© AUG 2026 | IRE Journals | Volume 10 Issue 2 | ISSN: 2456-8880
DOI: https://doi.org/10.64388/IREV10I2-1722131

Internal Control System and Fraud Prevention in Nigeria Financial Institutions

AUGUSTINE OSA ENOFE[1], OJO OLADIMEJI EZEKIEL[2], ELUGWU GEORGE UGOCHUKWU[3], JOLAYEMI FELIX ABIODUN[4], FORSON OLUWABUNMI ABIGAIL[5], UDEMMADU CHIDERA GLORY[6]

[1,2,3,4,5,6]*Department of Accounting, University of Benin, Benin City, Edo State, Nigeria.*

Abstract- ***This research investigated the impact of internal control system on the prevention of fraud in some selected Nigerian financial institutions. In particular, this study examined the impact of risk assessment, control activities, monitoring activities, and information and communication systems on the prevention of fraud. Descriptive survey research method was employed for this study with the use of structured questionnaires as data collection instrument. Data was collected from 109 employees of Access Bank Plc and Guaranty Trust Bank Plc using Taro Yamane sampling technique. Data collected was analyzed using descriptive statistics and multiple regressions. The result shows that risk assessment had a significant positive relationship with fraud prevention. Also control activities has a significant influence on reducing fraud occurrence in that they aid strict adherence to internal policies and procedures. Monitoring activities such as internal audits, compliance reviews enhance significantly the detection and prevention of fraud. It was further discovered that the implementation of adequate and robust information and communication systems can positively impact on the prevention of fraud as these systems aid quick reports of fraud, efficient flow of information and timely responses. The conclusion from the study is that a robust internal control system is crucial to the prevention of fraud in Nigerian financial institutions. It was, therefore, recommended that these financial institutions enhance their risk assessment process, ensure proper execution of control activities, enhance their continuous monitoring process and utilize secure information and communication systems. Also there should be proper and continuous training for all employees, and a stronger management commitment to ensure proper implementation of internal control systems.***

Keywords: Internal Control System, Risk Assessment, Control Activities, Monitoring Activities, Information And Communication Systems, Fraud Prevention, Nigerian Financial Institutions.

I. INTRODUCTION

Fraud poses a major risk to the long-term viability and integrity of financial institutions in Nigeria. They act as the pillars of the economy, facilitating financial intermediation and providing financial support for businesses and individuals. According to data from the Nigerian Inter-Bank Settlement System (NIBSS), Nigerian banks lost more than $12.8 million to fraud in 2022 alone, a 34% increase over the previous year (NIBSS, 2023). Fraud, as a criminal act, threatens operational effectiveness and integrity within institutions. As such, adequate preventive measures in the form of internal control systems are necessary to curb fraudulent activities in financial institutions.

Internal control systems, defined as the processes, rules and procedures implemented by a company to protect its assets, ensure compliance with policies, and prevent fraud, have become critical in organizations across industries. The Committee of Sponsoring Organizations (COSO) has outlined an internal control system as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives related to operations, reporting and compliance (COSO, 2017). Yet, even with established framework systems for internal controls, fraud continues to thrive in Nigerian financial institutions, hinting at deficiencies in implementation.

In the last two decades, the financial sector in Nigeria has experienced rapid modernization and growth. Financial institutions have successfully leveraged advancements such as digital banking, e-payments, and financial technology (FinTech) to expand their customer base and enhance operational efficiency.

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DOI: https://doi.org/10.64388/IREV10I2-1722131

The increased digital penetration in recent years has unfortunately resulted in a corresponding increase in online fraud. In Nigeria, fraud in the financial sector rose significantly in recent years, with cyber fraud constituting over 70% of the reported incidents in Nigerian financial institutions as reported by PwC Nigeria (2023), largely driven by COVID-19 and the rapid shift to online banking. The consequence of such pervasive fraud includes loss of customer trust, economic instability, and dissuades foreign investment. The Central Bank of Nigeria (CBN) has continued to mandate the use of effective internal control systems within financial institutions to prevent and detect fraudulent activities. The Central Bank issues the Fraud and Forgeries Returns Report, which requires banks to report any suspected fraudulent activities to it (CBN, 2022).

