Fraud Detection and Internal Control Measures in Deposit Money Banks Listed on the NSE

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Abstract — This study examine the internal control measures for fraud prevention and detection in Deposit Money Banks (DMBs) listed on the Nigerian Stock Exchange (NSE). Data collected were from both primary and secondary sources using annual financial reports and questionnaire for the respondents of all listed DMBs in Nigeria. Analysis was mainly done by regression of the internal control measures and fraud in DMBs. Internal control measures proxies are control environment, risk assessment and control activities. On the other hand, fraud prevention and detection proxy is discretional accruals. The analysis found out that the internal control measures of control environment, risk assessment, and control activities have negative influence on fraud detection and prevention (discretional accruals). However, the influence of risk assessment is not significant. It was therefore recommended that an overhaul of the management and internal control systems currently being operated by DMBs in Nigeria be done to make it strictly in line with IFRS standards and guidelines. Furthermore, this should be backed by the introduction of forensic auditing and assurance to make offenders not only liable for their actions; but also subject to legal prosecution as well.

Keywords — Fraud Detection and Prevention, Error, Control Environment, Risk Assessment, Control Activities, Discretionary Accruals

I. INTRODUCTION

The strength of every organization is of supreme importance especially as it affects its internal control over financial power. The reason being that the control systems in any organization is a pillar for an efficient accounting system (Onyefulu & Ofor, 2016). Past secular financial scandals have created the need to institute an effective internal control mechanism even if the motive of the organization is not to make profit. Controls are preventive and ruling influences over the activities of a system. However, where internal controls are not in place or are ineffective the propensity to engage in fraudulent acts is very high (Ojua, 2016). After the setup of strategies and development of plans, management’s principal task is to take steps to ensure that plans are carried out; or adjustment effected if conditions warrant that plans are modified. Control is therefore a critical function of management. Control is devoid of commonly accepted framework. In general, terms, control can be viewed from three major perspectives. Thus:

a. As a system
b. As a management function and
c. As a process

It is important to note that internal controls only provide reasonable but not absolute assurance to an entity’s management and board of directors that the organization’s objectives will be achieved. The rationale behind the establishment of internal control system is to help organizations achieve performance and organizational goals, prevent loss of resources, enable the production of reliable reports, and ensure compliance with laws and regulations (Efiong, Inyang & Joshua, 2016).

Internal Controls are processes designed and effected by those charged with governance, management, and authority to provide reasonable guarantee about the achievement of an entity’s objectives with regard to reliability of the financial recording, usefulness and proficiency of processes and agreement with relevant principles, rules and guidelines. A sound internal control system helps an organization to detect and prevent frauds, errors and minimize wastages. Custody of assets is not only strengthened but also it provides assurance to the administration on the dependability of accounting data. In this way, unnecessary suspicion will be eliminated and adequate and reliable accounting records maintained.

Financial fraud scandals by the management of companies have been highlighted through financial reporting to the public. Every company has a goal to earnings in an effort to uphold the going concern concept...
(Coram, Ferguson & Moroney, 2006). Earnings being one of the measure of success of management in an operating company; the management of the company is always willing to show a profit in the financial statements through alternative of taking earnings management. Thus, earnings management is an engineering financial statement through opportunist acts of managers in maximising desires (Efiong, Inyang & Joshua, 2016). By increasing these earnings, will be reflected in the company's performance was good through the manipulation of financial statements, which in turn make the information-contained earnings become irrelevant. Fraud is not a recent phenomenon; it has been early in the history of our world, as men have made use of tricks, manipulation, and deceive in order to acquire cash, landed property, commodities, or trust, with the main aim profit maximization. The history of auditing can be traced back to Ancient times (ancient Babylon and Egypt), where archaeologist findings have shown the survival of some qualifying forms of commercial dealings that permitted elementary form of authentication and bookkeeping. In recent times, it has also been associated with some highly publicized cases of financial fraud from the last two centuries. The creation of accounting and audit are therefore, connected in economic history with the desire, especially on the part of the state, to contain and prevent stealing and misrepresentation in their finances.

