

## **Internal Control System and Fraud Prevention in Nigerian Banking Sector**

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### **Abstract**

*Fraud is one of the major challenges confronting Nigerian banking industry today. The study investigated the effects of internal control system on fraud prevention in Nigerian banking sector. A survey of the senior staff in the Twenty two (22) commercial banks in operations in Nigeria was carried out using a structured questionnaire. The results showed a positive and significant relationship between internal control system and fraud prevention. Positive and significant relationships exist between risk management, control environment, information management and technology on fraud prevention. However, the study found a positive but non-significant relationship between control supervision and fraud prevention. The study recommended a proactive risk management among banks. There should be special training for senior staff on red flags to fraud occurrence and best approach to handle them. Banks must invest heavily in anti-fraud software and latest hardware gadgets that can create awareness of impeding fraud for both staff and customers and build a strong resistance to protect bank database. Nigerian banks must fortify their internal control system to meet the realities of today. This will help to eliminate all loopholes which may arise due to changes in procedures, practices, and technology and government policies that have impacts on banking industry.*

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**Keywords:** Internal control system, fraud prevention, fraud control.

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## **Introduction**

In the recent past, information technology advancements have influenced the banking industry in no small measure. While this could be seen as a blessing, it appears also that it has exposed banks to high fraud risks considering the spate of bank fraud in recent times. This has created the need for board of directors and management of various banks to be on their toes in fostering adequate internal control mechanisms that can ensure fraud prevention and also put them on the edge of their competitors. No doubt, banking industry is a major player in the economic growth and development of any nation, because they grant credit facilities to customers, give loans to entrepreneurs, and create wealth. Therefore, any major challenge in the banking sector will invariably have ripple effects on other sectors of the economy. When banks distress, the economy may suffer recession. There are possibilities that there will be no access to credit facilities for production and expansion of firms, factories may close down, workers may be retrenched, foreign direct investment dropped, return on investment nosedived, court cases for dissatisfied customers increased (Ewa & Udoayang, 2012)

Today, high volume of complex financial transactions in banks has made it extremely difficult for directors and management to personally supervise the internal control processes, thus, the need to rely heavily on accounting information and financial reports from various units of the banks. These made it germane to review the internal control sufficiency for reliability of these accounting information for overall performance. Ajala, Amada, and Arulogun (2013) asserted that for banks to function effectively and make meaningful impact in the economy, they must be sound, stable and safe. Internal control system encompasses all the various measures designed and effected by board of directors and management to ensure assets are safeguarded, fraud are prevented, reliability of financial information are enhanced, thereby improving efficiency and effectiveness in firm's operations (Ozten & Kargin 2012). Lack of internal control can results in deficient operations and make firms vulnerable to fraud risk with grave consequences. The control systems enhance the reliability of

financial reporting and conformity with laws and regulation as stated in the Companies and Allied Matters Act (CAMA), 2004 (as amended). A strong internal control system allows banks to foresee potential financial fraud.

Banks may be seen as the mainstay and driver of any economy around the world, Nigeria inclusive. However, the wave of fraud in the Nigerian banking sector appears to be on the rise in recent times following financial regulatory bodies' reports and financial bulletins: according to Nigerian Deposit Insurance Corporation's (NDIC) annual report (2018), 16,751 fraud cases were reported by Money Deposit Banks in 2016. However, in 2017, the figure rose to 26,182 fraud cases. These frauds range from cash fraud, loan fraud, cheques fraud, advanced fee fraud, thefts, securities fraud, wire fraud, internet banking fraud, foreign exchange frauds among others. The value of cash lost in 2016 fraud cases was a whopping sum of ₦8.68 billion and the figure skyrocketed to ₦12.01 billion in 2017 which is 38% increment.