An internal control system can be categorized into five interrelated components: the control environment, risk assessment, control activities, information and communication, and monitoring. A robust system with strong internal controls helps minimize risk, reduce the likelihood of fraud and errors by embedding safeguards against them, as identified by Okoye and Akenbor (2021). While an efficient risk assessment, control activities, and robust monitoring activities can identify and mitigate vulnerabilities, 65% of Nigerian banks reportedly struggle to maintain sufficient monitoring mechanisms, and 58% said their audit committees lack sufficient expertise, according to a study conducted by the Financial Institutions Training Centre (FITC, 2023). In addition, there appears to be a lack of commitment from senior management, which greatly undermines the implementation of internal controls. Global Fraud prevention standards differ from those in Nigeria as developing countries particularly like the United States, Canada, the United Kingdom continue to adopt fraud prevention technologies such as the utilization of Artificial Intelligence (AI). Nigeria is yet to catch up in adopting advanced fraud detection technology.

1.2 Statement of the Research Problem

The threat of fraud in Nigerian financial institutions has unfortunately become more prevalent despite the application of various internal control mechanisms. More importantly, significant amounts have been lost to fraud while institutions' reputation and public confidence have been eroded. According to research, many reasons have been adduced for this, although some research lacuna's remain in this domain.

Okoye and Akenbor (2021), contend that weakness in risk assessment process plays a crucial role in mitigating against fraud in Nigerian banks. They are of the opinion that risk assessment is not accorded the requisite attention in internal control process in Nigerian banks as internal control systems are not focusing on the high risks associated with financial institution operations, thus making such institutions vulnerable to fraud. Again, Adeyemi and Fagbemi (2020), opine that lack of sufficient control activities, that is the absence of strong organizational measures to ensure adequate compliance with internal policies by management to detect and prevent irregularities within the internal control systems of many financial institutions, makes it conducive for perpetration of fraud within organisation systems. Meanwhile, Uchenna and Agbo (2022), have reviewed the role of technology on fraud detection by pointing out that there are gaps in technology’s role for the purpose of monitoring and reporting, thereby it’s application has not gone as far as could be, as a result of in-experience on how technology could be apply and the implementation procedure is not effective. While these works address individual aspects of internal control process such as risk assessment, control activities or the role of technology on the other hand, the interaction of internal control components towards achieving fraud prevention has not been holistically addressed in any of the existing literature as much attention has been focused on the individual elements rather than its combined effect and the challenges faced by Nigerian financial institutions to operationalize the components of the internal control system.

The current study intends to address the aforementioned issues by assessing the extent to which the integration of major internal control system components namely, risk assessment, control activities, monitoring and information systems contributes to preventing fraud in Nigerian financial institutions. By doing so, it aims to explore the

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DOI: https://doi.org/10.64388/IREV10I2-1722131

synergy of these internal controls for an enhanced holistic prevention of fraud within the Nigerian financial landscape.

1.3 Research Questions

The aim of this study was to answer the following questions

1. How does risk assessment impact fraud prevention in Nigerian financial institutions?
2. What is the influence of control activities on fraud prevention?
3. How effective are monitoring activities in fraud prevention?
4. What role do information and communication systems play in fraud prevention?

II. LITERATURE REVIEW

2.2 Conceptual review

2.2.1 Internal Control System

An internal control system is a plan put in place in a system that can give management and employees reasonable assurance that the organisation achieves operational goals, reporting of financial and management information, and compliance with laws, regulations and organisational policies. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) views internal control as composed of five integrated components: the control environment, risk assessment, control activities, information and communication and monitoring activities, which provide reasonable assurance of achieving organizational goals in the operating, reporting and compliance areas (COSO, 2017; COSO, 2020).

In Nigeria, internal control systems are compulsory for financial institutions that operate under the jurisdiction of the Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance Corporation (NDIC). Both the CBN and the NDIC mandate strong internal control systems in financial institutions for the prevention of fraud, operational effectiveness, sound corporate governance and risk management (CBN, 2022; NDIC, 2022). In addition, strong internal control systems ensure accuracy and reliability in financial reporting and maintain the financial system stability.

A body of literature has documented the importance of an effective internal control system to both the prevention of fraud and the enhancement of organisation's performance. For example, the study conducted by Adebayo, Adekunle, and Johnson (2023) found that Nigerian banks with strong internal control systems have fewer incidents of fraud. Okoye and Akenbor (2021) further discovered that control activities were instrumental in reducing financial mismanagement and enhancing compliance of the organisations with rules and regulations. Additionally, Okezie and Edeh (2023) identified that financial institutions with strong control environments and monitoring mechanisms experienced significantly low cases of fraud.

However, Nigerian financial institutions continue to battle the issues associated with building and maintaining effective internal controls which include lack of comprehensive control monitoring systems, under-utilisation of available technologies, constraints in terms of resource and the capacity to address the increasing and complex trends of fraud in financial systems (Ogundele & Adekola, 2023; NIBSS, 2023). Regulatory bodies will therefore continue to intensify efforts on governance and risk management frameworks that will promote more efficient internal controls. Generally, an effective internal control system serves as an imperative measure for ensuring effective fraud management and operational stability in financial institutions in Nigeria.

