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S/N	Article	Authors	Pages
1	IMPACT OF SUSTAINABILITY REPORTING ON THE FINANCIAL PERFORMANCE OF CONSUMER GOODS COMPANIES LISTED IN NIGERIA	Dr. Rabiw Ado & Emeka Paul Ohagwu	1-20
2	FIRM ATTRIBUTES AND PERFORMANCE OF LISTED CONSUMER GOODS FIRMS IN NIGERIA	Ikponmwosa Michael Igbinovia, Abinokhauno Michael Ewela	21-39
3	EFFECT OF ENTREPRENEURSHIP DEVELOPMENT ON CORPORATE ENTREPRENEURSHIP IN FEDERAL POLYTECHNIC BIDA NIGER STATE NIGERIA	Mohammed Umar Aliyu, Mohammed Abubakar Mawoli & Salihu Abdulwaheed Adelabu	40-56
4	EFFECT OF INTERNAL AUDIT EFFECTIVENESS ON FRAUD PREVENTION IN DEPOSIT MONEY BANKS (DMBS) IN NIGERIA	Riku, Biki Riku & Abdulkadir Ahmed Hammayo	57-67
5	Audit Committee Characteristics and Timeliness of Financial Reporting of Listed Oil and Gas Companies in Nigeria	Mohammed Abubakar Hamza Usman Isa Aliyu Musa Padah	68-89
6	ASSESSMENT OF EMPLOYEES VIEWS ON TRAINING AND DEVELOPMENT CHALLENGES AT TARABA STATE UNIVERSITY (TSU), JALINGO	Abubakar Abdullahi Sharaff, Hamza Mai-ulu & Lukong Apolonia Beri	90-102
7	DOES ENVIRONMENTAL AND SOCIAL DISCLOSURE PRACTICES HAVE ANY EFFECTS ON FIRM PROFITABILITY? EVIDENCE FROM LISTED DEPOSIT MONEY BANKS IN NIGERIA	Dr. Iliya Garba, Isa Usman	103-122
8	FIRM ATTRIBUTES AND CAPITAL STRUCTURE OF LISTED OIL AND GAS COMPANIES IN NIGERIA	Mohammed Bose Ahmed, Yahaya Umar Usman & Mohammed Yusuf	123-137

**EFFECT OF INTERNAL AUDIT EFFECTIVENESS ON FRAUD PREVENTION IN  
DEPOSIT MONEY BANKS (DMBS) IN NIGERIA**

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**ABSTRACT**

This study examined the effect of internal audit effectiveness on fraud prevention in Deposit Money Banks (DMB) in Nigeria. The study employed the cross-sectional survey research design. The population of the study consist of the resident internal control staffs of 18 DMBs in Jalingo Metropolis of Taraba State. The total number of the resident internal control staff from 18 commercial banks in Jalingo metropolis as obtained from various operations unit is 107. The sources of data for the study were collected through the primary source through the administration of questionnaires. The retrieved data was analyzed with the aid of the Statistical Package for the Social Sciences (SPSS) version 23. The research hypotheses were tested using multiple regression analysis and the results revealed that auditors' competency, management support and size of internal audit department have significant positive effect on fraud prevention in DMB, while independence of the internal audit unit and quality of audit work does not. The study recommends that DMB should ensure that they hire competent staff as internal audit staff and should have sound staff development plans. Moreover, the study also recommends that the internal audit unit should be provided with adequate number of highly trained officers with greater prestige and salary commensurate with those qualities, so as to ensure checked and balances among bank staff to reduce fraud to its bearest minimum.