Fraud is a threat to any business entity; in fact, a single fraud may sometimes write-off the fortunes of a bank and affects its going concern and overall performance if it goes undetected. Organizations today, must keep their internal control system relevant and current with today's business realities. Business affairs today has changed considerably due to technology incursion in which banks now compete in building latest information technology infrastructure to their operations for better services and performance. Committee of Sponsoring Organisation of the Treadway Commission (COSO, 1992) reports, generally highlighted areas an organisation can measure the efficiency and effectiveness of its internal control system which are: control activities, control environment, risk assessment, communication. However, there are divergent views as to the significance of each of these variables to prevent fraud in an organisation. Klynveld, Peat, Marwick and Goerdeler KPMG's (2009) study on fraud prevention, emphasized weakness of these above variables as a major cause of fraud in organizations. Joseph, Odhiambo and Byaruhanga, (2015)

study on fraud, found that a sound organizational procedure is key to fraud prevention, while Enofe et al. (2017) claimed that compliance with banking ethics is a panacea to fraud reduction. Etuk (2011) investigated the used of profitability, liquidity, laws and regulations as measures to test the effectiveness of internal control system in financial institutions, findings showed that these variables are significant to internal control system. It remains a subject of controversy as to whether all the variables highlighted in COSO (1992) report is significant to fraud prevention and if they can discover with reasonable promptness financial fraud, manipulations, forgery, internet banking fraud, thefts, wired fraud among others, considering the heavy technology incursion in the banking industry today Therefore, there is need to re-appraise the adequacies and sufficiency of the internal control systems indexes aforementioned, and this is the crux of this study. Therefore, this study seek to provide answers to the following research questions: what is the effect of risk assessments on fraud prevention in Nigerian banks? what is the impact of control supervision on fraud prevention in Nigerian banks? what is the effect of control environment on fraud prevention in Nigerian banks? what is the impact of information management & technology on fraud prevention in Nigerian banks? The research hypotheses are: there is no significant relationship between risk assessment and fraud prevention in Nigerian banks; there is no significant relationship between control supervision and fraud prevention in Nigerian banks; there is no significant relationship between control environment and fraud prevention in Nigerian banks; there is no significant relationship between information management & technology and fraud prevention in Nigerian banks

## **Literature Review**

### *Concept of Fraud in the Banking sector*

Fraud can be describe as a generic term and embraces all multifarious means which human ingenuity can devise, which is resorted to an individual to get advantage over another in false representation (Okafor, 2004). In the same vein, (Anyanwu, 1997), posited that fraud is an act or course of deception, deliberately practiced to gain unlawful or unfair

advantage, at the detriment of another. The EFCC Act (2004) made attempt to capture all the various financial fraud and crime by defining it as a violent, criminal and illicit activities committed with the objective of earning wealth illegally, in a manner that violate existing legislation and these include any form of fraud which are money laundering, embezzlement, bribery, looting, payroll fraud among others. According to Zimbeldan and Albrecht (2012), the tripod that provoke fraud in man are pressure, opportunity and rationalization, However, the work of Seetharaman, Sentivemurugam, and Periyannagam (2004), submitted that fraud influence is based on factors such as age, gender, position, educational background and motive for collusion.

Association of Certified Fraud Examiner ACFE (2007) defined fraud as any intentional or deliberate act to deprive another of property or money by deceptive means. Holmes, Langford, Welch, and Welch, (2002) study on fraud prevention, found that where top management firmly supports the full operations of internal control system, perpetrating fraud will unlikely to occur. Holtfreter, (2004), claimed that eliminating fraud triangle component is the key to fraud prevention. This implies that when one of the three elements (opportunity, pressure and rationalization) that influences fraud occurrence is removed, then there is less likelihood of fraudulent activities. When fraud or financial improprieties are discovered, forensic auditor may be engaged to provide the depth of skills necessary to conduct a fraud investigation. When fraud occurs, or there is preponderance of evidence from auditor's investigation to believe that fraud has occurred, the audit committee is responsible for ensuring sanctions to serve as deterrence. Ramamoorti (2007) argued that it is important to understand the psychology of fraud behavior in human, in order to identify ways to prevent it. Karwai (2002) reported that it is very difficult to identify the causes of fraud. It involves complex web of conspiracy and deception.