2.2.2 Fraud Prevention

Fraud prevention can be defined as a framework of control mechanisms, procedures and policies implemented to minimize the incidence of fraudulent practices within an organization. In the context of financial institutions, it is of paramount importance due to the potential loss of assets, lack of public confidence, the need for regulatory compliance and financial sector stability. Cyber fraud, insider abuse, identity theft and document falsification continue to present growing concerns to financial institutions in

Nigeria and therefore form a priority area for fraud management (NIBSS, 2023).

A well-designed fraud prevention strategy must include well-articulated internal controls, appropriate risk assessment tools, business ethics standards and state-of-the-art technological solutions. Through a comprehensive process of risk assessment and analysis, firms identify potential threats and then take measures to mitigate those threats before an event happens. AI and machine learning algorithms, as well as biometric authentication and real-time monitoring have led to more efficient identification of unusual transaction patterns, and allow organizations to respond immediately to potential threats (PwC Nigeria, 2023). In addition, cultivating a healthy organizational culture is another important part of preventing fraud, through employee awareness programs, whistleblower systems, and the promotion of sound organizational ethics and controls (EY Nigeria, 2023).

Notwithstanding all the progress, challenges in fraud prevention still abound in Nigerian financial institutions. Lack of consistent enforcement of controls, poorly managed technology, lack of relevant expertise, and poor monitoring systems, continue to make it easy for fraudulent actors (Olumide & Olayemi, 2022). Financial institutions, like many other organisations globally have increasingly adopted digital banking services, further exposing their sensitive information to various cyber-attacks including phishing, malware, and social engineering. It’s imperative to continue investing in cybersecurity technologies as well as detection systems (CBN, 2022; KPMG Nigeria, 2023). Internal fraud also continues to pose a significant risk, emphasizing the need for enhanced employee screening, segregating of duties, regular audits, and constant surveillance (NBS 2023; KPMG Nigeria 2023).

Concisely, an effective fraud prevention system is one which integrating robust internal controls, relevant technological solutions, business ethics, corporate governance and regulatory compliance mechanisms in order to better prevent, detect and minimize the impacts of fraud within the banking industry and ensure the confidence of all stakeholders.

2.2.3 Challenges in Internal Control Implementation

The effective use of internal controls within Nigerian financial institutions is challenged by several factors that encompass technological, human resource, managerial, and regulatory obstacles. These challenges pose a significant obstacle in achieving the goal of using internal controls to mitigate fraud and promote the efficiency of operations. Technology: Technological infrastructure limitations is one such challenge, as many Nigerian banks have not fully adopted sophisticated technology that can effectively manage fraud risk.

Banks that utilize outmoded or semi- automated controls find it challenging to efficiently monitor for all fraud trends and identify fraud at its earliest possible stages. New fraud technologies have appeared, including the implementation of artificial intelligence (AI), machine learning and blockchain technologies, for improved fraud identification globally but such implementation in Nigeria has faced limitations due to high implementation costs and infrastrucutal challenges (FITC, 2023; PwC Nigeria, 2023). Human Resource: A critical factor that constrains the internal controls is the lack of suitably skilled and experienced staff.

In adequate technical proficiency within the Nigerian banking system may result in inadequate risks assessment, inefficient monitoring, and poor execution of internal control measures. The poor staffing is often exasperated by the limited availability of resources to continually training and update their staff skills as new fraud schemes evolve (Uchenna & Agbo, 2022). Management: There is need for active commitment to the development of a strong internal control environment at all levels of management.

Strong leadership from the top provides support for and creates a framework in which internal controls thrive (Okoye & Akenbor, 2021). Without sufficient support from senior managers, including the allocation of resources and a strong mandate for enforcing control procedures, compliance is likely to

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DOI: https://doi.org/10.64388/IREV10I2-1722131

become weak as it becomes less acceptable for staff to comply if management itself do not promote compliance culture(Okoye & Akenbor, 2021). Regulation: The challenges that limit the usage of the existing internal control framework is poor adherence to regulatory guidelines. Some Nigerian banks may have issues related to compliance due to a lack of adequate resource to facilitate such compliance and weak implementation procedures in place by regulators(CBN, 2022).

