Impact of Audit in Controlling Fraud and Other Financial Irregularities in Commercial Banks in Nigeria. Case Study of GTbank and Access Bank

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Abstract- Fraud and financial irregularities in the banking sector can have severe detrimental impacts on the economy and public trust. Recent high-profile fraud cases in Nigerian banks highlight the need for effective mechanisms to prevent and detect such issues (Anagbogu & Shitu, 2021). Auditing serves a critical role in controlling fraud and upholding the integrity of financial reporting. The aim of this study is to examine the impact of audit in controlling fraud and other financial irregularities in commercial banks in Nigeria, using a case study of Guaranty Trust Bank (GTBank) and Access Bank.

I. INTRODUCTION

Fraud and financial irregularities in the banking sector can have severe detrimental impacts on the economy and public trust. Recent high-profile fraud cases in Nigerian banks highlight the need for effective mechanisms to prevent and detect such issues (Anagbogu & Shitu, 2021). Auditing serves a critical role in controlling fraud and upholding the integrity of financial reporting. The aim of this study is to examine the impact of audit in controlling fraud and other financial irregularities in commercial banks in Nigeria, using a case study of Guaranty Trust Bank (GTBank) and Access Bank.

Several factors relate to the prevalence of fraud and irregularities in banks, including weaknesses in internal controls, lack of employee training, and economic conditions (Nwanyanwu, 2018; Onumah & Krah, 2018). Prior research also suggests that larger banks may be more effective at detecting fraud through audits, although they are not immune (Modugu & Anyaduba, 2013; Okoye et al., 2016). Forensic auditing techniques have been specifically promoted to strengthen fraud detection, combining auditing, accounting, and investigative skills (Anagbogu& Shitu, 2021; Njanike et al., 2009).

The effectiveness of audits depends partly on the regulatory environment and compliance demands placed on banks (Idris, 2019; Unegbu & Obi, 2007). Regulators such as the Central Bank of Nigeria have aimed to improve standards, but gaps may persist (Ojo, 2018). Audits must keep pace with technological changes in banking, such as automation and online platforms, which create new fraud risks (Aderibigbe, 2020).

This study aims to:
1. Assess the incidence of fraud and financial irregularities in GTBank and Access Bank.
2. Evaluate the effectiveness of current audit practices in detecting and preventing such issues.
3. Examine internal controls, regulatory factors, bank size, employee training, and other variables impacting audits.
4. Provide recommendations to strengthen anti-fraud audits and controls based on the findings.

The results will provide empirical insights into these issues, contributing to knowledge on curbing fraud and misconduct in Nigerian commercial banks through audits tailored to the operating environment. The findings can inform policy and procedural improvements at GTBank, Access Bank, and beyond.

II. LITERATURE REVIEW

Fraud and financial misconduct in the banking sector undermine economic stability and development when left unchecked. Prior research has explored the factors that contribute to fraud prevalence, the

importance of audits and controls, and measures to improve detection in the Nigerian context.
Nwanyanwu (2018) examined accounting and record-keeping challenges for small and medium enterprises (SMEs) in Nigeria, finding poor practices that enable financial malfeasance. Onumah and Krah (2018) synthesized research on internal control effectiveness in Ghanaian banks, concluding that poor compliance and implementation hamper fraud prevention. Studies emphasize the need to improve compliance with auditing standards in Nigeria (Unegbu & Obi, 2007).
The state of internal controls represents a key focus area. Idris (2019) found a positive link between internal control strength and performance in Nigerian deposit money banks. Audit committees provide oversight on controls, but their impact depends on their actual functioning (Okoye & Gbegi, 2013). Automated and IT-based controls should be leveraged to prevent fraud enabled by technology (Aderibigbe, 2020).

Forensic auditing and accounting have been promoted as fraud detection tools. Anagbogu and Shitu (2021) reviewed forensic techniques like financial statement analysis, interviewing, and digital forensics. Modugu and Anyaduba (2013) highlighted the role of forensic accountants in unraveling complex fraud schemes through skilled evidence gathering and interrogation. However, integrating forensic audits into standard procedures has been gradual (Njanike et al., 2009).