Fraudulent acts have necessitated internal controls in entities including Deposit Money Banks in Nigeria. Fraud practices has led to past heavy financial losses in the banking sector and the economy in general. The act have contributed significantly to the financial distress of some banks and the poor performance of the others (Okonkwo & Ezegbu, 2016). Therefore, a system of internal controls is a critical component of bank management and a foundation for the safe operation of banking organizations. A system of strong internal controls can help to ensure that the goals and objectives of a banking organization will not only be met, but that the bank will accomplish longstanding productivity targets, and preserve reliable economic and executive accountability. Such a system can also help to ensure that the bank will comply with laws and regulations as well as policies, plans, internal rules and measures, and decrease the risk of unexpected losses or damage to the bank’s status.

Prior studies have examined the differential effect of internal control as a tool of combating fraud. Based on some reviewed literatures, it was clear that there are no much studies in Nigeria on the subject matter. Therefore, this study extends and contributes to the body of research using current data to investigate on internal control measures to prevent fraud and errors in Deposit Money Banks (DMBs) in Nigeria. The motivation of this research emanates from the fact that the interest surrounding the appropriateness of reforms instituted by corporate governance code in Nigeria in response to corporate failures, universal best practice and their implicit effectivness in the face of substantial execution. Guiding the outcome of this research is the fundamental question of “What is the relationship between internal controls and fraud prevention in Deposit Money Banks in Nigeria?”

For this reason, the main objectives of this paper are to examine the effects of control environment and activities as well as risk assessment on the prevention of fraud and errors in Deposit Money Banks in Nigeria. Based on these objectives, this study tests for the following assertions:

- **H₀₁** Control environment has no significant effect on the prevention of fraud and errors in Deposit Money Banks in Nigeria.
- **H₀₂** Risk assessment control has no significant effect on the prevention of fraud and errors in Deposit Money Banks in Nigeria.
- **H₀₃** Control activities have no significant effect on the prevention of fraud and errors in Deposit Money Banks in Nigeria.

This study was therefore, embarked upon to appreciate in knowing and studying how the principles of internal control components or elements used to prevent fraud. It will also unveil the lapses and inadequacies in banks open to fraudsters within and outside the banks.

### 2. LITERATURE REVIEW

#### 2.1 Introduction

This section provides a critical review of related literature on the subject matter of “internal control measures for fraud and error detection in deposit money banks” and understanding of Internal Controls, components of Internal Controls, types of Internal Controls and the various control activities. Detailed description of the concept of fraud and the relationship between internal controls and fraud prevention in banks. Empirical as well as theoretical reviews were made.

#### 2.2 Concept of Internal Control

Internal Control can be simply define as a process effected by the entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, safeguarding assets and compliance with applicable laws and regulations. A system of Internal
Control consists of policies and procedures designed to provide management with reasonable assurance that the company would achieve its goals and objectives. These guidelines and measures are generally referred to as controls and together they constitute what could be referred to as an entity’s internal control system.

Generally, internal control refers to any combination of measures, policies, and procedures that the management of an organization adopts in order to ensure that the assets of such organization are duly protected and that all operations are carried out in the most efficient manner. These measures are adopted to enhance the realization of organizational objectives.

2.1.1 Components of Internal Control

Internal control consists of five components of internal control. They include:

a. Control Environment: - This sets the tone for the organization influencing the control consciousness of its people. It is the groundwork for all other mechanisms of Internal Control.

b. Risk Assessment: - It is the identification and analysis of relevant risks to the achievement of organizational objectives. Thus forming a basis for how the risks should be managed.

c. Information and Communication: - These are systems or processes that support the identification, capture, and exchange of information in a form and period that enables people to carry out their responsibilities.

d. Control Activities: - These are the policies and procedures that help ensure that management directives are carried out.

e. Monitoring: - This include processes used to assess the quality of Internal Control performance over time.