### *Internal Control System in the Banking Sector*

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Internal controls are procedures or measures designed and effected by the management for better performance of an organization. For banks to have a good financial outlook that will ensure short and long time obligations are met at the right time, guarantee adequate working capital and increase their turnover, then, internal control system cannot be over emphasized. As firm grows, the need to regulate the agents running the business becomes crucial because of conflicts of interest. Internal control system is a fundamental component to the survival of any organization. Section 331 of the Companies and Allied Matters Act (CAMA, 2004) as amended states that every company (bank) shall cause accounting records to be kept; and the accounting records shall be sufficient to show and explain the transactions of the company (bank) and shall disclose with reasonable accuracy, at any time, the financial position of the company (Etuk, 2011).

There are various perspectives to the definition of internal control system. It is defined as a set of security measures designed by management for operational control of an organization in order to ensure safeguard of both tangible and intangible assets, prevent occurrence of errors and other irregularities (Nwaiwu & Peters, 2014). According to CIMA (2006), internal control is the whole system of controls established in an organization to enhance reasonable assurance of efficient operations, compliance with the laws and regulations, and decrease the risk of potential losses. COSO (1992) report was established with an initiative to curb all corporate fraud especially among private sector organisations. It developed a generally accepted internal control system assessment variables, which are: control environment, risk assessment, control activities, monitoring and communication. And in accessing adequacies or otherwise of internal control system of a firm, any of these component can be used as a basis. Magara (2013) posited that, the major role of internal control system is to help an organization achieve its mission, vision, efficient operations, quality products and services. Internal control framework model refers to the whole control systems both financial and non-financial, designed and effected by the board of directors and management in order to carry on the business of an enterprise in an

orderly manner and prevent fraud (Okozie, 1999). Mercer (2015), opined that, no matter how strong an internal control systems, shortcomings do exist. The efficiency and effectiveness of controls system will be limited by human judgmental decisions made under pressure based on the information at hand. According to Lannoye (1999), achieving a strong internal control in an organization may likely be limited by the realities of human judgment. The limited time lag in making financial decisions sometimes with incomplete information, may impede the achievement of organizational objectives, hence, internal control system becomes ineffective

According to Adhiambo and Memba (2012), the commercial banks financial performance is revealed by the level of revenue growth, assets base and customer satisfaction level. According to Klynveld, Peat, Marwick and Goerdeler KPMG (2010) survey, there was a drop in the customer satisfaction index by 6.35%, 4.64%, and 3.39% for Guaranty Trust Bank, Zenith Bank and Access Bank respectively when compared with 2009 rating. This gives a signal that Nigerian banking system needs improvement in services delivery and is also a pointer to gradual collapse of the internal control system. Today, banks are looking for various ways to reduce their operational cost and increased their profitability, a robust internal control system is key. Another survey conducted by KPMG (2012), reveals that internal control mechanism is one of the appropriate measures to operational cost reduction, fraud prevention and profit maximization of a firm. These controls are structured in such a way to safeguards the assets of the bank. The control system encompasses all the various aspects of the banking services such as financial, risk, compliance, operations among others (Tokede, 2017)

#### *Risk Assessment and Fraud Prevention in the Banking Sector*

Perhaps, fraud is the most fatal of all the various risks confronting the banking sector, Going through media, the magnitude of cash Nigerian banks loss to fraudsters on yearly basis is alarming, despite the fact that not all these fraud cases are made public because of negative image of the

bank concerned. These are happening even with the presence of various internal control systems banks are implementing in their day-to-day financial operations. Risk is a natural phenomenon in business. In the process of providing financial services to clients, banks encounter different kind of risks such as fraud risk, legal risk, financial risk, credit risk. According to Crowe (2009), risk is the condition that increases the chances of gaining or losing uncertain potential events which could influence the success of financial institutions. Chandra (2002), asserted that risk is a natural phenomenon that every individual and organization have to cope with. The study stresses further that it is difficult to eradicate, however, it can be mitigated through risk assessment techniques. According to Saarens and De Beelde (2006), risk management is now been perceived as a new means of strategic business management, that link business strategies to daily risks and optimize the risks to realize value. Risk management is a composition of resources, procedures, behavior and actions that is adapted to a specific organization, which enables managers to keep risks at a minimum level. Proactive risk management process should be able to produce data of the frequency of loss, maximum possible loss, and probability distribution of loss, graphic representation and standard deviation of loss (Ifeoma, 2010). Enterprise Risk Management (ERM), is a framework developed by COSO in 2004, for the purpose of addressing risk related issues in a firm. According to Rittenberg and Schwieger (2005), the ERM is a combination of internal control framework, objective setting, risk response and identification of events. A robust internal control system must have a window for risk assessment. The onus is on management to design an approach for effective risk management and control activities that can mitigate fraud risk, thus, internal control system enhanced a reliable financial reporting, prevent fraud, guarantee efficient and effective of operations, monitoring, adherence to the laws and regulations.