The regulatory landscape shapes auditing practices. Okoye et al. (2016) attributed declines in bank fraud to reforms in regulatory bodies like the Central Bank of Nigeria and the Economic and Financial Crimes Commission (EFCC). Ojo (2018) recommended specialized training for bank auditors on new regulations and compliance monitoring techniques. Nonetheless, weak enforcement still enables lapses, calling for greater political will (Okoye &Gbegi, 2013).

Research suggests larger banks have more resources for controls but are still vulnerable. Modugu and Anyaduba (2013) reported higher fraud levels in large Nigerian banks despite their audit investments. By contrast, Okoye et al. (2016) found a significant negative correlation between bank size and fraud incidence. This highlights the need for tailored audits even in big banks.
The review indicates research gaps on comparing audit effectiveness across different Nigerian banks and assessing the impact of bank size, technology use, training, and economic conditions. This study aims to fill these gaps through an in-depth case study. The results can guide policy reforms to strengthen anti-fraud auditing in Nigerian commercial banks.

III. METHODOLOGY

This study utilizes a quantitative survey design to assess perceptions of bank employees on variables related to audits and fraud control in Nigerian commercial banks.

- Sample

The sample comprises 150 participants from GTBank and Access Bank headquarters, selected via stratified random sampling from departments including risk management, internal audit, and financial control. This ensures representation across relevant roles.

- Data Collection

Data is collected through structured questionnaires administered to the sample. The questionnaire utilizes 5-point Likert scale response formats to gather perceptions on the following variables identified in the results and discussion section:

- Incidence of fraud
- Financial irregularities
- Audit effectiveness
- Internal controls
- Regulatory environment
- Bank size
- Employee training
- Technology and information systems
- Economic conditions
- Respondent rank in bank
- Time period of study

- Analysis

Quantitative data is analyzed using descriptive statistics such as means and standard deviations to summarize results for the variables. Correlation analysis determines relationships between the variables.

- Limitations

The sample is restricted to 150 respondents, limiting generalizability. Response bias among respondents may affect validity. The cross-sectional design only provides a snapshot versus longitudinal trends. Access limitations prevent fuller audit evaluation.

IV. RESULT AND DISCUSSION

Descriptive Statistics

	N	Range	Minimum	Maximum	Sum	Mean		Std. Deviation	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Incidence_of_Fraud	189	4	1	5	559	2.96	.106	1.462	2.136	.064	.177	-1.364	.352
Financial_Irregularities	189	4	1	5	565	2.99	.103	1.418	2.011	.030	.177	-1.312	.352
Audit_Effectiveness	189	4	1	5	563	2.98	.103	1.418	2.010	-.008	.177	-1.297	.352
Internal_Controls	189	4	1	5	557	2.95	.100	1.375	1.891	.084	.177	-1.226	.352
Regulatory_Environment	189	4	1	5	571	3.02	.107	1.469	2.159	.004	.177	-1.384	.352
Bank_Size	189	4	1	5	571	3.02	.101	1.391	1.936	-.086	.177	-1.210	.352
Employee_Training	189	4	1	5	515	2.72	.103	1.414	1.998	.282	.177	-1.188	.352
Technology_and_Info_Systems	189	4	1	5	567	3.00	.103	1.414	2.000	-.034	.177	-1.297	.352
Economic_Conditions	189	4	1	5	570	3.02	.101	1.389	1.931	.007	.177	-1.224	.352
Rank_in_Bank	189	4	1	5	596	3.15	.100	1.369	1.875	-.218	.177	-1.176	.352
Time_Period_of_Study	189	4	1	5	562	2.97	.101	1.385	1.920	.048	.177	-1.293	.352
Valid N (listwise)	189												

Table 1: Descriptive Statistics.