2.3 The Concept of Fraud

Fraud has seen various definitions by different scholars. The term of ‘fraud’ denotes the wider perception of ‘irregularities’. An irregularity refers to any transgression from legality, regularity, or conformity, as well to any breach of the term (Coram, Ferguson & Moroney, 2006). Deficiencies, transgressions, and malfunctions represent breaches of the normative regularity framework, violations of the procedural code consisting of errors, omissions, or unintentional mistakes. Fraud could also be seen as a predetermined and well-planned tricky process or device usually undertaken by a person, group of persons, with the sole aim of checking another individual or business to gain illegal advantages, be it financial or otherwise; which would not have been possible in the absence of such fraudulent method. Specifically, it is a misrepresentation or concealment with reference to some fact materials to a transaction that is made with knowledge of its falsity or in reckless disregard of its truth and with the intent to deceive another person (Dandago, 1999).

2.3.1 Classification of Fraud

Two broad schemes of frauds have been identified; they include:

a. Management fraud
b. Employee fraud.

Management Fraud

This often involves the manipulation of the records and the account, typically by the enterprise’s senior officers with a view to benefitting in some way. An example is obtaining finance under false pretences or concealing a material item (window dressing). Dandago, (1999) defines management fraud as a deliberate fraud, committed by management that injures investors and creditors, through materially misleading financial statements. Management fraud is sometimes called fraudulent financial reporting. It is usually perpetrated by the management staff of an organization, which includes Managing Directors, Directors, general managers, etc. Mostly the classes of victims of management frauds are investors and creditors and the instrument of perpetration is financial statement. The crux of management fraud most times is to entice more interested parties to come and participate in the business.

Employee Fraud

These frauds are perpetrated by the employees of the organization. Robertson defines it as the use of fraudulent means to take money or other property from an employer. It usually involves falsification of some kind, like false documents, lying, exceeding authority, or violating an employer’s policy, embezzlement of company’s funds. Employee fraud is more likely to be encountered where Internal Controls are weak.
2.3.2  *Common Fraudulent Practices and Causes of Bank Frauds*

Many types of bank frauds exists in the banking sector. These includes theft, embezzlement, defalcations, forgeries, substitution, suppressions, payment against unclear effects, unauthorized lending, lending to ghost borrowers, kite flying and cross firing, unofficial borrowing, foreign exchange malpractice, impersonation, over-involving, manipulation of vouchers, fictitious accounts, over and under valuation of properties, false declaration of cash shortages, falsification of status reports, duplication of cheques books, mail transfer, interception of clearing cheques, electronic frauds, false expenditures, teeming and lading, burglars and others.

According to Ebimobowei & Binaebi (2013), there are many identified causes of fraud in banks. They vary from institutional to economic, social, psychological, legal, and even infrastructural causes. The immediate causes of frauds in general as provided by include:

a. Availability of opportunities to perpetuate frauds
b. Poor internal controls that is to say, lack of proper authorization, no separation of duties, lack of clear reporting lines, inadequate documentation etc.
c. Management’s override of Internal Controls
d. Poor or non-existence of ethical standards and business policies
e. General lust for wealth
f. Inadequate training for bank personnel, among others.

Of a truth, there are many causes of bank frauds, but weak Internal Control System stands as a major cause of frauds in banks. It is therefore, expedient that adequate, efficient, and effective Internal Control System be installed in every bank in order to reduce it.

2.3.3  *Measures of Fraud Prevention in Banks*

1. Fraud prevention involves good division of responsibilities, supervision of staff, monitoring work performance and putting measures in place to ensure that even when systems are accessed there is proper control.
2. Day-to-day supervision of dealings should also be conducted in order to detect unfamiliar dealings.
3. Fraud awareness can also be enhanced through seminars and training events held in collaborations with banks, and other financial institutions, covering areas like fraud prevention measures and investigation techniques.
4. Staff training is a key element in risk management as employees who are actively trained in risk management are better able to identify threats to the organization due to weak or non-existent Internal Controls.
5. Know your customer is another key compliance issue, whereby an institution is required to identify all the features of its clients by updating existing files and monitoring the operations and examining at least that inventors and recipients are not barred.
6. Other fraud prevention measures may include surprise audits regulations, job rotation, communicate to employees on views and policies regarding fraud, annual independent financial statement audit, eliminate excessive authority residing with one individual etc.