**Keywords:** Internal Audit, Effectiveness, Fraud prevention, DMBs and Nigeria

**Introduction**

Stronger and more efficient accounting and auditing processes are now required due to the rise in financial fraud and corruption. One of the most complex crimes in the corporate world today is fraud. According to the Association of Certified Fraud Examiners (ACFE) in 2014, the loss resulting from fraud is projected to be 5% of sales, and this has led to a global fraud loss of approximately \$6.3 billion. Though the frequency of fraud incidents varies by industry, the banking sector is one area of the economy that is particularly susceptible to fraud due to the nature of its operations. According to Akinyomi (2018), fraud is the primary threat preventing

the global banking industry from developing. Even while fraud has a negative impact on the financial industry, less emphasis has been paid to management fraud, and on the failure of auditors to prevent the occurrence of fraud (Ezejiofor & Okolocha, 2020). This has caused a loss of public confidence in auditing and has mandated the need to reconsider the procedures performed to uncover fraud in DMBs (Ezejiofor & Okolocha, 2020).

The last few years have seen a significant transformation in the internal audit profession as its purview has broadened to include a far wider range of tasks and it has established itself as a crucial management instrument for attaining efficient control in both public and private enterprises. Internal auditors are increasingly viewed as service providers, and as such, their ability to stay in the workforce depends on their ability to bring value to the company (Bunu & Omwenga, 2017). A renewed focus is being made on creating ongoing value by identifying possible hazards and preventing issues (Ziniyel et al., 2018). Another relatively recent focus is on corporate governance in business management, since the internal audit role extends beyond organizational controls. Moreover, internal auditors have been tasked with advising management on fraud prevention in addition to working on issues resulting from fraud (Ezejiofor & Okolocha, 2020).

But even with internal auditing in place, frauds that cause revenue losses have been a persistent issue for Nigerian banks throughout the years. Due to income loss and a damaged reputation, this has led to crises of distress and liquidation, which has had an impact on the banks' profitability as well as their responsibilities in the overall economy. Nigeria Deposit Insurance Corporation (NDIC) reported 146,183 fraud instances in DMBs in 2020 compared to 52,754 in 2019. In 2020, the total sum involved was ₦120.79 billion, whereas in 2019 it was ₦204.65 billion. In 2020, the actual amount lost due to fraud occurrences was ₦ 5.33 billion, compared to ₦ 15.15 billion in 2018 and ₦ 2.37 billion in 2017, respectively. The sophistication of fraud-related practices like hacking and cybercrime, as well as the growth of information technology, fraudulent withdrawals, and unauthorized facilities, could all be contributing factors to the increased prevalence of fraud. Like any other industry, the banking sector experiences a negative impact from fraud incidents that affect both the banks and their clients (Hoffmann & Birnbrich, 2012). Given that money represents the stock of trade in banks, these institutions need strong, independent internal audit units (Udeh & Ugwu, 2018).



## LITERATURE REVIEW

### **Internal Audit**

Internal auditing has developed into a crucial management tool for establishing efficient control in businesses, both public and commercial. An internal tool used by organizations to effectively carry out their duties is internal audit (Ezejiofor & Okolocha, 2020). Additionally, it is a separate assessment function that was set up within an organization to look into and assess the efficiency, economy, and efficacy of the management control system. The goal is to reassure management that the internal control mechanisms in place are sufficient for the needs of the business and are performing successfully, (Ziniyel et al., 2018).

The department of internal audit ensures that management control systems remain valid and that compliance is carried out effectively (Ezejiofor & Okolocha, 2020). As an employee of the company, the internal auditor represents management in ensuring that the internal control system is operating effectively. Internal auditing can be thought of as the organization's senior management or board's eye.

Internal auditing is a study of records and activities that is occasionally a continual project carried out within a company to stop fraud, errors, and anomalies. Ziniyel et al., (2018) defined internal audit as an impartial evaluation function inside an organization that is necessary to guarantee successful and efficient operations as well as the proper application of control. Research on the function of internal auditing is conducted globally. According to studies conducted in Nigeria, such as Ziniyel et al., (2018), efficient internal audit techniques are required to influence Ghana's financial performance. Bunu and Omwenga (2017), findings show that Lamu County has an efficient internal audit function that monitors and assesses organizational activities. This function is capable of identifying fraud, but it is unable to stop or manage it.