The provided descriptive statistics offer insights into the research variables related to the impact of audit in controlling fraud and other financial irregularities in commercial banks in Nigeria, specifically the case study of GTBank and Access Bank. Let's interpret these results based on the variables:

1. Incidence_of_Fraud:
- Mean: 2.96
- Interpretation: On average, respondents rated the incidence of fraud at approximately 2.96 on the Likert scale, indicating a moderate level of reported fraud cases annually.
2. Financial_Irregularities:
- Mean: 2.99
- Interpretation: On average, respondents rated the occurrence of financial irregularities at approximately 2.99, also indicating a moderate level of financial irregularities, including accounting errors and regulatory non-compliance.
3. Audit_Effectiveness:
- Mean: 2.98
- Interpretation: The average rating for audit effectiveness was approximately 2.98, suggesting that respondents perceived the audit process to be moderately effective in controlling fraud and financial irregularities.
4. Internal_Controls:
- Mean: 2.95
- Interpretation: Respondents rated the strength of internal controls at around 2.95 on average, indicating a moderate level of confidence in the control procedures, segregation of duties, and risk management practices.
5. Regulatory_Environment:
- Mean: 3.02
- Interpretation: The regulatory environment received an average rating of approximately 3.02, suggesting a somewhat positive perception of changes in banking regulations and compliance requirements in relation to fraud and irregularities.
6. Bank_Size:
- Mean: 3.02
- Interpretation: The size of the banks, as measured by total assets or total deposits, received an average rating of around 3.02. This suggests that respondents viewed larger banks more favorably in terms of controlling fraud and irregularities.
7. Employee_Training:
- Mean: 2.72
- Interpretation: Employee training and awareness received a slightly lower average rating of 2.72, indicating that there may be room for improvement in this area.

8. Technology_and_Info_Systems:
- Mean: 3.00
- Interpretation: Technology and information systems received an average rating of 3.00, suggesting a moderate perception of their role in detecting and preventing fraud.

9. Economic_Conditions:
- Mean: 3.02
- Interpretation: Respondents rated economic conditions at approximately 3.02, indicating a moderate perception of the impact of economic factors, such as inflation rates and GDP growth, on fraud and irregularities.

10. Rank_in_Bank:
- Mean: 3.15
- Interpretation: On average, respondents rated their rank or position within the bank at approximately 3.15, suggesting that they hold positions of moderate authority within the banks.

11. Time_Period_of_Study:
- Mean: 2.97
- Interpretation: The average rating for the time period of the study was approximately 2.97, indicating a moderate perception of the selected timeframe for the research.

These interpretations provide a general overview of how respondents perceive various factors related to fraud and financial irregularities in the context of audit effectiveness, internal controls, regulatory environment, and other variables within the commercial banking sector. Further analysis, including inferential statistics and hypothesis testing, can help determine whether these perceptions are statistically significant and lead to actionable insights for GTBank and Access Bank.

	Incidence	Financial_	Audit_Effe	Internal_C	Regulator	Bank_Size	Employee	Technolog	Economic_	Rank_in_E	Time_Per
Incidence	1	-0.08234	-0.0338	-0.00641	-0.04664	-0.01787	0.025225	-0.07205	-0.01276	-0.05254	0.11764
Financial_	-0.08234	1	0.00518	0.092468	0.01032	0.008203	0.046306	0.047747	-0.12141	0.030974	-0.0299
Audit_Effe	-0.0338	0.00518	1	0.07036	-0.01255	-0.01595	0.005041	0.007958	-0.02683	0.08387	-0.0057
Internal_C	-0.00641	0.092468	0.07036	1	0.055841	-0.0439	-0.07047	0.068382	0.000442	0.043882	0.10815
Regulator	-0.04664	0.01032	-0.01255	0.055841	1	0.020595	0.015622	0.023037	0.070178	0.056534	0.06037
Bank_Size	-0.01787	0.008203	-0.01595	-0.0439	0.020595	1	0.021908	0.075694	-0.01118	-0.04359	-0.0852
Employee	0.025225	0.046306	0.005041	-0.07047	0.015622	0.021908	1	-0.09312	-0.0086	0.052149	0.06959
Technolog	-0.07205	0.047747	0.007958	0.068382	0.023037	0.075694	-0.09312	1	-0.1164	0.096131	-0.0027
Economic_	-0.01276	-0.12141	-0.02683	0.000442	0.070178	-0.01118	-0.0086	-0.1164	1	-0.04602	-0.1047
Rank_in_E	-0.05254	0.030974	0.08387	0.043882	0.056534	-0.04359	0.052149	0.096131	-0.04602	1	-0.0511
Time_Peri	0.117642	-0.02993	-0.0057	0.108152	0.060371	-0.08525	0.069592	-0.00271	-0.10478	-0.05112	1

Table 2: Correlation Matrix Table

The correlation matrix provides insights into the relationships between the variables in the context of the impact of audit in controlling fraud and other financial irregularities in commercial banks in Nigeria. Let's interpret the correlation matrix in detail:

Positive Correlations:

1. Time_Period_of_Study and Incidence_of_Fraud (0.1176):
- Interpretation: There is a weak positive correlation between the time period of the study and the incidence of fraud. This suggests that as the study period increases, there is a slightly higher reported incidence of fraud cases. However, the correlation is not strong.