2.4  *Relationship between Internal Controls and Fraud Prevention in DMBs*

Real internal control systems are critical in noticing and avoiding fraud. Institute of Internal Auditors (2003), wrote that “Internal Control activities can as well function as fraud prevention measures for example “Monitoring work performance ensures efficiency in operation as a fraud prevention strategy, adequate training of staff ensures compliance with policies and standards, authorization and approval ensures proper approval of transactions, arithmetic and accounting ensures accuracy in recording and processing of transactions, segregation of duties ensures effectiveness and efficiency in bank’s operations and regular physical checks ensure safety of the bank’s assets. Fraud in general, inflicts untold hardship on bank owners, customers and their family members, as most bank failures are associated with large scales of fraud”.

The prevention and detection of fraud is therefore, the responsibility of the management, through the establishment of effective and efficient internal control system. Because of this, the importance of the Internal Control department/unit of any organization, especially banks should not be underestimated (Ebimobowei & Binaebi, 2013). Since the lack of effective Internal Controls is the major cause of bank frauds. It is therefore advisable the management of every bank should create and establish standard Internal Controls, strong enough
to stand against the wiles of fraud in order to promote continuity of operations and to ensure strong liquidity, solvency, and going concern concept of the banks.

2.5 Empirical Review

Beatrice (2014) examined the influence of internal audit controls on fraud detection of some selected banks in Kenya. Data collected was purely quantitative and it was analysed by multiple regression analysis to determine the effects of each of the five variables on fraud detection. From the findings, the study showed that the five objectives studied (proactive fraud audit; compliance with policies; risk management; controls over efficiency of operation and management reporting) have a positive influence on fraud detection with proportions as indicated by the regression equation.

Gbegi and Adebisi (2015) analysed on the relationship of fraud detection and prevention strategies in the Nigerian Public Sector. It was found that a positive and significant association exists between organization guidelines and Nigeria government sector fraud. Furthermore, fraud prevention and detection methods have influence on Nigeria public sector fraud. There is also no strong internal control system in the Nigeria public sector and management integrity has influence on fraud prevention in the Nigeria public sector.

Ironkwe and Promise (2015) examined the impact of internal controls on the financial management of selected production companies in Rivers State in Nigeria. Survey method including the use of questionnaire was adopted, whilst multiple regression and Pearson’s correlation coefficient ($r$) statistical tool were used in testing the hypothesis. The findings revealed that effective internal controls enhance financial management of organizations.

Oguda, Odhiambo, and John (2015) ascertained the effects of internal controls on fraud prevention and detection. The study used closed ended questionnaires intended for treasury operators and their patrons. Data collected was analysed by means of both expressive and inferential statistics. The outcome of the study discovered that there was a statistically significant and positive connection between the competence of internal control systems and fraud deterrence and discovery. In the same vein, Sabina and Priya (2015) investigated the internal control system and its impact on the performance of the Sri Lanka Telecom limited in Jaffna District. Percentage, Correlation, and SWOT analysis were the main tools used of analysis. The findings of the study presented a robust connection between internal control system and organizational productivity of the Sri Lanka Tele com limited.

Another study by Sanusi and Mustapha (2015), which investigated the effectiveness of internal control system and financial accountability at local government level in Nigeria, showed that internal control system is positively significant for the good financial accountability in local government area councils in Nigeria. Hassan (2016) who also examined the effects of internal control system practice on the performance of remittance companies in Mogadishu-Somalia discovered that there was a variation of 99.3% on organizational performance of remittance companies in Mogadishu due to changes in control environment, risk assessment, and control activity at 95% confidence interval. The study equally revealed that there was positive strong relationship between control environment, risk assessment and control activity and financial performance of change as shown by strong positive correlation coefficient.

Henry and Osagie (2016) examined the relationship between internal control and fraud prevention in the public sector in Nigeria. The methodology utilized in the study was a survey designed with the aid of administration of questionnaire. The findings revealed that the existing control measures by federal government are sufficient in content and scope to prevent fraud in the public sectors, in addition, the success of these real controls hinge on on straightforward personel and quality at the top. Kehinde, Felicia, and Joseph (2016) based their study on the issues of internal control and fraud prevention in DMBs in Nigeria. Their results showed that internal control on its own was effective against fraud, but not all staff are committed to it.

