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IMPACT OF INTERNAL CONTROL SYSTEMS ON FRAUD PREVENTION IN DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

Fraudulent practices continue to threaten the stability and credibility of the Nigerian banking industry despite ongoing regulatory reforms and technological advancements. This study examined the effect of internal control systems on fraud prevention in selected Deposit Money Banks (DMBs) in Nigeria. Specifically, the study evaluated the influence of risk assessment, monitoring and evaluation, and information and communication systems on fraud prevention. A quantitative research design was adopted, and primary data were collected through structured questionnaires administered to senior staff, auditors, accountants, and compliance officers of selected banks in Kaduna State. Data were analyzed using descriptive statistics, correlation analysis, and multiple regression techniques with the aid of SPSS. The findings revealed that risk assessment, monitoring and evaluation, and information and communication systems significantly and positively influence fraud prevention in Nigerian DMBs. The study concluded that effective internal control systems strengthen organizational accountability, reduce opportunities for fraudulent practices, and improve operational efficiency within the banking sector. The study recommends continuous monitoring of internal control procedures, periodic fraud risk assessment, staff training, and investment in modern communication and risk-management technologies to enhance fraud prevention capacity in Nigerian banks.

Keywords: Internal Control System, Fraud Prevention, Risk Assessment, Monitoring and Evaluation, Information and Communication, Deposit Money Banks, Nigeria

1. Introduction

Fraud has emerged as one of the leading challenges facing financial institutions around the world, especially within the banking industry, which is characterized by high transactional activity. The rise in the sophistication levels of financial crime, fraud, and operational mismanagement has led to a heightened need for adequate internal controls in organizations. In emerging economies like Nigeria, fraud has continued to erode the level of confidence of people in financial institutions as well as affecting the performance of organizations.

The banking sector assumes an important role in facilitating the growth of an economy through its financial intermediary, money creator, investor, and facilitator of payments. Fraud cases have been persisting in the Nigerian Deposit Money Banks (DMBs). The failure to implement adequate internal controls has been noted as one of the main causes of fraud in banks.

Internal control systems include those processes and policies put in place by the management to protect the organization's resources, comply with laws and regulations, ensure accountability, and improve efficiency. The Internal Control System as proposed by COSO consists of five main elements which include the control

environment, risk assessment, control activities, information and communication, and monitoring activities. The five components together help an organization to reduce risks associated with operations and improve organizational performance.

In spite of regulatory reforms and technological improvements witnessed in the Nigerian banking industry, fraud continues to be on the increase in sophistication and occurrence in many cases. There are numerous instances where banks have been victims of fraud as a result of various forms such as cyber frauds, illegal transactions, insider frauds, identity frauds, and record manipulation.

While prior researches have looked into the areas of internal control and fraud prevention, there is ambiguity in results owing to disparities in methods used, scope of study, context, and factors taken into account. Moreover, most of the researches concentrated on foreign countries' economies and public organizations, thus reducing applicability of results for Nigerian Deposit Money Banks. Hence, this paper aims at filling this gap by adding new empirical data to existing knowledge about association between internal control and fraud prevention in Nigeria's DMBs. The specific objectives of the study were to:

i. Examine the effect of risk assessment on fraud prevention in selected Deposit Money Banks in Nigeria.
ii. Evaluate the influence of monitoring and evaluation on fraud prevention in selected Deposit Money Banks in Nigeria.
iii. Assess the effect of information and communication systems on fraud prevention in selected Deposit Money Banks in Nigeria.

The study was guided by the following hypotheses:

H01: Risk assessment has no significant effect on fraud prevention in selected Deposit Money Banks in Nigeria.

H02: Monitoring and evaluation have no significant effect on fraud prevention in selected Deposit Money Banks in Nigeria.

H03: Information and communication systems have no significant effect on fraud prevention in selected Deposit Money Banks in Nigeria.