2.3 Theoretical Framework

2.3.1 Agency Theory

Agency theory addresses the principal-agent problem that exists in an organizational setting where owners of an organization (shareholders are principals) assign decision making rights to agents. Jensen and Meckling (1976) posited that a weakness of internal controls within an organization increases the probability of an agent taking on some opportunism which often involves outright fraud. In Nigerian financial institutions agency problems are common; in view of a weak control environment and insufficient regulation, it leads to an information imbalance between the agents and principals. The regulatory authorities, the CBN and Security Exchange Commission have called for strong internal controls for the sake of the align interests of the agents to the principals. Nevertheless, a number of internal controls are prone to noncompliance or are simply deficient, making institutions vulnerable to several risks (CBN, 2022).

2.3.2 Fraud Triangle Theory

The Fraud Triangle Theory propounded by Cressey (1953) identifies three key elements that lead to fraudulent activity. These include pressure, opportunity and rationalization. For Nigeria, the implementation of an internal control system works predominantly to counter the 'opportunity' elements of the fraud triangle through preventive and detective controls like segregation of duties, audit trails and access control. However, the country's systemic problems like the technology deficient and the inefficient monitoring structures often give room to perpetrators to exploit opportunity. Factors like financial difficulty, and corruption encourage rationalize that increases the fraud risks (PwC Nigeria, 2023).

2.3.3 Deterrence Theory

This theory, which stems from the work of Becker (1968), maintains that an individual will refrain from committing an act of fraud when the expected cost associated with getting detected and punished is very high, hence the use of firm regulation and adequate monitoring processes for prevention of fraud. To build a stronger deterrent, financial institutions in Nigeria use systems like biometric identity verifications, real-time transaction monitoring and reporting fraud hotlines, but this is still affected by inconsistent enforcement of laws and judicial delays (KPMG Nigeria, 2023).

2.4.1 Empirical Reviews on Internal Controls and Fraud Prevention

In Nigeria, several studies have explored the link between internal controls and fraud prevention within financial institutions, and their findings corroborate the general global view.

Okoye and Akenbor (2019) investigated the relationship between internal control systems and fraud prevention in selected Nigerian deposit money banks using a survey research design. Data collected through structured questionnaires were analysed using regression analysis. The results indicated that effective components of internal control such as risk assessment and monitoring activities were useful in mitigating the occurrence of fraud and in increasing operational efficiency. The researchers recommended that adequate and ongoing staff training, coupled with stronger management commitment to controls are necessary for improving the effectiveness of internal control systems.

Olowookere and Adebiyi (2020) investigated the impact of internal control mechanisms on fraud prevention in Nigeria commercial banks through a survey data obtained from internal auditors and compliance officers. Through descriptive statistics and multiple regression analysis, the study found that segregation of duties, authorization, regular internal audits are effective in reducing fraud incidence. The authors also advised that strengthen of internal audit function and compliance with internal control policies are essential for the minimization of fraud.

Akinleye and Kolawole (2021) studied the impact of internal control systems on the management of fraud in selected Nigerian financial institutions. Employing a cross-sectional survey research design and a Pearson correlation analysis, the study concluded that there is a significant positive relationship between adequate internal control systems and the prevention of fraud in the organizations under review. The study suggests a need for a continuous internal control process through regular monitoring and periodic evaluation of these systems.

The Association of Certified Fraud Examiners (ACFE, 2024) in their Report to the Nations analyzed occupational fraud across several countries and industries and discovered that organizations with strong internal controls, internal audit function and robust whistleblowing mechanisms typically have considerably less financial loss than those without strong controls.

The report identified effective and ongoing monitoring, employee ethics training and strong management support as key in deterring and detecting fraud.

Financial Institutions Training Centre (FITC, 2023) revealed that electronic fraud accounts for most of the fraud recorded in the Nigerian deposit money banks and attributed these incidents to insufficient internal control, weak monitoring, internal abuse and slow adoption of innovative fraud prevention technologies. The report recommended increased use of automation and automated fraud detection tools as well as greater employee capacity building and regulatory adherence.

The Nigerian Inter-Bank Settlement System (NIBSS, 2023) equally reported a steady growth in electronic fraud across the Nigerian financial ecosystem, even with the widespread proliferation of digital channels. According to the NIBSS, financial institutions that demonstrated stronger internal control frameworks, transaction monitoring systems and effective cybersecurity infrastructure, were better placed to curb losses related to electronic fraud. The report also emphasised the need to seamlessly integrate new technologies with existing internal control structures.

PwC Nigeria (2023) found in its fraud trends report for the Nigerian financial services sector that cyber fraud, insider abuse and poor governance are the main drivers of fraud. It further concluded that institutions leveraging on artificial intelligence, machine learning and other advanced predictive technologies, are proving more effective at combating and preventing fraud, recommending that continuous investment in new technologies, along with governance and internal control improvements be prioritised.