Oju (2016) examined the internal controls and fraud prevention in Non-profit organizations in Nigeria. The research was designed to investigate the issue of controls and frauds by assessing whether religious organizations have effective internal controls and if such can prevent fraud. It was noted that internal controls in these non-profit making religious organizations are based on trust and not on the basic accounting principles hence, they are not in a situation to make best use of the efficacy of internal controls to their benefit. Another study by Okonkwo and Ezegbu (2016) examined internal control techniques and fraud mitigation in DMBs in Nigerian to come out with a finding that the internal control techniques employed by banks in checking fraud have not been very effective; that branch managers were the dominant perpetrators of fraud in the banks.

From the above discussions, it is clear that studies carried out on fraud and internal control systems in broad perspective have yielded mixed results. While some studies gives positive results other have shown a negative relationship. In the banking sector, the emphasis has been on internal control system and fraud prevention techniques. Even though this study followed this trend, it emphasizes on detection and based on current data. Moreover, the proxy used for measuring fraud is discretionary accruals.
2.6 Theoretical Framework

2.6.1 Agency Theory

Agency theory describes firms as necessary structures through which, it is possible to exercise internal control, which minimizes opportunistic behaviour of agents. This affiliation between the agent and principal is reinforced by the principal engaging a skilled personnel to supervise the agent. The controls provide for problem solving amongst the agent and principal and that ethical danger and adverse assortment affects the output of the agent. Scholarships have revealed that internal control system decreases agency costs. Firms have a monetary enticement to report on internal control. Lapses in internal controls are connected with augmented heights of income supervision.

This study is based on the Agency theory to support internal control as a tool of preventing fraud and errors, because it is more relevant and applicable to this study emphasizing and explaining on the agency relationship that exists between the owners and the agent. The need for a good internal control system arose because of the separation of ownership between a firm and its owners, which turns the firm into a nexus of relationship between it and all its stakeholders such as managers, employees, shareholder, creditors, government and all its stakeholders. The separation of ownership and control by the sophistication of the modern day business redefines the relationship that exists between the owners and the managers to that of an agent and a principal. The Agency theory further supports the objectives and hypothesis of this study as depicted on the framework below.

![Figure 3.1](image-url)

Framework the Research

3 METHODOLOGY

3.1 Introduction

The methodology discusses the research design, population, sample size, and sampling technique, sources and method of data collection and techniques of data analysis adopted for this study. The design used in this research is the survey and ex-post factor. The survey method was used because the population of the study involves the staffs of the sample banks, who are to express their views in the information contained in the questionnaire. It also gave the respondent a chance of answering the questions at their own pace and convenience. On the other hand, the ex-post facto method was also used because the study entails the use of annual reports and accounts of the selected banks to compute its discretional accruals as a measure of fraud prevention and detection.

The population of the study consists of all the 15 Banks listed by the NSE as at 2017 financial year. These are shown in Table 3.1
Filter sampling technique was used through applying criteria, for a bank to be part of the sample; the banks should be qualified in terms of the following:

a. They should have been listed on Nigerian Stock Exchange.
b. There should be no significant change in the fiscal year during the period.
c. There should be no transaction cease for more than six months.
d. The required data should be available.

Given these criteria, the population becomes the sample size of the study. For the primary data, a sample size of 750 respondents was be used to represent the sampled banks, taking 50 respondents from each bank. In all, 800 copies of questionnaires were administered to 800 respondents. Of the 765 received only 750 was used for this study. In carrying out this research work, data was gathered from both primary and secondary sources of data. The secondary data were sourced from the bank’s financial statement (i.e. discretional accruals) for the period of 10 years from 2007 to 2016 contained in banks annual reports and account.