Ejoh and Ejom (2014) carried out research at the Cross River State College of Education in Akamkpa, Nigeria. The investigation discovered that the College's internal audit department lacks adequate staffing and does not carry out its responsibilities with a higher level of autonomy and independence from management. Additionally, additional research showed that the Cross

River State College of Education's financial performance is not significantly impacted by the internal audit function.

### **Internal Audit Effectiveness**

According to Ezejiofor and Okolocha (2020), the legal and regulatory framework, the function's location and independence, the presence of audit committees, the resources allotted to the function, and the professionalism of internal audit professionals are all factors that affect how effective internal auditing is. The hard reality is that internal audit departments do not always receive the necessary assistance. The extent to which predetermined goals are met, including their quality, is what the Institute of Internal Auditors (IIA) defines as internal audit effectiveness (IIA, 2010). This indicates that the efficiency of internal auditing is determined by the internal auditor's capacity to meet predetermined goals within the company effectively. These goals need to be clearly defined and supported by the resources needed to get there (Dittenhofer, 2001). Similar to this, if an efficient internal audit function had the following components, it could significantly increase public trust in corporate governance and financial reporting: organizational independence, a formal fraud mandate (such as the presence of an approved audit charter), unrestricted access, adequate funding, skilled staff and leadership, an audit committee, stakeholder support, professional audit standards, and an unlimited scope (Belay, 2007; De Smet & Mention 2011). As a result, internal audit effectiveness is crucial to an organization's ability to fulfill its goals. Accordingly, all organizations, whether private or public, should ensure that their internal audit is efficient in order to meet their objectives.

### **METHODOLOGY**

The research design for this study is cross-sectional survey. The population of the study consist of the resident internal control staffs of 18 DMBs in Jalingo Metropolis of Taraba State. The total number of the resident internal control staff from 18 commercial banks in Jalingo metropolis as obtained from various operations unit is 107 as at 15th October, 2019. The choice of the resident internal control staff of the banks was deemed appropriate because they are usually engaged in activities that are aimed at fraud prevention in the banks. The sources of data for the study were collected through the primary source through the administration of

questionnaires. The data collected through the questionnaire was analyzed using SPSS version 23.

**Table 1: Distribution of population and sample of the Study**

S/No	Name of Bank	Population of the Study	Proportionate Sample
1.	Access Bank Plc	4	4
2.	Citi Bank Plc	4	4
3.	Ecobank Plc	6	6
4.	Enterprise Bank Plc	4	4
5.	FCMB Plc	8	8
6.	Fidelity Bank Plc	8	8
7.	First Bank Plc	10	9
8.	GTBank Plc	6	6
9.	Heritage Bank	2	2
10.	Keystone Bank Plc	4	4
11.	Polaris Bank Plc	2	2
12.	Stanbic IBTC Plc	4	4
13.	Sterling Bank Plc	3	2
14.	Union Bank Plc	6	6
15.	Unity Bank Plc	8	8
16.	UBA Plc	14	13
17.	Wema Bank Plc	2	2
18.	Zenith Bank Plc	12	11
	<b>Total</b>	<b>107</b>	<b>103</b>

Source: Extracted from DMBs in Jalingo, 2019

**Table 2: Multiple Regression Analysis Result**

Constructs	Unstd. Est.	Std. Est.	t-value	p-value	VIF
Auditor' s Competency	.358	.332	4.063	.000	2.918
Independence of Internal Audit	-.072	-.066	-1.004	.318	1.879
Management Support	.235	.213	2.841	.006	2.474
Quality of Audit Work	.048	.043	.486	.628	3.404
Size of Internal Audit Department	.234	.539	8.880	.000	1.615
F-Statistics			71.047		
F-Sig.			.000		
R			.900		
R-Squared			.811		
Adjusted R-Squared			.799		
Durbin-Watson			2.153		



**Hypothesis 1**

$H_{01}$ : Auditor's competency has no significant effect on fraud prevention.