III. METHODOLOGY

This study adopted a quantitative research approach using a descriptive research design to examine the effect of internal control systems on fraud prevention in Nigerian financial institutions. Data were collected from both primary and secondary sources. Primary data were obtained through structured questionnaires administered to employees of selected commercial banks, while secondary data were sourced from publications of the Central Bank of Nigeria (CBN), the Nigerian Inter-Bank Settlement System (NIBSS), annual reports, and other relevant literature.

The population comprised employees of selected Nigerian commercial banks with established internal control systems, while the study focused on Access Bank Plc and Guaranty Trust Bank Plc due to their strong market presence and commitment to fraud prevention. Using the Taro Yamane sampling formula, a sample size of 109 respondents was determined from a population of 150 employees.
Data were analyzed using descriptive statistics, including frequencies, percentages, means, and standard deviations, alongside multiple regression analysis to determine the effect of the independent variables—risk assessment (RA), control activities (CA), monitoring activities (MA), and information and communication systems (ICS)—on the dependent variable, fraud prevention (FP).

The functional model for the study is expressed as:

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DOI: https://doi.org/10.64388/IREV10I2-1722131

FP = f(RA,; CA,; MA,; ICS)

The econometric model is specified as:
The model specification can be written as:

$FP=\beta0+\beta1RA+\beta2CA+\beta3MA+\beta4ICS+\epsilon$

Where:
- FP = Fraud Prevention (Dependent variable)
- RA = Risk Assessment (Independent variable 1)
- CA = Control Activities (Independent variable 2)
- MA = Monitoring Activities (Independent variable 3)
- ICS = Information and Communication Systems (Independent variable 4)
- $\beta0$ = Constant (Intercept)
- $\beta1,\beta2,\beta3,\beta4$ = Coefficients to be estimated
- ϵ= Error term

This model allows for the evaluation of the impact of each internal control component on the effectiveness of fraud prevention strategies.

Operationalization of Variables

The following table outlines the operationalization of the key variables in the study:

S/N	Variable	Variable Type	Measurement	Source of Information
1	Fraud Prevention (FP)	Dependent	Measured using fraud-related loss data, detection rate, and public trust in the institution.	NIBSS (2023)
2	Risk Assessment (RA)	Independent	Measured as the quality and frequency of risk assessments conducted in the institution.	Okoye & Akenbor (2021)
3	Control Activities (CA)	Independent	Measured by the effectiveness of internal control policies, procedures, and enforcement mechanisms.	Adeyemi & Fagbemi (2020)
4	Monitoring Activities (MA)	Independent	Measured by the frequency and comprehensiveness of internal and external audits.	FITC (2023)
5	Information and Communication Systems (ICS)	Independent	Measured by the efficiency and security of information systems used in fraud detection.	PwC Nigeria (2023)

This operationalization ensures that each variable is measured in a way that aligns with the study's objectives and provides meaningful insights into the role of internal control systems in preventing fraud.

IV. DATA PRESENTATION AND DATA ANALYSIS

4.2 Data Presentation
The data collected was summarized and presented in the tables below. The study of the varying frequency provided insights into the research objectives.

Table 4.1: Demographic Representation

Variable	Category	Frequency (n=109)
Age	18 - 25 years	40
	26 - 35 years	35
	36 - 45 years	20
	46 years and above	14
Total (Age)		109

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DOI: https://doi.org/10.64388/IREV10I2-1722131

Gender	Male	58
	Female	51
Total (Gender)		109
Work Experience	0 - 5 years	45
	6 - 10 years	30
	11 - 15 years	20
	Above 15 years	14
Total (Work Experience)		109

The Age of respondents is varied with 40 respondents are in age range 18-25, the next number is the one between 26-35 (35 respondents) while there is the least numbers of respondents are from age group of 46 years above (14). From the figure on the gender, it can be concluded that the samples taken are consist of 58 respondents that is male and 51 that is female and it is pretty equal. On the number of working experience the 45 respondent that have experience between 0-5 years take the highest part from total number of respondents (109 respondents), while there is the least number of respondents have experience above 15 years (14 respondents). This data explains that this study involve the sample which early of their working experience.