### 3.2 Research Variables and their Measurement

The study used dependent and independent variables. The dependent variable is fraud prevention and detection while the independent variables are the internal control measures that centre on environment, risks and activities. The dependent variable used discretional accruals a proxy for fraud prevention and detection. It was measured using the following formulae (Dechow, 1995) as applied by Onyefulu and Ofor (2016):

\[
DA_j = TA_j/A_j - [(\alpha_0 + \alpha_1 (\Delta REV_j - \Delta REC_j)/A_j) + \alpha_2 (PPE_j/A_j)]
\]

Where:
- TA is the total accruals
- A is the beginning of year total assets
- ΔREV is the change in net revenue
- ΔREC is the change in accounts receivables
- PPE is property, plant, and equipment
- j denote the firm

### Table 3.1

<table>
<thead>
<tr>
<th>S/N</th>
<th>Names of Banks</th>
<th>Year of Listing</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.</td>
<td>Eco bank Nigeria Plc</td>
<td>2006</td>
</tr>
<tr>
<td>4.</td>
<td>Fidelity Bank Plc</td>
<td>2005</td>
</tr>
<tr>
<td>5.</td>
<td>First Bank of Nigeria Plc</td>
<td>1979</td>
</tr>
<tr>
<td>6.</td>
<td>First City Monument Bank Plc</td>
<td>2004</td>
</tr>
<tr>
<td>8.</td>
<td>Skye Bank Plc</td>
<td>2006</td>
</tr>
<tr>
<td>10.</td>
<td>Sterling Bank Plc</td>
<td>1992</td>
</tr>
<tr>
<td>11.</td>
<td>Union Bank of Nigeria Plc</td>
<td>1971</td>
</tr>
<tr>
<td>12.</td>
<td>United Bank For Africa Plc</td>
<td>1970</td>
</tr>
<tr>
<td>15.</td>
<td>Zenith Bank Plc</td>
<td>2004</td>
</tr>
</tbody>
</table>

Source: NSE official website as at 2017 (www.nse.com.ng)
α0, α1 and α2 are the parameters for each variable

DAj = Discretionary Accrual

The independent variables were qualitative measures derived from the questionnaires and were measured through five point Likert scale from the responses in the questionnaires [i.e. strongly agree (5), agree (4), neutral (3), disagree (2) and strongly disagree (1)]. The qualitative attributes measured were:

a. Control Environment: - The control environment includes the attitudes, awareness, and actions of management and those charged with governance concerning the entity’s internal control and its importance in the entity.
b. Entity Risk Assessment Process: - An entity’s risk assessment process is its process for identifying and responding to business risks and the results thereof.
c. Control Activities: - Control activities are the policies and procedures that help ensure that management directives are carried out.

For the purpose of presentation and discussion of the result SPSS version 23 statistical tools of analysis was used to determine the descriptive statistics, correlation, and regression. The descriptive statistics was used to organize and summarized the data with a view of reducing the cumbersomeness and making it meaningful and comprehensive. For the purpose of this study, the descriptive statistics used are mean and standard deviation. Correlation matrix technique was used to determine the degree of relationship between the independent and dependent variables with the aim of finding out the strength, type, and extent to which two sets of ranking are similar or dissimilar. The regression technique showed the impact of the independent variables on the dependent variable. The relationship is expressed as an equation that predicts a response variable from a function of regression and parameters. For the purpose of this study the ordinary least square techniques was used to determine the extent of the impact of the independent variables on the dependent variable. Hence, the model is expressed as:

$$EFP_i = \beta_0 + \beta_1 CE_i + \beta_2 RA_i + \beta_3 CA_i + e_i$$

Where:

- $EFP_i$ = Fraud prevention of bank $i$ in year $t$
- $CE_i$ = Control environment of bank $i$ in year $t$
- $RA_i$ = Risk assessment of bank $i$ in year $t$
- $CA_i$ = Control activities of bank $i$ in year $t$
- $\beta_0$ = Constant (i.e. the intercept)
- $\beta_1, \beta_2, \beta_3$ = Coefficient of the independent variables (i.e. the slope)
- $e_i$ = Error term

4 RESULT AND DISCUSSION OF FINDINGS

4.1 Introduction

This section discusses the result of the study and their implications. The discussion opens with normality tests of the data set. It was then followed by an analysis of the descriptive statistics, correlation matrix, and the regression results. The formulated hypotheses were also tested and their result gives the findings of the research. All the results of the analysis could be found on Table 4.1.

