THE ROLE OF INTERNAL AUDIT IN FRAUD DETECTION AND PREVENTION IN NIGERIA

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Abstract

The study investigates the role of internal audit on fraud detection and prevention in the public and private sector in Nigeria. Survey research design was adopted using simple random sampling technique and organizations were chosen using judgmental approach. The population was drawn from internal audit staffs from both private and public sectors from Ogun state. Data for the research were obtained from primary data through the use of questionnaire. Data were analyzed through descriptive statistics and inferential statistics in the analysis to determine the effect of internal audit on fraud detection and prevention in the public and private sector. The findings of the study reveal that that organizational culture has a significant effect on fraud detection and prevention in the selected organizations in Nigeria for the period of study. Findings also revealed a positive significant effect in regard to internal control and fraud detection and prevention. This implies that there is a significant positive nexus between internal control and fraud detection and prevention of selected organizations. The study recommended among others that auditors should maintain the scope of their activities on the efficiency of the organizations internal control system audit as this will enhance the detection and prevention of fraudulent activities.

Keywords: Fraud Risk Opportunity, Fraud Risk Pressure, Detection of fraud, Audit

Introduction

Internal audit is used in organizations to monitor the occurrence of discrepancies, violations, and frauds, among other things. Fraud is the deliberate falsification of facts and statistics (Olowolaju, 2013). Internal auditors' primary function and duty, according to Howard (2002), is to prevent and detect fraud. Internal auditing is critical in today's business world. Internal auditing services are needed by organizations all over the world in order to assess their financial health.

According to Othman et al (2015), in a survey conducted by KPMG Malaysia (2013), the majority of fraud perpetrators were workers, who made up around half of the total. These workers were discovered to be in non-management positions. Employees, on the other hand, accounted for just about 34% of all fraud offenders in 2009. The government and management are concerned about these numbers, which have increased by 16 percent since 2013. Customers came in second, led by management, with each group accounting for roughly 18 percent of all fraud perpetrators. Also identified as fraud perpetrators were service providers (8%) and suppliers (6 percent). According to the survey, theft of outgoing funds was the most recorded form of fraud in 2013 and 67% of respondents reported it in 2013, compared with 57% in 2009. Physical objects were theft in second place at 58% and income with theft at 34%. Theft of cash and cash receipts (26%), fraudulent invoicing (16%) and stock theft (13%) were the most frequent forms of individual fraud. fraud (KPMG Malaysia, 2013). Government and businesses, according to Ernst & Young (2014), agree that fraud, corruption and corruption are bad for business and society.

In Nigeria, corporate and public organizations face abundant cases of fraud. After financial scandals in some Nigerian banks such as Intercontinental Bank, Oceanic Bank, Afribank and Bank PHB, the Nigeria auditing profession attracted media attention, among others (Oyinlola, 2010). Wema Bank, Nampak, Spring bank, Akinwunmi, Dada, Ajayi-Owoeye and Kwarbai (2020); and recently intercontinental bank plc, bank photo; Oceanic bank plc and Afribank plc. The impact of misappropriation of government funds and book cooking and thefts has increased, so that the reliability of domestic control is doubtful, other factors attribute it as a result of unqualified workers to an insufficiently working internal control system, which makes the manual records simple for fraud perpetrators.

The damage this danger, called public funds fraud, causes is countless and urgently necessary (Onyefulu & Ofor, 2016). Internal auditing's importance in any organization cannot be overstated. Internal auditing contributes to better governance by reflecting on how values are defined in order to ensure effective and efficient monitoring and management of public and private sector organizations (Rahmatika, 2014). Internal audit has the primary responsibility of reporting to the organization's top management on the operation of management control systems and making recommendations for change where necessary. Internal audit also aids risk management by identifying and tracking the organization's risks, recommending the controls needed to reduce those risks, and reviewing the trade-offs required to meet the organization's strategic and organizational goals (Adedokun, 2014; Asaolu and Monday 2016). Internal audit, according to Olowolaju (2013), is a way of monitoring the occurrence of mistakes, violations, and frauds in every organization.