Table 3 shows a positive beta coefficient on the effect of auditor's competency on fraud prevention ( $B = .358$ ;  $\beta = .332$ ;  $p = .000$ ). Since the p-value is less than the alpha value (i.e.,  $.000 < .05$ ), the null hypothesis which postulates that there is no significant effect of auditor's competency on fraud prevention is rejected and the alternative hypothesis is supported.

**Hypothesis 2**

$H_{02}$ : Independence of the internal audit function has no significant effect on fraud prevention.

Table 3 shows an insignificant beta coefficient between independence of internal audit and fraud prevention ( $B = -.072$ ;  $\beta = -.066$ ;  $p = .318$ ). Since the p-value is greater than the alpha value (i.e.,  $.318 > .05$ ), the null hypothesis which postulates that there is no significant effect of independence of the audit function on fraud prevention is accepted and the alternative hypothesis is rejected. Thus, it can be concluded that independence of internal audit function does not have a significant effect on fraud prevention.

**Hypothesis 3**

$H_{03}$ : Management support has no significant effect on fraud prevention.

Table 3 shows a positive beta coefficient between management support and fraud prevention ( $B = .235$ ;  $\beta = .213$ ;  $p = .006$ ). Since the p-value is less than the alpha value (i.e.,  $.006 < .05$ ), the null hypothesis which postulates that there is no significant effect of management support on fraud prevention is rejected and the alternative hypothesis is supported. Thus, it can be concluded that management support has a significant positive effect on fraud prevention such that when management support goes up by 1 unit, fraud prevention will also increase by .213 unit and vice versa.

**Hypothesis 4**

$H_{04}$ : Quality of audit work has no significant effect on fraud prevention.

Table 3 shows a positive beta coefficient on the effect of quality of audit work on fraud prevention ( $B = .048$ ;  $\beta = .043$ ;  $p = .628$ ). Since the p-value is greater than the alpha value (i.e.,  $.628 > .05$ ), the null hypothesis which postulates that there is no significant effect of quality of audit work on fraud prevention is accepted and the alternative hypothesis is rejected. Thus, it can be concluded that quality of audit work has no significant effect on fraud prevention.

### **Hypothesis Five**

$H_{05}$ : Size of internal audit department has no significant effect on fraud prevention.

Table 3 shows a positive beta coefficient between size of internal audit department and fraud prevention ( $B = .234$ ;  $\beta = .539$ ;  $p = .000$ ). Since the p-value is less than the alpha value (i.e.,  $.000 < .05$ ), the null hypothesis which postulates that there is no significant effect of size of internal audit department on fraud prevention is rejected and the alternative hypothesis is supported. Thus, it can be concluded that size of internal audit department has a significant positive effect on fraud prevention.

### **CONCLUSION**

This study examined the effect of internal audit effectiveness on fraud prevention in DMBs.

It was found that auditors' competency, management support and size of internal audit department has a significant positive effect on fraud prevention. However, an auditor is considered as independent once he/she can make objective judgments free from the influence of their clients and extending this objective judgment to DMBs will prevent fraud in the organization. Banks with adequate size of internal audit department will carry out its internal control activities duly as expected because where the organization is large and the size of the audit department is adequate to detect and prevent fraud from occurrence is high.

According to the analysis, independence of internal audit and quality of audit work does not have significant effect on fraud prevention. To improve auditor's monitoring strength, a higher level

of independence is imperative. Auditors therefore need to be unshackled from routine reporting and accountability to functional managers within the organization. This calls for a review and restructuring of the organizational architecture in order to facilitate this independence in preventing fraud in DMBs.

From the analysis, the quality of audit work has no significant effect on fraud prevention. Where adequate training and thorough checking of books of accounts of banks are not carried out, it could hamper quality of audit work. Once the quality of audit work is affected, fraud is prone to happen.

### **RECOMMENDATIONS**

Based on the findings of this study, the following recommendations are made:

The Internal Audit staff should be encouraged to acquire additional qualifications and register with any of the professional accountancy bodies both in Nigeria and abroad to enhance their competency as internal audit staff.