Banks appear to be taking risks without proper internal control mechanisms to keep the risk under a reasonable control, hence, huge financial loss and under performing loans, which is posing serious threat

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to its overall success. Cebenoyam and Strahan (2004), conducted a study on risk management in banks. Findings revealed that banks with proactive risk management practice have higher credit availability. And the more credit availability a firm has, the more opportunity to increase profit and productive assets. According to Mary, Albert and Byaruhanga (2014), risk assessment is a process of responding to any identifiable business risk in the cause of operations. An entity risk assessment process must identify all relevant risks to the preparation of the financial statement for auditors to form opinion of 'true and fair view' of the financial position of a firm.

#### *Control Supervision and Fraud Prevention in the Banking Sector*

According to Donhi (2006) the nature of banking operations is geared towards greater secrecy and non-disclosures of vital information when compared with other sector, hence the need for strict supervision. More so, their instrument of operations is currencies. Therefore, the calls for a robust internal control system in banking sector for prudent management of resources and fraud prevention. According to Etuk (2011), an adequate supervision of internal control reduces risk of fraud, errors and other financial irregularities. Adequate supervision of control systems contributes immensely to accuracy and reliability of financial reporting. Forensic auditor, management, internal auditors, external auditors play major roles in this monitoring of operations. Bank operations have been built around technological infrastructure, therefore most documentations are computer based with computer program documentation, flow charts of transaction process, procedural and accounting manuals among others, therefore, adequate supervision is needed on transactions through audit trails on regular basis. Audit trail is the examination of financial transaction from the start to the completion of the transaction which is done by internal auditors to determine any financial irregularities.

Mary, *et al.* (2014), asserted that supervision activities entails all physical verification of assets which include security of asset locations, strict authorization for accessing company computer program and data, regular counting of stocks and comparison with figures in the accounting books.

Frauds or errors may be prevented using this control. According to Williams (1999), stealing of assets of an organization could take the form of shoplifting accessories, software, and theft of raw materials use for production, when these are prevented, organization performs better. Supervision in its practical sense entails regular inspection of activities and control of personnel while carrying out their duties. However, the frequency of supervision depend on risks assessment. For supervision to be effective, all employees need to be abreast of the organizations' objectives, risk tolerance and their responsibilities. Therefore, management should concentrate its supervision efforts on internal control system and organization achievement (Joseph, *et al.*, 2015).

*Control Environment and Fraud Prevention in the banking sector*

The influence of organizations' environment on fraud cannot be underscored. Employee attitude towards honesty is determined by organization work climate (Greenberg, 2002). Whittington and Pany (2001), defined control environment as controls that influences the consciousness of the people. The paper stressed that control environment is an integral part of operationalisation of organization culture and practice. The attitude of management set the tone for internal control system that will prevent fraud occurrence and enhance banks performance. Weakness of the "tone at the top" is the bane of almost all the bank distress experienced in recent times. According to Abiola, (2013), control environment deals with the ethical values, integrity of policy makers, interpersonal relationship, and structure of the organization, audit committees, the history, discipline and culture imbibed in an organization. Management laxity in the area of cultural values in an organization can cause major financial loss within the banks. Inability to carry out a strong line management supervisions due to over-familiarity and maintain a high level of integrity is a great challenge nowadays. Also, board of trustees, management, and audit committee must set the 'tone at the top' by creating a culture of honesty, high ethical standards and establish controls to prevent, deter and detect fraud. When these standards are in place and religiously practice, opportunity of committing fraud can be reduced