According to Jafar (2008), auditing entails obtaining fair assurance that material misstatements resulting from fraud and error are identified. Accounting reports or documents that are intentionally altered, falsified to modify, and capable of causing falsely false financial statements, in his view, are frauds. As a result, it is important that external auditors take seriously their duty to consider fraud or error during financial statement audits. Fraudulent activities are rampant in every organization, according to Adetiloye, Olokoyo, and Taiwo (2016), But, because of their trade instruments, they are more rampant at financial institution levels and maybe more common with DMBs. The banks, because of their operating money and nearly-money instruments, are most susceptible to financial manipulation. Internal management and organizational culture are proxies for internal audit. Fraud risk proxies through pressure and fraud risk proxies through opportunity are two types of proxies for fraud detection and prevention.

To combat this threat, public and private organizations in Nigeria established internal control systems and structures, as well as enlisting the services of highly credible internal and external auditors, in the hopes of reducing fraudulent behavior within the organization. As a result, internal auditors' position in fraud detection and prevention is to assist management in evaluating internal controls used to identify or minimize fraud, evaluating the organization's risk assessment, and sometimes participating in fraud investigations. Internal management is critical for a company's priorities and objectives to be met. Internal control assists organizations in carrying out step-by-step processes, cost-effective methods, and precise and knowledgeable actions in order to be more responsive and effective in their administrative positions (Connor, 1979:p6). Internal control can help a company manage risk, implement controlled procedures, and evaluate its activities.

According to Dave Coderre, there are two key points of view: one holds that management is responsible for fraud prevention and detection. Management is in charge of day-to-day activities, designing and enforcing controls, having power over personnel, systems, and documents, as well as having the expertise and authority to make adjustments. Consequently, they are concerned with fraud detection and identifying. The audit is, however, competent to evaluate and construct checks and to analyze and evaluate processes and checks. Due diligence should also be exercised. Consequently, the control and detection of fraud are the responsibility of the audit. Control and audit play a part in preventing and detecting fraud. To combat fraud, managers, personnel, internal and external auditors work together in the best way possible. Moreover, inadequate internal inspections alone are required; fraud immune to the corporate culture of the entity as well as the attitude of the senior management and all staff. Sadly, many auditors conclude that the culture of companies is beyond their influence. On the other hand, the audit will take steps to ensure that senior management are aware of the risk and importance of fraud and that all fraud cases are disclosed to all employees. Furthermore, the audit will allow management to enforce fraud awareness education and fraud-fighting policies.

Fraud and fraudulent activities are becoming more common in Nigeria. In any field of the economy, there are cases of fraud. As an example, A national daily released a list of non-governmental organizations (NGOs) engaged in fraud a few years ago, with specific amounts of money in millions of dollars allocated to each NGOs. In Nigeria, fraud in both private and public institutions has reached a new stage of sophistication. The actual account and the regular account are the two types of accounts that organizations currently use. One account is presented to stakeholders, such as the board of directors, while the other is kept secret by the organization's management in collusion with a few board members. Despite the presence of internal audit departments in corporate organisations, mistakes and fraudulent practices continue to occur.

In national newspapers, fraud is frequently published (Olowolaju, 2018). Internal audit's position in fraud detection and prevention is thus called into question.

Internal audit, organizational culture, fraud identification, and fraud prevention are all out of sync. Connivance with the finance or accounting department is needed for fraud to be effective in any organization. As a result, fraud involves more than one party. Unfortunately, due to human and technological factors, fraud is difficult to detect within Nigerian organizations. Fraud is so difficult because of the human factor that tracing or monitoring the perpetrator can reveal a web or network of fraud participants. The technology needed to detect fraud is either prohibitively costly or obsolete. As a result, the damage is already done before the scope of the fraud is discovered. The harm caused by fraudulent actions in Nigeria is unquantifiable. It causes not only physical harm, but also economic harm, such as the closure of vibrant businesses and increased unemployment. International investors are wary of engaging with Nigerians, which has caused psychological damage. Because of our get-rich-quick mindset, weak youth orientation, and infrastructure failure, we have been dubbed the world's poverty city.