Despite the attendant negative effect of independent of internal audit, management of DMBs should emphasize more on the independent nature of internal audit function in order to promote their independency by not interfering in their work by any other parties.

The study recommends that management of DMBs should monitor and provide adequate support to the activities of internal audit department by ensuring that the recommendations made by auditors to strengthen observed internal control weakness, so as to ensure that adequate internal audit system are established. DMBs should emphasize more on the quality of work produced by internal audit department because the higher the quality of internal audit work the more the effectiveness of internal audit in enhancing fraud prevention in DMBs. The study also recommends that the internal audit department should be provided with adequate number of highly trained officers, with greater prestige and a salary commensurate with those qualities, so as to ensure checks and balance among bank staff to reduce fraud to its nearest minimum.

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## APPENDIX I: SAMPLE OF QUESTIONNAIRE

### Section A: Respondents Profile

Please fill this section by either ticking the option that applies to you or writing in the spaces provided.

1. Educational Qualification SSCE [ ☐ ] ND/NCE [ ☐ ]  
Bachelor's Degree/HND [ ☐ ] PGD/Masters' Degree [ ☐ ]
2. Working Experience (in years): 1-5 years [ ☐ ] 6-10 years [ ☐ ] more than 10 years [ ☐ ]
3. Gender: Male [ ☐ ] Female [ ☐ ]
4. Marital Status: Single [ ☐ ] Married [ ☐ ]
5. Age: 16-30 years [ ☐ ] 31 years and above [ ☐ ]
6. Professional Membership ICAN [ ☐ ] ANAN [ ☐ ] Others [ ☐ ] Undisclosed [ ☐ ]
7. Please indicate the number of staff in the internal audit department of your bank.....

To what extent do you agree with the following statement?

1 = Strongly Disagree      2= Disagree      3 = Neutral      4 = Agree; 5 = Strongly Agree

### Section B: Auditors Competency

S/No	Items	1	2	3	4	5
1.	The organisation allows IA employees to participate in training and development programs in order to maintain their skills and keep up to date in the field					
2.	IA employees have the appropriate and relevant education in auditing that allows them to audit all of the organisation ' s systems (financial, operational, logistical and computerised)					
3.	IA employees are well experienced in auditing that allows them to audit all of the organisation ' s systems.					
4.	The IA employees have the necessary skills required for auditing the organisation ' s system					

**Section C: Independence/Objectivity**

S/No	Items	1	2	3	4	5
1.	Report indicates to both of good and wrong performance					
2.	The content of the report is discussed with the auditee ' s management before issuing the final report					
3.	Auditee ' s management comments are included in the report					

**Section D: Senior Management Support**

S/No	Items	1	2	3	4	5
1.	Issue statement requiring all organization ' s department to follow the internal audit recommendations					
2.	Internal auditing has unrestricted access to review senior management ' s Work					
3.	Does not charge the internal auditor to carry out operational works					
4.	Chief audit executive has open communication with senior management					

**Section E: Quality of Audit Work**

S/No	Items	1	2	3	4	5
1.	The annual audit plan is determined completely by the internal auditor					
2.	The areas audited are very significant to the organisation					
3.	The IA is able to cover all organisational units and all issues					
4.	The response of auditees to the audit is submitted in writing and is relevant and comprehensive					
5.	There is regular follow-up by the IA staff to examine actions taken to correct the problems found					
6.	The internal auditor also performs other activities such as developing procedures and conducting economic and financial audits					

**Section F: Fraud Prevention**

S/No	Items	1	2	3	4	5
1.	We have technology solutions with trigger mechanisms that flag irregular activities					
2.	We run well-established whistle-blower mechanisms in this organization					
3.	We take appropriate action in case of detected fraud					
4.	Risk based internal audits are carried out in our organization					
5.	We have established lines of communication with policies for further investigations of detected fraud in our organization					