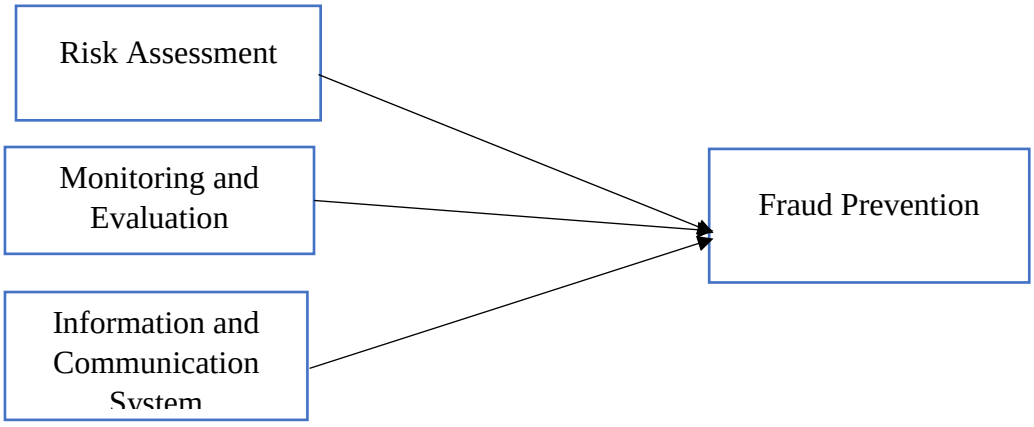
2. Literature Review

2.1 Conceptual framework

The theoretical framework used in this study provides an understanding of how elements of the internal control system affect fraud prevention at Deposit Money Banks in Nigeria. This framework operates on the assumption that the presence of adequate internal controls helps to eliminate organizational weaknesses and prevent occurrences of fraudulent activities.

Fraud prevention is the dependent variable, and risk assessment, monitoring and evaluation, and information and communication systems form the independent variables. This is so because these elements make up vital aspects of the internal control framework employed in most financial organizations (Augustine et al., 2023).

Fig.1 Conceptual framework



Source: Researcher's Computation (2026)

2.2 Fraud Prevention

Fraud prevention is defined as preemptive steps taken to lessen the chances of having any fraudulent activity in the organization. Fraud could take place due to manipulation of accounting documents, fraudulent transactions,

cyber-attack, accounting manipulations, theft of assets, or collusion among insiders (Henny et al., 2024). Proper fraud prevention techniques can enhance the effectiveness of an organization's operations and accountability.

Pressure, opportunity, and rationalization are three key elements in the fraud triangle model that motivate people to commit fraud (Augustine et al., 2023). Internal controls are created specifically to lower opportunities for fraud by proper oversight, segregation of duties, authorization, and monitoring. As Awotomilusi et al., (2023) would put it, fraud prevention requires putting in measures to foster a culture of high integrity and ethics, as well as evaluating the risk of fraud and responding to it through specific measures to counteract the risk and remove the chances for fraud. Prevention measures against fraud include such measures as rotating staff periodically, strengthening the control system, as well as imposing strict disciplinary actions and carrying out auditing activities (Obalemo, 2025). In other words, fraud prevention requires doing whatever is possible to prevent fraud from happening in the system to begin with. These prevention measures are the best way to guard against any form of fraud.

2.3 Concept of Internal Control System

Internal control systems are defined as corporate strategies and mechanisms designed to enhance effectiveness in operations, protect assets, ensure compliance, and guarantee accuracy in accounting reporting (Adeyem & Adenugba, 2021). According to COSO, the internal control systems are designed to give reasonable assurance about the realization of the organizational objectives of operations, compliance, and reporting (Smith & O'Connell, 2020). An effective internal control system will help the organization identify potential risks, prevent operational inefficiencies, and reduce fraud. Internal controls are especially significant in the financial institution due to the handling of huge sums of money on a daily basis (Aminat et al., 2023).

2.3.1 Risk Assessment and Fraud Prevention

Risk assessment refers to the process of identification, evaluation, and management of risks that can pose an obstacle to the accomplishment of organizational objectives (Awotomilusi et al., 2023). The types of risks associated with financial institutions include operational risks, compliance risks, cyber risks, and fraud risks among others. Proper risk assessment will allow management to determine weak operational spots and put in place precautions against fraud (Elikem et al., 2024). Past researches suggest that organizations that have proper risk assessment systems can detect suspicious activities and prevent fraud costs (Shakeel et al., 2023).