substantially. According to Eze (1992), personnel of an organization are central to the workings of any internal control system. Any problem with personnel, could led to sabotage of the system. If incompetent staffs are engaged to man accounting system and control tasks, they will be prone to technical errors, which may give a leeway to opportunist to defraud the organization. Management must set the criteria in the area of experience, character, intelligence, capacity, and passion and thorough screening process must be undertaken for effective internal control system (Etuk, 2011). Therefore, a successful internal control system largely depend on honesty, reliability and competent personnel. Cohen (2002), conducted a study on control environment using a survey of auditors. The findings revealed that “tone at the top” and its influence on behaviour of the employees is the major element for effective control system. According to Olatunji (2009), control environment start with boards and management, they set the tone through policies, integrity, and effective governance. Where there is laxity in the tone, sharp practices and fraudulent financial reporting may occur.

#### *Information management & technology and fraud prevention*

Information is the life wire of any business, therefore it must be well managed to guarantee the going concern of the business. There must be proper procedures to follow in information management between staff to staff and staff to customer. The use of technology during information process is assumed to prevent fraud. Now that banks keep investing heavily in information technology to ease operations and for better services to client in this competitive banking environment. Information technology has brought unparalleled increase in knowledge, electronic business and paperless transactions are now made possible (Akihihero, 2013). This has re-defined the methods of doing business for many organizations and also appear to have exposed the banking sector to more fraud risk. No doubt, the introduction of electronic channels to banking operations seems to help curb the problem of inefficiency in banks and increased customer satisfaction. However, it appears to have also increase drastically the incidence of fraud in the banking sector based of available

statistics. The incessant financial fraud in the banking sector which is resulting to bad corporate image and huge financial loss to shareholders give a serious concerns.

More so, information technology is developing at a very fast pace and business organizations are quick to adapt these new software to fortify their various control systems for efficiency and better performance, however, many of these organization are not quick to adapt security measures and stringent policies to protect these software platforms and database from being hacked or manipulated by fraudsters (Chariri, 2009).

According to Sieber (1986), the problem of computer fraud are bound to intensify in the near future, the increasing computerization particularly in the area of information relating to administration of deposit money, balancing accounts, keeping inventories, electronic funds transaction system, electronic mail system, and other interactive video text system will lead to increase in the occurrence of fraud and loss of fund if not well managed. To this end, Park (2014) revealed that South Korea based firm has further developed software solutions which can curb these fraudulent practices and they are currently in use in different part of the world by insurance firms and other financial institutions. These solutions is built basically for data management and digging deep to unravel fraud in its different dimensions. These are EnCase software, FinalData software, HashValue software among others. They are dependable software that can help unravel high technological fraud information in any financial institution. The software can recover deleted data, files, e-mails from the system and guide on how to block financial leakages. It can also perform Microsoft access recovery functions ultimately to unravel fraud.

#### *Agency Theory*

The theory by Jensen and Meckling (1976), focused on resolving conflict of interest that may arise on the ownership of business entity. When business begins to thrive, it creates opportunity for expansion and recruitment of additional managers, and employees. The owners of the

business begins to lose grip of absolute control of the whole process and will now be faced with the challenge of handing over the business to trusted hands whose interest may be at variance with the business and their owners. The theory delineate the relationship that exist between the owner of the business (principal) and their managers (agent). The managers are contracted to control and run the organization on behalf of the owners while the principal provide the capital for the business, thus assuming a level of risk. The principal expects the agents who get paid for his job to protect the interest of the business and the owners, but in reality, that may not be the case. According to Eisenhardt (1988), human being are rational in their thinking, with an instinct of self-interest, and they are risk averse. The agency problem is all about internal control issues to bridge the gap of interest between the owners and their managers. It is concerned with the creation of an environment that is conducive for internal control system to thrive. Because managers are stewards, they are responsible to design procedures to follow and hold people accountable for their actions (Gerald & Weser, 2014). The agents are privy to more information as an insider than the principal who are outsiders, therefore control supervision is key. Information asymmetry exist in organization, this make the owners of the firm invest more on information with which to regulate the agents performance. Sometimes, the principal aligned itself with the agent interest through the use of cash or non-cash remuneration strategies. According to Jensen (2003), internal control plays an important role in maintaining the alignment between the principal and their agents.