Review of Related Literature

Internal Control

Internal controls are a mechanism for ensuring that the goals of an organisation, such as organizational effectiveness and performance, accurate financial reporting or compliance with laws, regulations and policies, are met, as specified in accounting and auditing. An extensive definition, internal controls all things, which regulate a company's risks. (The Research Foundation of the Institute of Internal Auditors. 2012) quoted in (Onyefulu & Ofor, 2016). Today, in Nigerian, the strength of each organization is of utmost importance. The explanation why the control systems are a cornerstone of an effective accounting system in every organization (Olaoye, 2009).

Knechel (2001) states that internal control is characterized as a management mechanism that ensures a fair assurance that goal of the organization are fulfilled. An internal control system is intended to form the entire system of financial and management controls in order to carry out the operation of the company in an order and effective manner, ensure compliance with management policies, protect assets and ensure the completeness and consistency of the financial records to the fullest extent possible. It involves the control environment and monitoring process, all policies and procedures adopted by directors and the management of the entity in order to help achieve its objective in the timely preparation of a reliable financial statement, including compliance with internal policies, fraud and bug prevention and record comprehensiveness (Benjamin, 2001).

Internal Control shall be characterized as a process that affects the structure, work, authority and information system structure, personnel and management processes designed to help the company achieve certain goals or targets. US Certified Public Accountant Institute (AICPA, 2003). The framework of the COSO 2013 focuses on five integrated internal control components: controlling climate, assessing risks, tracking activity, reporting and communication and monitoring. The control environment defines a number of rules, procedures and systems, which form the basis for internal control within the company. According to the Institute of Internal Auditors, a monitoring environment for organizations aiming at: attaining its strategic objectives, providing financial reporting to internal and external actors, operating its operation efficiently and effectively, complying with all requirements and regulating requirements is the foundation for an effective internal control system.

The risk evaluation provides the foundation for assessing how risks are handled. A risk is described as the potential for an incident and the attainment of organisation's objectives to be adversely affected. Risk evaluation calls for management to take into account, and theoretically to take measures to handle, or minimize, the effects of future changes in the internal and external environment. Control activities are measures commonly defined in policies, procedures and standards that contribute to managing risks with a view to achieving targets. Control operations can be preventive or detective in nature and can be carried out at all stages.

In order to encourage internal control elements, information is produced or obtained by management from both internal and external sources. Interior- and externally-based communications are used to disseminate relevant information, if necessary to satisfy criteria and standards, within and outside the organization. Monitoring tasks include periodic or continuous assessments to check the efficiency and efficiency of each of the five elements of internal control.

Internal monitoring is the action taken within the company to reduce or eliminate operational failures and to achieve organizational goals. This applies to corporate, public and non-profit organisations. AICPA is characterized as the mechanism that affects the structure, the work and authorities, the personnel and management information systems of the company and the organization, which helps to achieve the organization's basic objectives and objectives. AICPA is defined as the internal control process. This corresponds to the concept of internal control by the researchers.

Organizational Culture

A pattern of common basic assumptions that the group has learned by solving its external adaptation and internal integration issues that has done enough to be valid, thus teaching the new members the correct approach to those challenges," said Schein. "A pattern of shared basic assumptions (1990). Gerstner (2004), quoted in Domnişoru, Ogarcă and Dragomir (2017), reports: 'Organizational culture is what people without being told to. Wu (2008) explains the efforts of the entity's representatives to create real families that work together to achieve a common goal. In this situation, the influence of leadership oversight can also be seen in their own approaches, decisions, and behaviors, as well as through staying linked to the internal environment at all times to ensure that the personnel does not deviate from the organization's ideology. If management discovers that the entity's operation is moving in the wrong direction, it must take the appropriate steps to prevent the problem from being chronic.