2.3.2 Monitoring and Evaluation

Monitoring and evaluation are concerned with the continuous examination of controls within the organization to guarantee that internal control mechanisms function effectively (Julia, 2017). The types of monitoring include regular internal audits, supervision of the internal control system, checking for compliance with internal control policies, and performance evaluation (Mohammed et al., 2022). Continuous monitoring makes the process more accountable and helps organizations to identify flaws in controls before experiencing substantial financial loss. Additionally, continuous monitoring discourages fraud since everyone knows that they are being monitored (Ogwiji, 2022).

2.3.3 Information and Communication Systems

An information and communication system encompass the gathering, processing, and distribution of pertinent information within the organization (Awotomilusi et al., 2023). An effective communication system enhances clarity and promotes the reporting of any suspicious behavior by employees while making sure that everyone is aware of the policies and responsibilities for controls (Hasna & Rachid, 2023). The operations of banks in modern times are heavily reliant on information technology systems. Therefore, poor communication systems and inadequate information management may be exploited by fraudsters (Shakeel et al., 2023).

2.4 Empirical Review

A number of scholars have investigated the link between internal control systems and fraud prevention.
According to Aminat et al. (2023), examined and assessed the impact of internal control mechanisms on fraud detection and prevention in Nigeria's deposit money banks. Specifically, in her studies, it is revealed that control environment, risk assessment, and monitoring had an impact on fraud prevention in Nigerian Deposit Money Banks. However, the study failed to introduce a theory to explain the relationship that exist among variable and the validity and reliability of the study was not defined. Furthermore, according to Shakeel et al. (2023), investigated the effect of the Internal Control Systems (ICS) components on the detection of occupational fraud and the moderating role of the audit committee in the relationship between ICS components and occupational fraud. The study identified that internal control elements were important in helping detect occupational fraud in Pakistani firms. Nonetheless, the studies abstract did not fulfill the condition for writing an abstract. Also, the sampling technique explored to choose the sample size for the study was not identified.

Similarly, Awotomilusi et al. (2023) examined the effect of internal control systems on fraud prevention and detection in public institutions in Ekiti State, Nigeria. The study found out that communication and monitoring systems made significant contribution to fraud prevention in Nigerian public organizations. Nevertheless, the techniques used for the study's data analysis wan reported. Also, the scope of the study was not clearly defined. Jimale & Onsiro (2022) evaluated the effect of internal control system on detection and prevention of frauds in banking sector in Kenya a case of Consolidated Bank of Kenya Ltd. The found out that risk assessment was significant in fraud prevention in Kenyan banks. However, the study was not able to identify the validity and reliability of the instrument. Moreover, the study is foreign based with different regulatory framework compared to that of Nigeria.

Consequently, the literature reveals some contradictions in terms of the significance of various internal control elements across different geographical regions. This research will extend existing knowledge by investigating the role of these factors within Nigerian Deposit Money Banks.

2.5 Theoretical Framework

Decision Theory, proposed by Herbert Simon, forms the foundation of this research. According to the theory, an effective internal control system leads to better managerial decisions since Decision Theory is all about rational decision-making processes within organizations. It is pertinent to this research because an effective internal control system ensures that information available for use by managers is valid. Rational decision-making with regard to control procedures helps to prevent fraud (Awotomilusi et al., 2023).

3. Methodology

Quantitative research design was chosen in order to conduct the study on how internal control system impacts the prevention of fraud in selected Deposit Money Banks in Nigeria. The study was conducted among selected commercial banks in Lagos State.

The population targeted by this study comprised the managers, accountants, internal auditors, and compliance officers employed by selected banks. There were a total number of 65 respondents involved in the study. Only those employees having at least two years of work experience were considered eligible since they had a good understanding of internal control procedures.

The study focused on employees of seven (4) selected banks in Kaduna Sate main branches. The banks include; Guarantee Trust Bank, First Bank, Fidelity Bank, Ecobank Plc. Only employees who had been working in the bank for at least two years were considered by the researcher. As such a total of seventy (65) senior managers and auditors were considered as the population of the study.

In this case, a census sampling technique was employed since the population under consideration was rather small. As argued by Saunders et al. (2017), a census can be applied whenever a study population is small in order to improve the validity and representativeness of the study results.