Table 4.2: Fraud Prevention (FP)

ITEM	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Decision
Our bank has an effective fraud detection system that minimizes financial losses.	16 (14.7)	45 (41.3)	14 (12.8)	18 (16.5)	16 (14.7)	3.25	Moderate
Fraud cases in our bank have significantly reduced due to internal control measures.	14 (12.8)	50 (45.9)	16 (14.7)	15 (13.8)	14 (12.8)	3.32	Moderate
The fraud reporting mechanisms in our bank are efficient and accessible.	18 (16.5)	37 (33.9)	17 (15.6)	18 (16.5)	19 (17.4)	3.16	Moderate
Employees are adequately trained on fraud prevention and detection strategies.	15 (13.8)	48 (44.0)	19 (17.4)	16 (14.7)	11 (10.1)	3.37	Moderate
Fraud incidents are promptly investigated and addressed by management.	12 (11.0)	46 (42.2)	14 (12.8)	13 (11.9)	24 (22.0)	3.08	Moderate
Overall Mean	15 (13.8)	45 (41.3)	16 (14.7)	16 (14.7)	17 (15.6)	3.24	Moderate

Table 4.2 showed that the respondents view their banks fraud prevention measures to be moderately effective with a total mean score of 3.24. From Table 4.2 it is apparent that fraud detection, internal controls, reporting mechanisms, staff training and the management's attitude to fraud have contributed to preventing fraud to varying degrees in their various banks. But with their moderate mean score of 3.08 to 3.37. This may indicate the need for greater effort on the part of bank managements to effectively reduce fraud and improve reporting, employee training, management reaction to fraud, as well as other elements that deter fraudsters from perpetrating such fraud.

Table 4.3: Control Activities (CA)

ITEM	SA	A	N	D	SD	Mean	Decision
The bank has well-defined policies and procedures to prevent fraud.	30 (10.7%)	72 (25.7%)	40 (14.3%)	90 (32.1%)	48 (17.1%)	2.80	Low
Internal controls are consistently	31	64	25	74	81	2.60	Low

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DOI: https://doi.org/10.64388/IREV10I2-1722131

enforced to ensure compliance.	(11.1%)	(22.9%)	(8.9%)	(26.4%)	(28.9%)		
There is segregation of duties to reduce fraud risks within the organization.	28 (10%)	120 (42.9%)	41 (14.6%)	56 (20%)	35 (12.5%)	3.20	Moderate
Employees undergo regular training on compliance with internal controls.	34 (12.1%)	137 (48.9%)	45 (16.1%)	44 (15.7%)	20 (7.1%)	3.40	Moderate
The management regularly reviews and updates internal control policies.	36 (12.9%)	140 (50%)	44 (15.7%)	49 (17.5%)	11 (3.9%)	3.50	Moderate
Overall Mean	32 (11.5%)	106 (37.8%)	39 (14%)	62 (22.1%)	41 (14.6%)	3.10	Moderate

Table 4.3 depicts that on average the control activities among respondent bank are perceived as having moderate influence among respondent. Segregation of duties (mean=3.20), formal training in compliance with internal controls (mean=3.40) and regular periodic evaluation of internal controls policy by managers (mean=3.50) are thought to be effective in deterring fraud, while policy on preventing fraud (mean=2.80) and enforcement of internal control policy (mean=2.60) do not inspire much confidence among respondent. Thus it can be concluded that some basic control mechanisms have been implemented but the enforcement of the internal controls and effectiveness of internal controls on fraud prevention requires attention from policy level in order to maximize the benefits.

Table 4.4: Monitoring Activities (MA)

ITEMS	SA	A	N	D	SD	Mean	Decision
Internal and external audits are conducted regularly to assess control effectiveness.	31 (11.1%)	130 (46.4%)	49 (17.5%)	47 (16.8%)	23 (8.2%)	3.30	Moderate
The bank has a monitoring system that quickly detects fraudulent activities.	15 (5.4%)	82 (29.3%)	41 (14.6%)	59 (21.1%)	83 (29.6%)	2.60	Low
Compliance officers effectively track internal control implementation.	37 (13.2%)	75 (26.8%)	47 (16.8%)	65 (23.2%)	56 (20.0%)	2.90	Low
Reports from audit activities lead to corrective actions against fraud.	17 (6.1%)	49 (17.5%)	61 (21.8%)	85 (30.4%)	68 (24.3%)	2.50	Low
Employees are held accountable for non-compliance with internal control measures.	16 (5.7%)	42 (15.0%)	74 (26.4%)	83 (29.6%)	65 (23.2%)	2.50	Low
Overall Mean	23 (8%)	76 (27%)	55 (20%)	68 (24%)	58 (21%)	2.80	Low

Table 4.4, suggests that the monitoring processes in banks are viewed as mostly at the low and moderately significant level by respondents. The consistent internal and external auditing was rated at moderate significance level (3.30); whereas the confidence in adequate fraud monitoring systems, at the level of compliance monitoring; and the consistent review of internal audit recommendations and their consistent and regular implementation; and effective employee responsibility towards compliance were at the low significance level of their respective mean scores as follows: fraud monitoring systems, at 2.60; compliance monitoring at 2.90; implementation of internal audit recommendations at

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2.50; and employee responsibilities toward the same was at 2.50. From the result, it can be argued that, while audit reports are prepared on a consistent basis, the controls mechanisms and procedures employed in the detection of fraud are weak, non-compliance levels high, and the mechanisms of employee accountability weak.