The term "organizational culture" refers to a system for workers to share their values and beliefs in order to better understand their roles and the expectations set by the company (Luthans & Doh 2012). Organizational culture refers to how people act within the company, including how they dress, manage issues, and carry them to the degree that their managers and peers deem appropriate (Owoyemi & Ekwoaba, 2014). Organizational culture refers to how people appear to act within organisations, as well as the traditions, beliefs, and perceptions that people (employees, employers, and managers) have. This is critical because corporate environments can have a positive or negative impact on the organization's stakeholders. If the culture is right, it makes it easier to achieve defined goals, and vice versa.

External and internal influences shape organizational culture, which must be properly understood by those who play critical roles in decision-making (Pfister, 2009). Managers, through exemplification, empowerment, mentorship, delegation, team orienting, preparation, promotion and recognition of employees in an indirect or explicit way, build organizational culture through a literature review (Nakiyaga & Thi Lan Anh, 2017). This work acknowledges the concept of (Owoyemi & Ekwoaba, 2014). It has to do with what people bring to an organization and how they solve problems, as well as strain, jobs, and other factors that can affect the organization's progress.

Theoretical Framework

In this study, the stakeholders' principle is applied. Financial profits, or surplus, is the ultimate motivation of all organisations, whether business or non-profit. Cash, money, money are the primary motivators for stakeholders in organizations. When stakeholders are diligently handled, organizations are better managed and operate more effectively. In any organization, the internal audit unit can play the role of an employee or management that collaborates with other stakeholders to achieve organizational goals. Fraud incidents have the potential to liquidate or bankrupt companies, sapping the hopes of stakeholders of those organizations.

Empirical Review

Audit standards and performance of auditors: Eluyela and Ilogho reviewed evidence from the Nigerian banking industry (2016). The research examines the audit standards and audit results using both primary and secondary data, including questionnaires and previous papers and journals. The audit standards and the findings of the auditors in general have shown a good relationship in the Nigerian banking industry. Furthermore, there are many critics in the international auditing standards.

The Role of Internal Audit in Fraud Prevention and Detection was reviewed by Petraşcua & Tieanub (2014). The study and systematization of the literature written in the area, as well as the rules regulating internal audit activities published at the national and international level, was used as the research tool. The primary duty of auditors in carrying out their assignments is not to detect fraud, so they should not be viewed as adversaries of a company. In organizations, an auditor should be seen as a valuable asset. The research was conducted outside of Nigeria.

Auditing as a Tool for Accountability for Efficient and Effective School Administration was examined by Ezeani and Oladele (2012). A descriptive design was used in this research. The researchers discovered that a lack of technical competence, freedom, and insufficient resources has a direct impact on the school audit's results. This statement could be applied to Nigerian small and medium-sized businesses.

Rennox, has established the effect of internal checks on the financial performance of commercial banks in Kenya. A descriptive research design was chosen due to its ability to clarify the linkage between internal monitoring components and financial performance. Kenya's 43 trade banks were used for this analysis. For the collection of primary information, a standardized questionnaire was used. The results of the study showed that, partly because of successful internal control, the banking sector has a strong financial record. The banking industry's highly controlled and hierarchical climate is credited with the presence of efficient internal control. Though the study was conducted in Kenya, it is relevant to Nigeria because successful internal control mechanisms help to reduce fraud.

Uniamikogbo, Adeusi, Amos and Amu (2019) investigated the impact of forensic auditing on the identification and prevention of fraud in Nigeria's banking sector. Data analysis was conducted using charts, graphs, tables, and regression. The results of their audit findings in the Nigerian banking sector shows that the number of cases involving fraud, numbers of bank fraud workers and the actual amount of bank losses from fraud has a significant adverse impact. The forensic audit does, however, have a negligence effect on Nigerian banks' estimated losses as a result of fraud. This is a field that needs more study.

