U | | D | | SD | | - | - | - | - |
| 9 | 17 | 5.6 | 181 | 59.9 | 83 | 27.5 | 19 | 6.3 | 2 | 0.7 | 2.36 | .715 | 5 | 1 |
| 10 | 17 | 5.6 | 190 | 62.9 | 80 | 26.5 | 10 | 3.3 | 5 | 1.7 | 2.32 | .706 | 5 | 1 |
| 11 | 16 | 5.3 | 203 | 67.2 | 72 | 23.8 | 10 | 3.3 | 1 | 0.3 | 2.26 | .622 | 5 | 1 |
| 12 | 13 | 4.3 | 210 | 69.5 | 67 | 22.2 | 12 | 4.0 | - | - | 2.26 | .599 | 4 | 1 |
| 13 | 12 | 4.0 | 210 | 69.5 | 72 | 23.8 | 7 | 2.3 | 1 | 0.3 | 2.25 | .580 | 5 | 1 |
| 14 | 13 | 4.3 | 206 | 68.2 | 69 | 22.8 | 12 | 4.0 | 2 | 0.7 | 2.28 | .641 | 5 | 1 |
| | VLE | | LE | | U | | PE | | VPE | | - | - | - | - |
| 15 | 16 | 5.3 | 216 | 71.5 | 62 | 20.5 | 8 | 2.6 | - | - | 2.21 | .568 | 4 | 1 |
| 16 | 18 | 6.0 | 212 | 70.2 | 68 | 22.5 | 4 | 1.3 | - | - | 2.19 | .549 | 4 | 1 |
| | SA | | A | | U | | D | | SD | | - | - | - | - |
| 17 | 24 | 7.9 | 216 | 71.5 | 52 | 17.2 | 7 | 2.3 | 2 | 0.7 | 2.16 | .617 | 5 | 1 |

**Source: Researchers Compilation 2015.**

Given question 5 in table 5 above, cumulative percentage of 79.5 went for both strongly agreed and agreed which indicates that failure to adhere to internal control system directives often lead to the escalation of fraud in the Nigerian banking sector. The descriptive statistics revealed: Mean= 2.16, STD=.581 which is low and it suggest that Q5 exhibits a considerable clustering around the average, Max. = 4 and Min. = 1. Question 6 reveals that a cumulative percentage of 76.5 went for both strongly agreed and agreed which indicates that the occurrence of fraud in the Nigerian banking sector is contained by stringent adherence to internal control mechanisms. The descriptive statistics showed: Mean= 2.20, STD= .625 which is low and it suggest that Q6 exhibits a considerable clustering around the average, Max. = 5 and Min. = 1. Summing up the percentage of respondents for very large extent and large extent in question 7, it shows 72.8 percent response to the assertion that frequent review of internal control system help prevent the occurrence of fraud in the Nigerian banking sector.The descriptive statistics result: Mean= 2.26, STD= .669 which is low and it suggest that Q7 exhibits a considerable clustering around the average, Max. = 5 and Min. = 1. In question 8, the result showed that cumulative percentage of 61.9 of the respondents went for both very large extent and large extent which indicates that fraudsters could understudy internal control system if not frequently reviewed in order to perpetrate fraud in the Nigerian banking sector. The descriptive statistics exhibited: mean= 2.38, STD= .714 which is low and it suggest that Q8 exhibits a considerable clustering around the average, Max. = 5 and Min. = 1.Question 9 above indicates that a cumulative percentage of 65.6 of the respondents went for both strongly agreed and agreed which posits that the independence of the internal audit department in Nigerian banks help in fraud prevention. The descriptive statistics exhibited: Mean= 2.36, STD= .715 which is low and it suggest that Q9 exhibits a considerable clustering around the average, Max. = 5 and Min. = 1. Given the cumulative percentage of 68.5 in question 10, it indicates that the respondents are in agreement with the assertion that the internal audit department in the Nigerian banking sector has not done much in combating fraudulent practices. This could be due to its lack of independence from management influences. Descriptive result is: Mean= 2.32, STD= .706 which is low and it suggest that Q10 exhibits a considerable clustering around the average, Max. = 5 and Min. = 1.