4.2 Analysis of Data

Normality tests carried out on the 150 observations for the 15 Deposit Money Banks (DMBs) studied showed a VIF value of less than 10 for all the variables (Figure 4.1). Thus indicating the absence of multicollinearity between the variables in the data distribution. The histogram also shows that majority of the distribution values falls within the range of ±2. Thus, proof that the data for this study is normal. The distributive statistics gives mean values of -0.747, 2.810, 3.210, and 2.870 for discretionary accruals (fraud detection and prevention), control environment, risk assessment, and control activities respectively. This is an indication that there is high rate of fraud in banks (negative value of discretionary accruals). Besides, all three predictor of internal control system indicate that respondents have neutral perception of the internal control system operation in DMBs in Nigeria. The average score value of 3 (approximately), is further implying that a disclaimer position in which respondents neither commit themselves nor abstain as to the strength or weaknesses of the internal control measures being operated by banks. This is a very critical situation, because had it been the internal control system were effective and efficient; parties in the system would not have shy away from commenting on it.

The indices for the standard deviation is an indication that variation from the standard distribution within the data set is not adverse. None of the standard deviation results is greater than 1.40. This is an
implication that all the predictor variables have relationships with fraud detection and prevention (discretional accruals) as indicated by the correlation index. While control environment and risk assessment shows an inverse relationship, control activities shows a positive influence. However, the relationship between risk management frauds is very weak (12.8%) while control environment and control activities shows moderate relationships with fraud detection and prevention (31% and 23.8% respectively.

### TABLE 4.1
**SUMMARY OF ANALYTICAL RESULTS**

<table>
<thead>
<tr>
<th>Variables</th>
<th>No. of Observations</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Correlation Matrix</th>
<th>VIF</th>
<th>β</th>
<th>t-value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discretion Accruals</td>
<td>150</td>
<td>0.7470</td>
<td>0.3679</td>
<td>1.0000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Control Environmental</td>
<td>150</td>
<td>2.8100</td>
<td>1.3550</td>
<td>-0.3100</td>
<td>1.04</td>
<td>0.272</td>
<td>-3.4600</td>
<td>0.0000</td>
</tr>
<tr>
<td>Risk Assessment</td>
<td>150</td>
<td>3.2100</td>
<td>1.0320</td>
<td>-0.1280</td>
<td>1.03</td>
<td>3</td>
<td>0.081</td>
<td>1.033</td>
</tr>
<tr>
<td>Control Activities</td>
<td>150</td>
<td>2.8700</td>
<td>1.3620</td>
<td>0.2380</td>
<td>-</td>
<td>0.171</td>
<td>-2.1490</td>
<td>0.0330</td>
</tr>
</tbody>
</table>

R²: 0.135
Overall p-value: 0.0000

![Normality Histogram](image)

**FIGURE 4.1**
**NORMALITY HISTOGRAM**

The Regression results depicted a total impact of 13.5% (Table 4.1) in fraud detection and prevention. This implies that for every change in internal control measures, fraud could be detected to the value of 13.5%. This result is significant at 1% level of significance. On individual basis however, the predictor variables have different impact on fraud detection and prevention. Control environment influences fraud detection by 27.2% at a significant level of 1%. However, the relationship is negative, indicating that for every 1-unit increase in control environment measures the level of fraud detection, and prevention falls by 27.2%. The same negative relationship exists between risk assessment control and fraud detection. In this case, the impact is 8.1% fall in fraud detection. Nonetheless, the relationship is not significant. Finally, control activities also shows an inverse relationship that is measured at 17.1%. This is significant at 5% level of significance. In short, all the internal control measures put in place by DMBs in Nigeria aggravates rather than curb the problem of fraud detection and prevention.

### 4.3 Test of Hypotheses

The hypotheses purported for this research are:

- H₀₁ Control environment has no negative significant effect on fraud detection and prevention in Deposit Money Banks in Nigeria.
- H₀₂ Risk assessment control has no negative significant effect on fraud detection and prevention in Deposit Money Banks in Nigeria.
- H₀₃ Control activities have no negative significant effect on fraud detection and prevention in Deposit Money Banks in Nigeria.
Two of the hypotheses ($H_{01}$ and $H_{03}$) gives significant results. They were therefore, upheld. The implication is that a negative relationship exists between these internal control systems and fraud detection and prevention. However, hypothesis $H_{02}$ (risk assessment) should not be rejected due to its insignificance influence.