Methodology

In this study, the research design is a survey design, which is a field study involving a diverse group of people. The variables in the study allow for the distribution of testing instruments to respondents so that they can make an impartial evaluation, and the Primary type of data was used. The population used for the purpose of this research was drawn from internal audit in both private and public sector specifically drawn from Ogun state. The data obtained in the course of the research was analyzed using descriptive statistical method, with the use of Multiple Linear Regression analysis and with the aid of SPSS Version 20 to analyze how the variables affect each other. Internal audit is the independent variable and fraud detection and prevention is the dependent variable. This can be mathematically defined as follows:

The following model has been adopted

Y = f(X)

FPD = f(IA)

Y= Fraud Prevention and Detection in Nigeria

X= The Role of Internal Audit

X= (x_1, x_2)

x_1=Internal control

x_2=Organizational culture

Y= f(x1, x2, x3)

FPD= f(IC, OC)……………………………….equation 1

Main model

FPD = $\beta_0+\beta_1$IC+ β_2OC+e

Regression Result

Table 4.1: Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	-1.206	.452		-2.669	.011
	OC	.869	.115	.729	7.585	.000
	IC	.381	.166	.221	2.299	.026

a. Dependent Variable: FPD

Source: Researcher's Output2021

From Table 4.1, the sign of the coefficient of the independent variables shows that Organizational Culture has a positive effect on Fraud Prevention and Detection in Nigeria. this positive effect is statistically significant as the t-statistical significance level shows 0.00 which is less than 0.05. Also internal control has a positive effect on Fraud Prevention and Detection in Nigeria, this positive effect is statistically significant as the t-statistical significance level shows 0.02 which is less than 0.05.

Table 4.2: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	26.347	2	13.173	143.443	.000[a]
Residual	4.133	45	.092		
Total	30.479	47			

a. Predictors: (Constant), IC, OC

b. Dependent Variable: FPD

Source: Researcher's Output 2021

The ANOVA table above shows the goodness of fit of the model. The criteria are that if (Sig value is less than 0.05) at alpha 0.05 and 95% level of confidence it means the model is fit for the study. However the value of our Sig is less than 0.05 which means that the model is fit for the study, therefore internal audit has a significant effect on fraud detection and prevention in Nigeria.

Table 4.3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.910[a]	.828	.821	.50867

a. Predictors: (Constant), IC, OC

Source: Researcher's Output 2021

From table 4.3 above, the cumulative R^2, is 0.83 which is the combined coefficient of determination indicates the size to which the explanatory variables explain the overall changes in the explained variable. Therefore, it implies that 83% of the total changes in fraud detection and prevention are caused by organizational culture and internal control. This further entails that for every change in the independence variables of the selected organizations, the extent of quality fraud detection and prevention would also be always affected.

Discussion of Results and Conclusion

The study discovered an important positive association between organizational culture and fraud detection and prevention in specific organizations. This result is consistent with Eluyela and Ilogho (2016), Oguda, Odhiambo, and John (2015), who found that organizational culture has a major impact on fraud detection and prevention in the selected organizations in Nigeria during the study period. Internal control and fraud detection and prevention also had a positive significant impact, according to the findings. This means that internal control and fraud detection and prevention in specific organizations have a significant positive relationship. The positive impact indicated that internal regulation harmed freedom and objectivity, resulting in a reduction in fraud prevention. Umar and Dikko agree with the results (2018).

The study's results suggest that internal audit characteristics have a substantial impact on fraud detection and prevention. For the time under consideration, the study found that organizational culture has a major impact on fraud detection and prevention in the selected organizations in Nigeria. Internal control has a positive significant impact on fraud detection and prevention in the selected organizations for the period of study, according to the report.

Recommendations

The following guidelines are deemed appropriate as a result of the study's findings and conclusions:

Organizational management should ensure that the organizational culture aspect has a well-developed succession. A well-defined succession plan clarifies strategic strategy and ensures audit framework continuity. According to the report, auditors should focus their efforts on the effectiveness of an organization's internal control system audit, as this will improve the identification and prevention of fraudulent activities.

Sugestion for Further Research

While the aim of this study was to build and advance knowledge about internal audit attributes and fraud detection and prevention, future studies could further the field by looking at other internal audit characteristics and their impact on fraud detection and prevention. Other businesses may be examined to see how they react to internal audit variables and fraud detection and prevention problems.

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