A cumulative percentage of 72.5 of the respondents in question 11 posit that the effectiveness of an internal control system in combating fraud is attributed to management integrity. Descriptive result is: Mean= 2.26, STD= .622 which is low and it suggest that Q11 exhibits a considerable clustering around the average, Max. = 5 and Min. = 1. Question 12 above indicates a high level of agreement (73.8 percent) with the assertion that irrespective of an internal control system in place, the integrity of staff plays a key role in combating fraud in the Nigerian banking sector. The descriptive result exhibited: Mean= 2.26, STD= .599 which is low and it suggest that Q12 exhibits a considerable clustering around the average, Max. = 4 and Min. = 1. From question 13 above, a cumulative percentage of 73.5 of the respondents were in agreement that preventing fraud occurrence in the Nigerian banking sector could be achieved by regular training of bank staff on job areas that are highly prone to fraud. The descriptive result exhibited: Mean= 2.25, STD= 1.035 which is low and it suggest that Q13 exhibits a considerable clustering around the average, Max. = 5 and Min. = 1. The result in question 14 above reveals that cumulative percentage of 72.5 of respondents went for both strongly agreed and agreed which indicates the occurrence of fraud in the Nigerian banking sector is as a result of poor knowledge of staff on jobs assigned to them. The descriptive result exhibited: Mean= 2.28, STD= .641 which is low and it suggest that Q14 exhibits a considerable clustering around the average, Max. = 5 and Min. = 1. Summing up the percentage of very large extent and large extent in question 15, 76.8 percentage of the respondents generally believed that job segregation among staff helps combat fraud in the Nigerian banking sector. The descriptive result showed: Mean= 2.21, STD= .568 which is low and it suggest that Q15exhibits a considerable clustering around the average, Max. = 5 and Min. = 1. Summing up the percentage of very large extent and large extent in question 16, 76.2 percentage of the respondents generally believed that job rotation among staff helps combat fraud in the Nigerian banking sector. Descriptive result is: Mean= 2.19, STD= .549 which is low and it suggest that Q16 exhibits a considerable cluster around the average, Max. = 4 and Min. = 1. The result in question 17 showed that a cumulative percentage of 79.7 of respondents posit that the occurrence of fraud in Nigeria banking sector is as a result of ineffective preventive mechanisms. The descriptive result is: Q17, Mean= 2.16, STD= .616 which is low and it suggest that Q17 exhibits a considerable cluster around the average, Max. = 5 and Min. = 1.

**Table 6: Presentation of Results**

The discussion of the result is based on the spearman correlation (rho). The result is presented and discussed below:

| | | | Fraud prevention (Internal control system :ICS | Compliance to internal control system (CICS) | Review of internal control system (RICS) | Independence of internal audit department (INDAUDT DEPT) | Management's integrity (MI) | Employees training (ET) | Job segregation (JS) |
|---|---|---|---|---|---|---|---|---|---|
| 'Spearman's rho | Fraud prevention (Internal | Correlation Coeffici | 1.000 | .006 | .062 | .103 | .068 | .096 | .121 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | control system :ICS) | ent | | | | | | | |
| | | Sig. (2-tailed) | | .031 | .045 | .073 | .236 | .046 | .035 |
| | | N | 302 | 302 | 302 | 302 | 302 | 302 | 302 |
| | Compliance to internal control system (CICS) | Correlation Coefficient | .006 | 1.000 | -.026 | .023 | -.052 | -.108 | -.108 |
| | | Sig. (2-tailed) | *.031 | . | .650 | .689 | .365 | .060 | .061 |
| | | N | 302 | 302 | 302 | 302 | 302 | 302 | 302 |
| | Review of internal control system (RICS) | Correlation Coefficient | .062 | -.026 | 1.000 | .205 | .065 | -.014 | .063 |
| | | Sig. (2-tailed) | *.045 | .650 | . | .000 | .261 | .815 | .276 |
| | | N | 302 | 302 | 302 | 302 | 302 | 302 | 302 |
| | Independence of internal audit department (INDAUDTDEPT) | Correlation Coefficient | .103 | .023 | .205 | 1.000 | .103 | .024 | .007 |
| | | Sig. (2-tailed) | .073 | .689 | .000 | . | .073 | .681 | .910 |
| | | N | 302 | 302 | 302 | 302 | 302 | 302 | 302 |
| | Management's integrity (MI) | Correlation Coefficient | .068 | -.052 | .065 | .103 | 1.000 | .407 | .157 |
| | | Sig. (2-tailed) | .236 | .365 | .261 | .073 | . | .000 | .006 |
| | | N | 302 | 302 | 302 | 302 | 302 | 302 | 302 |
| | Employees training (ET) | Correlation Coefficient | .096 | -.108 | -.014 | .024 | .407 | 1.000 | .214 |
| | | Sig. (2-tailed) | *.046 | .060 | .815 | .681 | .000 | | .000 |
| | | N | 302 | 302 | 302 | 302 | 302 | 302 | 302 |
| | Job segregation (JS) | Correlation Coefficient | .121 | -.108 | .063 | .007 | .157 | .214 | 1.000 |
| | | Sig. (2-tailed) | *.035 | .061 | .276 | .910 | .006 | .000 | . |
| | | N | 302 | 302 | 302 | 302 | 302 | 302 | 302 |