### **Methodology**

This study used a survey research method to gather information aimed at examining the impact of internal control system on fraud prevention in Nigerian banking sector. This method was adopted because a survey is the process of gathering information for statistical analysis to benefit a group of individuals. The population of this study was Twenty two (22) commercial banks in operations in Nigeria (Central Bank of Nigeria, 2017). Ten (10) banks were selected as sample size using simple random sampling techniques. This was determined by 50% of the total population

figure to show a true representation of the population, which gives eleven (11) banks. However, the researcher dropped one bank due to its financial crisis at that point in time which led to revocation of its license by Central Bank of Nigeria and change of name and management. Furthermore, forty (40) copies of questionnaire were administered to six (6) selected departments in each of the ten (10) selected banks. The instrument used for data collection for the study was structured questionnaire modified from the study of Muthusi (2017). This was based on 4 Likert scale of Strongly Agree (SD), Agree (A), Disagree (D), and Strongly Disagree (SD). The questionnaires were administered at the head office of the selected banks in Lagos State, Nigeria. The instrument for data collection for this study was subjected to content validity by given it to research experts and lecturers for useful criticism and corrections. Their comments were incorporated into the instrument. The internal consistency of the instrument was determined using Cronbach Alpha. at 0.750. The model adopted for this study, was based on the study of Joseph, Albert and Byaruhanga (2015) that examined the effects of internal controls on fraud detection and prevention in district treasuries in Kenya.

The model was modified as:

$$FP_{in} = \alpha + \beta_1 RIA + \beta_2 CSP + \beta_3 COE + \beta_4 IMT + \varepsilon$$

where: FP = Fraud Prevention ( Dependent variable) which is binary variable of which one (1) means there are fraud prevention mechanism and zero (0) means otherwise. RIA = Risk Assessment; CSP = Control Supervision; COE = Control Environment; IMT = Information Management & Technology,  $\varepsilon$  = Error Term

## Results and Discussion

### *Regression Results*

Dependent Variable: FP

Method: ML - Binary Probit (Quadratic hill climbing)

Sample: 1 -321

Included observations: 321

Convergence achieved after 5 iterations

Covariance matrix computed using second derivatives

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	1.260247	1.689030	0.746137	0.4556
ICS	0.628340	0.285792	0.414076	0.0488
RA	0.546459	0.257634	2.121067	0.0339
CS	0.175213	0.286311	0.611967	0.5606
CE	0.514143	0.258919	1.402223	0.0175
IT	0.630239	0.261005	2.269111	0.0278
McFadden squared	0.591777		Mean dependent var	0.866044
S.D. dependent var	0.341137		S.E. of regression	0.340954
LR statistic	5.506303		Avg. log likelihood	0.385262
Prob(LR statistic)	0.357255			
Obs with Dep=0	43		Total obs	321
Obs with Dep=1	278			

*Source: Authors (2022)*

The regression results above revealed that fraud prevention (FP) has positive and significant relationship with internal control system (ICS), having z-value of 0.414076 and p-value of 0.0488 at 5% level of significance. This support the study of Abiola (2013) who also found a positive relationship between internal control system and fraud prevention. The table also demonstrates that Fraud Prevention (FP) has positive and significant relationship with Risk Management (RM) having z-value of 2.121067 and p-value of 0.0339 at 5% level of significance. This corroborate the findings of Joseph, et al. (2015) who found that effective

risk management will prevent fraud occurrence which ultimately will promote growth, profitability and going concern of the banks. However, findings shows that Fraud Prevention (FP) has a positive but non-significant relationship with Control Supervision (CS) having z-value of 0.611967 and p-value of 0.5606 at 5% level of significance. The table also revealed further that Fraud Prevention (FP) also has a positive and significant relationship with Control Environment (CE) having a z-value of 1.402223 and p-value of 0.0175 at 5% level of significance. This finding corroborate with the study of Rezaee (2002) and Enofe, et al. (2017) who claimed that control environment of banks can prevent fraud, minimized loss of resources, enhance reliable financial reports and compliance with laws and regulations. The regression table also shows that Fraud Prevention (FP) has a positive and significant relationship with Information Management & Technology (IMT) having a z-value of 2.269111 and p-value of 0.0278 at 5% level of significance.