Nevertheless, academically and statistically, the Taro Yamane (1967) sampling equation is illustrated below:

$n = N/1 + N(e)^2$

Where:

- (n) = Size of sample
- (N) = Size of population
- (e) = Significance level (0.05)

Substitution of the given study parameters yields:

$n = 65/1 + 65(0.05)^2$

$n = 65/1 + 65(0.0025)$

$n = 65/1 + 0.1625$

$n = 65/1.1625$

n is 56

Though the sample size was determined by statistics to be 56 respondents, the researcher chose to conduct the study among all the 65 respondents in order to ensure that the findings would have more reliability and validity.

Primary data collection was done using the structured questionnaires developed by the researcher with the use of four-point Likert scale varying from Strongly Agree to Strongly Disagree. Information on risk assessment,

monitoring and evaluation, information and communication systems, and fraud prevention was acquired through the survey.

The statistical tools employed in the analysis were descriptive analysis, correlation analysis, and multiple regression analysis, performed by SPSS.

The functional relationship of the study was specified as:

$FP = \beta 0 + \beta 1RA + \beta 2ME + \beta 3IC + \varepsilon$

Where:

- FP = Fraud Prevention
- RA = Risk Assessment
- ME = Monitoring and Evaluation
- IC = Information and Communication
- $\beta 0$ = Constant term
- $\beta 1–\beta 3$ = Regression coefficients
- ε = Error term

4. Results and Discussion

4.1 Demographic Characteristics

The demographic analysis revealed that most respondents possessed substantial educational qualifications and professional experience. A significant proportion of respondents held first degrees and postgraduate qualifications, indicating that participants possessed adequate knowledge of internal control systems and fraud prevention practices.

Table 1: Gender Distribution of Respondents

Gender	*Frequency*	*Percentage (%)*
Male	52	80
Female	13	20
Total	**65**	**100**

Source: Field Survey (2026)

The finding revealed that 80% of the sample was male while the other 20% was female. It implies that the majority of employees in the bank sampled for the study were male employees. Nevertheless, the reliability of the answers collected was high since the study concentrated on the issue of organizational control.

Table 2: Educational Qualification of Respondents

Qualification	*Frequency*	*Percentage (%)*
Diploma	11	17
First Degree	31	48
Master's Degree	15	22
PhD	8	13
Total	**65**	**100**

Source: Field Survey (2026)

The level of education held by the respondents indicated that the majority of the respondents were holders of bachelor's degrees and postgraduate studies. This implies that the respondents had sufficient knowledge about internal controls and fraud prevention techniques. The majority of respondents also had considerable years of working experience within the banking sector, suggesting that the responses obtained were reliable and informed.

4.2 Reliability and Validity Test

Cronbach Alpha values for all study variables exceeded the acceptable threshold of 0.70, confirming the reliability of the research instrument. Composite Reliability and Average Variance Extracted values also indicated strong internal consistency and convergent validity.

Table 3: Reliability and Validity Results

Construct	Cronbach Alpha	Composite Reliability	AVE
Fraud Prevention	0.823	0.871	0.564
Risk Assessment	0.735	0.802	0.673
Monitoring & Evaluation	0.752	0.778	0.593
Information & Communication	0.789	0.781	0.547

Source: SPSS Output (2026)

The reliability results indicate that all study variables recorded Cronbach Alpha values above the minimum acceptable threshold of 0.70, confirming the reliability and internal consistency of the research instrument.

4.3 Correlation Analysis

The correlation analysis showed positive relationships among all study variables. Risk assessment demonstrated the strongest positive association with fraud prevention, indicating that banks with effective risk assessment procedures experience lower fraud vulnerability.

Table 4: Correlation Matrix

Variables	FP	RA	M&E	I&C
Fraud Prevention (FP)	1.000	0.6603	0.3168	0.2835
Risk Assessment (RA)	0.6603	1.000	0.4728	0.7145
Monitoring & Evaluation (M&E)	0.3168	0.4728	1.000	0.3392
Information & Communication (I&C)	0.2835	0.7145	0.3392	1.000

Source: SPSS Output (2026)

The correlation results revealed positive associations among all variables. Risk assessment showed the strongest relationship with fraud prevention, indicating that improved risk identification and management significantly contribute to reducing fraud occurrence in banks.

Monitoring and evaluation, as well as information and communication systems, also exhibited positive relationships with fraud prevention.