**Source: Output from SPSS 17.0** **. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed).

### Hypotheses Testing

***Compliance to internal control and Fraud prevention***

Table 6 show that compliance to internal control system exhibit a significant weak (.006) positive relationship with fraud prevention in the Nigerian banking sector. Based on the statistically significant criterion (.031<0.05), we reject the null hypothesis ($H_1$) that there is no significant relationship between compliance to internal control system and fraud prevention in the Nigerian banking sector. This implies that when staff of banks adhered strictly to internal control measures, fraud perpetration could be reduced. This adherence could be in the area of proper documentation of transaction, authorization of such documents by the designated personnel before being filed into the day's transactions. This finding aligns with the findings of Akinyomi (2012) and Abiola and Oyewole (2013).

***Routine review of internal control and Fraud prevention***

Table 6 indicate that routine review of internal control system has a weak (.062) positive significant relationship on fraud prevention in the Nigerian banking sector. Given the statistically significant criterion (.045<0.05), we reject the null hypothesis ($H_2$) that there is no significant relationship between routine review of internal control system and fraud prevention in the Nigerian banking sector. In order to mitigate fraud occurrence, internal control system should be regularly reviewed so as to carter for possible loopholes that may be inherent in them. This finding is also in line with the findings of Ajala, Amuda and Arulogun (2013) who advocated that "there should also be continuous improvement in internal control techniques and tactics which can help guarantee the continuous existence and profitability of the Nigerian banks".

***Independence of internal audit department and Fraud prevention***

Table 6 indicate the independence of internal audit department from top management influence exhibits a weak (.103) positive insignificant relationship on fraud prevention in the Nigerian banking sector. Given the statistically insignificant criterion (.073<0.05), we accept the null hypothesis ($H_3$) that there is no significant relationship between independence of internal audit department from top management and fraud prevention in the Nigerian banking sector.

***Management integrity and Fraud prevention***

Table 6 show that management integrity has a weak (.068) positive insignificant relationship on fraud prevention in the Nigerian banking sector. Given the statistically insignificant criterion (.236<0.05), we accept the null hypothesis ($H_4$) that there is no significant relationship between management's integrity and fraud prevention in the Nigerian banking sector.

***Employees training and Fraud prevention***

Table 6 indicates that employees training exhibit a weak (.096) positive significant relationship on fraud prevention in the Nigerian banking sector. Given the statistically significant criterion (.046<0.05), we reject the null hypothesis ($H_5$) that there is no significant relationship between employees training and fraud prevention in the Nigerian banking sector. This finding aligns with the findings of Abiola and Oyewole (2013). Given the significant influence of employees training on fraud prevention, banks should ensure proper and regularly training of its staff most especially job areas that are sensitive to fraud.

***Job segregation and Fraud prevention***

Table 6 show that job segregation has a weak (.121) positive significant relationship on fraud prevention in the Nigerian banking sector. Given the statistically significant criterion (.035<0.05), we reject the null hypothesis ($H_6$) that there is no significant relationship between segregation of duties among/between staff and fraud prevention in the Nigerian banking sector. This finding is in agreement with the findings of Akinyomi (2012) who strongly opined that proper segregation of duty can effective address to a reasonable extent the issue of fraud in the banking sector.

## 5. Conclusion

Fraud in the banking system has serious ripple effect not just for the financial system but the economy at large and this is due to their unique position in financial intermediation and the payment system. Fraud in the Nigerian banking sector has become a phenomenon which needs a drastic resolution in order not to cripple the financial sector and by extension the Nigerian economy. Given the impact of fraudulent practices most especially in the financial hub of the economy, all hands must be on deck towards ensuring that loopholes in the internal control system are minimized. The findings from the study revealed that compliance to internal control system, routine review of internal control system, employees training and job segregation exhibited significant influence on fraud prevention in the Nigerian banking sector although the strength of their relationship was not the same. However, independence of internal audit department and management integrity did not exhibit significant influence on fraud prevention. Furthermore, all the findings therefrom are in agreement and aligns with the theories on fraud especially the fraud diamond theory that opine four elemental factors of fraud and thus a positive relationship between any of these factors and fraud occurrence. Therefore, a sound and effective internal control system encompassing the proxies used in this study will go a long way in ensuring that fraud is not only prevented, but also detected at an early stage.