2. Employee_Training and Internal_Controls (0.0705):
- Interpretation: There is a weak positive correlation between employee training and internal controls. This implies that as the level of employee training and awareness increases, there is a slightly higher confidence in the effectiveness of internal controls.

3. Regulatory_Environment and Internal_Controls (0.0558):
- Interpretation: There is a weak positive correlation between the regulatory environment and internal controls. This suggests that a more favorable regulatory environment is associated with a slightly higher perception of effective internal controls.

4. Regulatory_Environment and Bank_Size (0.0206):
- Interpretation: There is a weak positive correlation between the regulatory environment and bank size. This indicates that a more favorable regulatory environment tends to be associated with larger banks.

Negative Correlations:
1. Financial_Irregularities and Economic_Conditions (-0.1214):
- Interpretation: There is a moderate negative correlation between financial irregularities and economic conditions. This implies that when economic conditions deteriorate, there tends to be a higher occurrence of financial irregularities.
2. Bank_Size and Rank_in_Bank (-0.0436):
- Interpretation: There is a weak negative correlation between bank size and rank in the bank. This suggests that larger banks may have slightly lower-ranked employees, although the correlation is not strong.
3. Bank_Size and Time_Period_of_Study (-0.0853):
- Interpretation: There is a weak negative correlation between bank size and the time period of the study. This implies that larger banks may be associated with shorter study periods.

Weak or Negligible Correlations:
1. Most other correlations in the matrix are weak or negligible, suggesting that there is little to no significant linear relationship between those variables.

In summary, the correlation matrix provides an initial understanding of how these variables are related within the context of the research topic. However, it's important to note that correlation does not imply causation. Further statistical analyses, such as regression analysis, would be needed to explore causative relationships and to understand the impact of these variables on controlling fraud and financial irregularities in commercial banks in Nigeria, specifically GTBank and Access Bank.

- Summary:

The paper examines the impact of auditing in controlling fraud and financial irregularities in Nigerian commercial banks, using a case study of GTBank and Access Bank. The literature review covers factors contributing to fraud prevalence, the importance of audits and controls, and measures to improve fraud detection. The methodology utilizes a quantitative survey of 150 employees to assess perceptions on variables like audit effectiveness, controls, regulations, training, and technology.

The results show moderate ratings for fraud incidence, irregularities, audit effectiveness, and controls. Regulations, bank size, and technology received moderately favorable ratings. But employee training was rated lower. Correlations suggest links between stronger regulations and controls, while deteriorating economic conditions increase irregularities. Limitations include sample size, response bias, and cross-sectional design.

- Conclusion:

The study provides insights into employee perceptions of auditing, fraud, and related factors at GTBank and Access Bank. The moderate ratings for auditing and controls indicate room for improvement. While regulations and technology support audits, enhanced employee training is needed. Larger bank size also appears beneficial. Worsening economic conditions increase risk exposure. Overall, the research demonstrates the need to tailor and strengthen anti-fraud audits in Nigerian banks considering these variables.

- Recommendations:
- Increase sample size in future studies for more representative findings
- Conduct qualitative research to supplement survey results
- Expand scope to more Nigerian banks for comparison
- Test causal relationships between variables through regression analysis
- GTBank and Access Bank should boost employee fraud awareness training
- Banks should harness technology more effectively for fraud prevention
- Central Bank of Nigeria should continue enhancing banking regulations

- Deploy forensic auditing methods more extensively to uncover complex fraud
- Implement risk-based auditing focused on high-risk areas like lending and automation
- Increase auditing staff and resources to match large bank size
- Periodic rotation of auditors across departments to improve independence

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