4.4 Regression Analysis

Table 5: Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Probability
Constant (C)	5.70156	5.45333	1.06335	0.0003
Risk Assessment (RA)	0.03583	0.25710	-0.12564	0.0054
Monitoring & Evaluation (M&E)	0.30584	0.30504	1.64229	0.0382
Information & Communication (I&C)	0.40820	0.23031	0.09984	0.0214

Additional Statistics:

- R-Squared = 0.7389
- Adjusted R-Squared = 0.6547
- F-Statistic = 3.0505
- Probability (F-Statistic) = 0.0409

Source: SPSS Output (2026)

Table 5 show that the regression results revealed that risk assessment significantly influenced fraud prevention, with coefficient of 0,03583 and a P-value of 0.0054. This finding implies that continuous identification and evaluation of operational risks reduce opportunities for fraudulent activities.

Monitoring and evaluation also showed a significant positive effect on fraud prevention, with coefficient of 0.30584 and a P-value of 0.0382. This suggests that continuous auditing, operational supervision, and compliance reviews improve transparency and discourage fraudulent behavior.

Similarly, information and communication systems significantly influenced fraud prevention, with coefficient of 0.40820 and a P-value of 0.0214. This findings is an indication that effective communication channels enhance reporting efficiency, improve transparency, and ensure timely dissemination of organizational policies and fraud-related information.

The overall regression model was statistically significant, indicating that internal control components collectively explained a substantial proportion of variations in fraud prevention among Nigerian Deposit Money Banks.

4.5 Discussion of Findings

The findings of this study support the argument that effective internal control systems are essential mechanisms for fraud prevention within financial institutions. The significant effect of risk assessment confirms that organizations capable of identifying operational vulnerabilities are better positioned to prevent fraud. The finding is in line with studies of Hasna and Rachid, (2023) Aminat et al., (2023) and (Nyakarimi et al., (2020), who stated the that risk assessment is key to effective internal control system in an organization. However, this is contrary to

the findings of (Awotomilusi et al., 2023) and Haladu, (2018), who stated that risk assessment do not significantly affect internal control mechanisms.

The positive relationship between monitoring and evaluation and fraud prevention highlights the importance of continuous supervision and internal auditing in strengthening organizational accountability. This finding agrees with the studies of; Ghanem and Awad, (2023), (Awotomilusi et al., 2023), and Hasna and Rachid, (2023). These studies revealed that fraudulent activities in organizations has hampered organizational growth and profitability, as such empirical findings had shown that monitoring and evaluation of activities is essential to prevent fraud to the barest minimum.

The significant effect of information and communication systems further demonstrates that transparent communication structures and reliable information systems reduce opportunities for fraud and improve institutional control. This is consistent with the studies of; Hasna and Rachid, 2023), Awotomilusi et al., (2023) and Ahmad and Ahmad, (2019).

These findings align with previous empirical studies that emphasized the relevance of internal control systems in reducing fraud risks and improving organizational performance. The need for policy makers and stakeholders to leverage on these studies in order improve the effectiveness of the internal control mechanism in deposit money banks and other sectors in general.

5. Conclusion and Recommendations

5.1 Conclusion

This study examined the impact of internal control systems on fraud prevention in selected Deposit Money Banks in Nigeria. The findings established that risk assessment, monitoring and evaluation, and information and communication systems significantly contribute to fraud prevention.

The study concluded that effective internal control systems improve accountability, reduce operational vulnerabilities, strengthen financial transparency, and minimize opportunities for fraudulent practices within the banking sector.

Internal control systems therefore remain indispensable tools for achieving operational efficiency and safeguarding organizational assets in Nigerian Deposit Money Banks.

5.2 Recommendations

Based on the findings of the study, the following recommendations are proposed:

i. Deposit Money Banks should strengthen their fraud risk assessment procedures through regular operational reviews and real-time risk monitoring systems.
ii. Banks should intensify monitoring and evaluation activities through periodic internal audits, compliance checks, and continuous supervisory reviews.
iii. Management should improve information and communication systems to ensure timely dissemination of fraud-related information and organizational policies.
iv. Continuous staff training should be organized to enhance employee understanding of fraud prevention procedures and ethical conduct.
v. Regulatory authorities should encourage banks to adopt modern technological tools capable of detecting suspicious transactions and cyber-related fraud.

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