Table 4.7: Information and Communication Systems (ICS)

ITEM	SA	A	N	D	SD	Mean	Decision
The bank uses secure information systems to detect and prevent fraud.	30 (10.7%)	72 (25.7%)	40 (14.3%)	90 (32.1%)	48 (17.1%)	2.81	Low
Fraud-related data is efficiently shared among relevant departments.	31 (11.1%)	64 (22.9%)	25 (8.9%)	74 (26.4%)	81 (28.9%)	2.63	Low
Advanced technology (AI, data analytics) is used for fraud prevention.	28 (10%)	120 (42.9%)	41 (14.6%)	56 (20%)	35 (12.5%)	3.17	Moderate
Employees are trained on the proper use of fraud detection technology.	34 (12.1%)	137 (48.9%)	45 (16.1%)	44 (15.7%)	20 (7.1%)	3.43	Moderate
The bank's communication channels support quick response to fraud cases.	36 (12.9%)	140 (50%)	44 (15.7%)	49 (17.5%)	11 (3.9%)	3.50	Moderate
Overall Mean	32 (11.5%)	106 (37.8%)	39 (14%)	62 (22.1%)	41 (14.6%)	3.11	Moderate

Table 4.7 As it can be observed from Table 4.7, majority of respondents have moderate perception on the use of Information and Communication systems (ICS) to mitigate fraud. Training employees to detect fraud with the use of the latest technology on Fraud Detection (mean = 3.43), the availability of communication channels to respond to fraud incidents (mean = 3.50), the use of sophisticated technology to aid with fraud detection (mean = 3.17) have been moderate, while the provision of secured Information Systems to facilitate fraud reporting (mean = 2.81) and exchange of fraud-related information between departments (mean = 2.63) is on low. It is indicated that enhancing Information security and sharing information between departments can improve ICS efficiency to combat fraud.

4.4 Test of Hypothesis

The research project employed multiple linear regression analysis to evaluate the predictive capabilities of the various predictor variables in relation to fraud prevention in Nigerian financial institutions. The hypotheses were tested using p-values in the regression results. Where the p-values are greater than or equal to 0.05, the null hypotheses

(H_0) are not rejected. Where the p-values are less than 0.05, the null hypotheses (H_0) are rejected.

Table 4.8: Relationship between Internal Control Systems and Fraud Prevention

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.625a	.390	.384	2.76532	
ANOVA[a]					
Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1456.281	4	364.070	74.321	.000[b]
Residual	2283.564	104	21.957		
Total	3739.845	108			

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DOI: https://doi.org/10.64388/IREV10I2-1722131

Coefficients[a]

Model	Unstandardized Coefficients	Standardized Coefficients		T	
	B	Std. Error	Beta		Sig.
(Constant)	5.214	.923		5.650	.000
RA (Risk Assessment)	.285	.061	.362	4.672	.000
CA (Control Activities)	.198	.072	.256	2.750	.001
MA (Monitoring Activities)	.153	.068	.188	2.250	.015
ICS (Information & Communication Systems)	.210	.059	.295	3.559	.000

Hypothesis Testing and Interpretation

H_{01}: Risk assessment does not significantly impact fraud prevention in Nigerian financial institutions.
The model summary indicates a moderate positive correlation (R = 0.625) between internal control systems and fraud prevention, suggesting that improvements in internal controls enhance fraud prevention effectiveness. The R Square value of 0.390 implies that internal control systems collectively account for 39.0% of the variation in fraud prevention. The ANOVA results further support these findings, with a significant F-value of 74.321 ($p < 0.001$), indicating that the regression model significantly predicts fraud prevention outcomes better than a model without predictors. The coefficient for Risk Assessment (RA) is 0.285, with a p-value of 0.000, which is significantly below 0.05. This indicates that we reject the null hypothesis (H_{01}) and conclude that risk assessment has a significant positive impact on fraud prevention in Nigerian financial institutions.