Furthermore, on the basis of individual coefficient from the above results, it can be observed that internal control system exhibited a positive relationship with dependent variable (fraud prevention) as revealed by the positive value of coefficient, it indicates that there is 62% chances that ICS can impact on the level of fraud prevention. Risk Management was found to exhibited a positive relationship with dependent variable (fraud prevention) as depicted by the positive value of coefficient. It indicates that there is 54% chance that Risk Management can impact on the level of fraud prevention. Control Supervision was found to exhibited a positive relationship with dependent variable (fraud prevention) as depicted by the positive value of coefficient. It indicates that there is 17% chances that Control Supervision can impact on the level of fraud prevention. Control Environment was found to exhibit a positive relationship with dependent variable (fraud prevention) as shown by the positive value of coefficient. It indicates that there is 51% chances that Control Environment can impact on the level of fraud prevention. Information management & Technology was found to exhibited a positive relationship with dependent variable (fraud prevention) as depicted by the positive value of coefficient.

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It indicates that there is 63% chances that Information Management & Technology can impact on the level of fraud prevention. From the table below also, it can be observed that the model has 0.59% chance (probability) of predicting the outcome of the dependent variable as revealed by the Mc Fadden  $R^2$  value of 0.59. It was also observed that the LR statistics value of 5.5 was above the rule of thumb value which is two 2. This therefore indicates that the model is statistically significant.

### **Summary and Conclusion**

Based on the hypothesis tested, the following findings emerged: internal control system has a positive and significant impact on fraud prevention in the Nigerian banking industry; risk assessment has a positive and significant impact on fraud prevention in the Nigerian banking industry; control supervision has a positive but non-significant impact on fraud prevention in the Nigerian banking industry; control environment has a positive and significant impact on fraud prevention in the Nigerian banking industry; information management and technology has a positive and significant impact on fraud prevention in the Nigerian banking industry. Therefore, there is need for more improvement in control policies review by management in order to curb all dimensions of fraud occurrence and severe punishments must be meted to any staff that err. This will serve as deterrent to others. Access to sensitive business information among banks staff must be well management by individual who has proved themselves over the years to be loyal, dependable and reliable. More investment need to go to procurement of anti-fraud software and hardware. Internal control system in Nigeria banks needs to be fortified to meet the business realities of today, this will help to eliminate all loopholes and gaps which often arises due to changes in procedures, practices, technology and government policies that have impacts on banking industry. Banks should have a proactive fraud risk assessments program, so as to guide against any avoidable loss of customers money. When fraud risk is identified, there is need to evaluate its frequency and the potential loss to the organization, then, management must gather reliable information to determine the quantum of the risk and

the better way to control it. Proactive risk management involves ability of a process to produce data of frequency of loss, maximum possible loss, and probability distribution of loss, graphic representation and standard deviation of loss. Nigerian banks must invest heavily in anti-fraud software and latest hardware gadgets that can create awareness of impending fraud or fraud alert and build a strong protection around the bank database. Staffs must be constantly trained and retrained on policies, strategies and legal implication of fraudulent practices. Management of banks must redesign their internal control framework such that it can accommodate the daily gaps being created through new technological development which banks are always quick to implement for better services. There is need to employ forensic experts with cognitive years of experience to support the auditing department in various banks. These experts must be seasoned in fraud detection and prevention. Their responsibility will be to analyse on regular basis financial transactions with the aim of checking for shenanigan and other likelihood of fraud and blow the whistle to management for immediate investigation and prosecution. Management should always involve their experience staff in policies formulation and designing of internal control system for fraud prevention

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