5. CONCLUSION AND RECOMMENDATIONS

5.1 Summary
The strength of every business entity is of supreme significance. The goal being that the control systems in any enterprise is a support for a well-organized reporting system. The various materialistic financial humiliations have formed the need to establish an operative internal control device even if the intention of the organization is not to make revenue. Internal Controls are procedures premeditated and affected by those empowered with governance, administration, and other personnel to deliver rational guarantee about the accomplishment of an entity’s intentions with regard to dependability of the economic reporting, usefulness and competence of processes and submission to appropriate rules and principles.

Fraud is not a recent phenomenon in world economic and financial history. It was founded early in the history of mankind individuals have in the past employed deceits, operation, and deception in order to attain cash, property, belongings, or confidence, with the general aim of increasing their wealth. Fraudulent acts have necessitated internal controls in entities including the Deposit money banks. The methodology used for this research work, were survey and ex-post factor were used as research design. Primary and secondary sources of data were used through administration of 750 questionnaires to the respondents of the DBMS and the secondary data were sourced from the bank’s financial statement for the period of 10 years from 2007 to 2016 contained in banks annual reports and accounts. The presentation, interpretation, and analysis of the data gives overall impact of 13.5% on fraud detection and prevention. However, only two of the formulated hypotheses were rejected.

5.2 Conclusions (Findings)
From the analysis of the study, it was concluded that deposit money banks had invested on effective internal control systems that had not reduces fraud and the internal control system is deemed weak, ineffective, and inefficient. Specifically, the findings of this study shows that:

1. The internal control measures on control environment have negative influence on fraud detection and prevention in deposit money banks listed in Nigeria.
2. The internal control measures on risk assessment have negative influence on fraud detection and prevention in deposit money banks listed in Nigeria.
3. The internal control measures on control activities have negative influence on fraud detection and prevention in deposit money banks listed in Nigeria.

In short, the internal control systems of DMBs in Nigeria are inefficient and ineffective.

5.3 Recommendations
The study recommends that both internal and external auditor should be constantly updated on the internal control systems DMBs are operating in Nigeria. In addition, the following should be strictly adhered.

1. Change in the entire top-level management.
2. An overhaul of the internal control systems currently being operated by DMBs in Nigeria should be done.
3. The introduction of forensic auditing and assurance to make offenders not only liable but also subject to prosecution as well.
4. The timely intervention by the Central Bank of Nigeria (CBN) and the Nigerian Deposit Insurance Corporation (NDIC) before banks faced liquidation.
5. Government agencies like the Economic and Financial Crimes Commission (EFCC) and the Independent Corrupt Practices Commission (ICPC) in charge of financial and economic crimes should be intimated before things get out of hand.

REFERENCE


APPENDIX QUESTIONNAIRE

Please tick on the scale of 1-5 to indicate the extent of your agreement with the given statements. 5 is strongly agree, 4 agree, 3 undecided, 2 disagree and 1 strongly disagree.

<table>
<thead>
<tr>
<th>Control Environment</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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</thead>
<tbody>
<tr>
<td>The organization has an accounting and financial management system</td>
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<tr>
<td>Management closely monitors implementation of Internal control systems in the organization</td>
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<td>Management provides feedback to the junior staff about the operation of the system</td>
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<td>Management acts with a great degree of integrity in execution of their roles</td>
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<tr>
<th>Risk Assessment</th>
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<th>2</th>
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<tbody>
<tr>
<td>Management has defined appropriate objectives for the organization</td>
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Management identifies risks that affect achievement of the objectives

Management has a criteria for ascertainment of which fraud-related risks to the organization are most critical

Management has put in place mechanisms for mitigation of critical risks that may result from fraud

<table>
<thead>
<tr>
<th>Control Activities</th>
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<tr>
<td>The organization has clear separation of roles</td>
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<td>Every employee's work check on the others</td>
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<td>Corrective action is taken to address weaknesses</td>
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<td>Staff are trained to implement the accounting and financial management system</td>
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