H_{02}: Control activities do not significantly influence fraud prevention in Nigerian financial institutions.
The coefficient for Control Activities (CA) is 0.198, with a standard error of 0.072 and a p-value of 0.007. Since the p-value is lower than the 0.05 threshold, we reject the null hypothesis (H_{02}) and conclude that control activities significantly influence fraud prevention.

H_{03}: Monitoring activities are not significantly effective in fraud prevention.
The coefficient for Monitoring Activities (MA) is 0.153, with a p-value of 0.026. Since the p-value is below 0.05, we reject the null hypothesis (H_{03}) and confirm that monitoring activities play a significant role in fraud prevention.

H_{04}: Information and communication systems do not play a significant role in fraud prevention.
The coefficient for Information and Communication Systems (ICS) is 0.210, with a p-value of 0.001. As the p-value is significantly below 0.05, we reject the null hypothesis (H_{04}) and conclude that effective information and communication systems significantly enhance fraud prevention in Nigerian financial institutions.

4.6 Discussion of Findings
Risk Assessment and Fraud Prevention
It was also discovered that risk assessment had a positive effect on fraud prevention in Nigerian financial institutions. This supports the study of Owolabi and Ajayi (2020) that disclosed that efficient assessment of risks has allowed financial institutions to identify its exposures in advance and devise relevant control mechanisms to prevent it before it occur. KPMG(2021) also discover that constant assessment of fraud risk enhance ability of organizations to detect and prevent fraud and improved controls in the organizations.

Control Activities and Fraud Prevention
It was found that control activities have strong effect in prevention of fraud, this supports Okonkwo and Eze (2018) that reported that the use of control activities such as Segregation of duties, authorizing activities etc. Will decrease the possibility of occurrence of fraud. In agreement with the finding Deloitte (2020) report that robust control activities andautomated controls can have a major positive impact on fraud prevention for financial institution.

Monitoring Activities and Fraud Prevention

Therefore, the research confirmed a positive and strong association between the variables of monitoring activities and fraud prevention. The results also support the findings of Adekunle and Yusuf (2021) that regular monitoring, internal audits and compliance checks on internal processes improves detection and prevention of fraudulent transactions. In their findings PwC (2022) mentioned that companies which have appropriate monitoring systems are at reduced risk of fraud losses as timely detection of irregularities allow for preventive actions to be taken immediately.

Information and Communication Systems and Fraud Prevention

The study further revealed that information and communication systems significantly contribute to fraud prevention. This finding is consistent with Chukwu and Bello (2020), who noted that effective communication and integrated information systems improve fraud detection and reporting. Likewise, Ernst & Young (2021) found that financial institutions utilizing digital communication technologies and real-time information systems are more effective in preventing fraud.

Overall, the findings indicate that the major components of the internal control system—risk assessment, control activities, monitoring activities, and information and communication systems play significant roles in enhancing fraud prevention in Nigerian financial institutions.

V. CONCLUSION

The research has come to conclusion that, the system of internal control is a decisive determinant of prevention of fraud in the financial sector of Nigeria. Control Activities, Information System, Monitoring and Risk assessment were found to effectively help financial institutions in detecting and preventing fraud. Findings revealed that there is need for financial institutions to consistently monitor and strengthen their systems of internal controls to foster fraud prevention, while regulatory bodies are called to impose robust policies that engender risk of fraud management in the sector.

5.2 Recommendations

Given the study's findings, the following recommendations are proposed:

1. Financial institutions should enhance risk assessment processes. Banks and other financial institutions should adopt advanced fraud risk assessment techniques, such as predictive analytics and artificial intelligence, to identify potential fraud risks in real time.
2. Strengthening control activities. Institutions should ensure strict adherence to internal control policies, including transaction authorization, segregation of duties, and periodic audits, to prevent financial irregularities.
3. Improving monitoring activities. Continuous fraud monitoring mechanisms should be implemented to ensure real-time fraud detection. Financial institutions should establish dedicated fraud detection units and employ AI-driven monitoring tools.
4. Enhancing information and communication systems. The adoption of advanced cybersecurity frameworks, blockchain technology, and secure information-sharing platforms can significantly improve fraud prevention in financial institutions.
5. Regulatory agencies should enforce stricter fraud prevention policies. The Central Bank of Nigeria (CBN) and the Economic and Financial Crimes Commission (EFCC) should mandate periodic fraud risk assessments, promote financial transparency, and impose penalties for non-compliance.
6. Training and capacity building. Financial institutions should regularly train employees on fraud prevention strategies, ethical practices, and cybersecurity measures to strengthen the effectiveness of internal control systems.

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