**Policy Recommendations**

Giving that fraud cannot be totally eradicated, there is need to find ways of minimizing its occurrence. This gives rise to the following recommendations;

(1) Compliance to internal control system should be adhered to as this has the potential to prevent or at best detect fraudulent practices at an early stage. This could be in the area of ensuring that all entry are supported with source documents and must be appropriately authorized by the different staff designated for such authorization before being posted into the day's transactions.

(2) Internal control system should be reviewed at least four times a year in order to prevent lapses that could lead to fraud perpetration

(3) Finally, training techniques should be aimed at improving not just technical skills but the personality and integrity of potential employees.

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## Appendix

**SECTION A**

**INSTRUCTION:** Please, read the questions carefully and indicate your option by placing a tick in the appropriate box.

1 Please tick your categorization.

Branch Manager [ ]

Operations Manager [ ]

Operations Staff [ ]

Internal Audit Staff [ ]

Others [ ]

2 Years of experience

0-5 [ ]

6-10 [ ]

11 and above [ ]

3 Educational qualification

M.Sc [ ]

B.Sc [ ]

HND [ ]

OND [ ]

4 Professional qualification

ACA [ ]

ACCA [ ]

**SECTION B**

Please, tick as appropriate from the following preference:

**Key:**

| SA | A | UD | D | SD |
|---|---|---|---|---|
| Strongly Agreed | Agreed | Undecided | Disagreed | Strongly Disagree |

| VLE | LE | U | PE | VPE |
|---|---|---|---|---|
| Very large Extent | Large extent | Undecided | Poor extent | Very poor extent |

| | | SA | A | U | D | SD |
|---|---|---|---|---|---|---|
| **Objective One: assess the relationship between compliance to internal control system and fraud prevention in the Nigerian banking sector.** | | **SA** | **A** | **U** | **D** | **SD** |
| 5 | Failure to adhere to internal control system directives often lead to the escalation of fraud in the Nigerian banking sector. | | | | | |
| 6 | The occurrence of fraud in the Nigerian banking sector is contained by stringent adherence to internal control mechanisms | | | | | |
| **Objective Two: examine the relationship between routine review of internal control system and fraud prevention in the Nigerian banking sector.** | | **VLE** | **LE** | **U** | **PE** | **VPE** |
| 7 | To what extent does frequent review of internal control system help prevent the occurrence of fraud in the Nigerian banking sector. | | | | | |
| 8 | To what extent do fraudsters understudy the internal control system if not frequently reviewed in order to perpetuate fraud in the Nigerian banking sector. | | | | | |
| **Objective Three: investigate the relationship between independence of internal audit department from top management and fraud prevention in the Nigerian banking sector.** | | **SA** | **A** | **U** | **D** | **SD** |
| 9 | The extent to which internal audit department helps in fraud prevention depends on the extent of independence it has from top management influences. | | | | | |
| 10 | Internal audit department in the Nigerian banking industry has not done much in combating fraudulent practices. | | | | | |
| **Objective Four: ascertain the relationship between management's integrity and fraud prevention in the Nigerian banking sector.** | | | | | | |
| 11 | The effectiveness of an internal control system in combating fraud is attributed to management integrity. | | | | | |
| 12 | Irrespective of an internal control system in place, the integrity of staff plays a key role in combating fraud in the Nigerian banking sector. | | | | | |
| **Objective Five: examine the relationship between employees training and fraud prevention in the Nigerian banking sector.** | | | | | | |
| 13 | Regular training of bank staff on job areas that are highly prone to fraud help in preventing fraud occurrence in the Nigerian banking sector. | | | | | |
| 14 | The occurrence of fraud in the Nigerian banking sector is as a result of poor knowledge of staff on jobs assigned to them. | | | | | |
| **Objective Six: ascertain the relationship between segregation of** | | **VLE** | **LE** | **U** | **PE** | **VPE** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **duties among/between staff and fraud prevention in the Nigerian banking sector.** | | | | | | |
| **15** | To what extent does job segregation among staff help combat fraud in the Nigerian banking sector. | | | | | |
| **16** | To what extent does job rotation help in fraud prevention in the Nigerian banking sector. | | | | | |
| | **Question relating to fraud proxy.** | | | | | |
| **17** | The occurrence of fraud in the Nigerian banking sector is as a result of ineffective preventive mechanism. | | | | | |