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Internal Control System as a Catalyst of Preventing Fraud in Nigerian Financial Institutions, Case Study of CBN (Central Bank of Nigeria)

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Abstract:- Fraud in Nigerian financial institutions can cause substantial losses and erode public trust. An effective internal control system is widely considered critical for fraud prevention, but research debates whether controls alone are sufficient versus requiring a multifaceted approach. This quantitative correlational study analyzed survey data from 200 employees of the Central Bank of Nigeria regarding perceptions of internal control strength, fraud prevention success, organizational culture, training, oversight, monitoring, institution size, and regulatory policies. Results revealed mostly weak, statistically nonsignificant correlations between the variables. The lack of strong negative correlation between controls and fraud prevention aligns with findings that controls alone may not fully predict prevention. The positive correlation between prevention and culture indicates fostering an ethical culture may enhance control effectiveness. No single control subsystem showed a strong unique link with prevention, highlighting needs for holistic control system strengthening alongside broader organizational reforms. These findings underscore a multilayered, systemic approach to fraud prevention combining technical controls, cultural change, robust oversight, and employee participation.

***Keywords**: Internal Control, Fraud Prevention, Organizational Culture, Financial Institutions, Nigeria.*

I. INTRODUCTION

Fraud in financial institutions can result in substantial financial losses and erode public trust. In Nigeria, fraud remains a persistent challenge facing banks and other financial institutions (Okoye & Gbegi, 2013). Recent studies have explored the role of internal control systems in preventing and detecting fraud in Nigerian banks (Oladimeji & Ayopo, 2022; Okaro & Okafor, 2021). An effective internal control system is considered a critical safeguard against fraud (Enofe et al., 2017). However, research also suggests that multiple factors related to organizational culture, employee training, management oversight, and regulatory policies may interact to influence the internal control system's success in fraud prevention (Ilaboya & Obaretin, 2020; Okafor & Agbiogwu, 2019).

This study aims to examine the relationship between the internal control system strength and fraud prevention in Nigerian financial institutions, using the Central Bank of Nigeria (CBN) as a case study. Specifically, it investigates the correlations between ratings of the internal control system, fraud prevention efforts, and other organizational factors like culture, training, oversight, monitoring, size, and regulatory policies. Understanding these relationships can provide insights into enhancing fraud prevention through a systemic approach rather than relying solely on the internal control system.

A review of prior research reveals mixed findings regarding the role of internal control systems in fraud prevention. Omoye and Eragbhe (2020) found the internal control system significantly reduced fraud incidence in Nigerian banks. However, Adebisi and Gbegi (2020) found internal control alone did not predict audit quality or fraud detection without adequate organizational support. The current study builds on this discourse by examining a broader range of organizational variables that may moderate the internal control-fraud prevention relationship.

As Dandago and Muhammad (2015) discuss, fraud prevention in Nigerian banks requires a combination of strong internal controls, ethical organizational culture, proper employee screening and training, regulatory oversight, and technological monitoring mechanisms. The present study collects empirical data to assess potential links between these fraud prevention factors. The results may provide bank executives and policymakers evidence to shape reforms that bolster fraud prevention through a multifaceted approach. By analyzing how the internal control system correlates with other organizational variables, this study aims to uncover dynamics that could strengthen fraud prevention in Nigerian financial institutions.

II. LITERATURE REVIEW

Fraud in the banking sector has been an ongoing concern in Nigeria, resulting in financial losses and eroded public confidence (Okoye & Gbegi, 2013). Prior research has analyzed the factors that contribute to fraud prevalence and potential mitigation strategies. A robust internal control system is widely regarded as an essential fraud prevention

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mechanism for Nigerian banks (Oladimeji & Ayopo, 2022). However, scholars have debated the effectiveness of internal controls alone versus a multifaceted approach combining controls with other organizational factors.

Several studies underscore the importance of internal control systems in preventing fraud. Omoye and Eragbhe (2020) found a significant negative relationship between internal control rating and fraud incidence across Nigerian banks, indicating that stronger controls associate with reduced fraud. Enofe et al. (2017) posit that inadequate internal controls largely explain recurring bank frauds in Nigeria. Okafor and Agbiogwu (2019) also found internal control strength significantly predicted fraud prevention success among Nigerian banks.

Conversely, other scholars argue that focusing solely on internal controls is insufficient for fraud prevention. Adebisi and Gbegi (2020) found that while internal control rating significantly predicted audit quality, it had no significant link to fraud detection, implying other factors influence fraud uncovering. Ilaboya and Obaretin (2020) found that leadership style and organizational culture moderated the impact of internal control on fraud prevention in Nigerian banks. This aligns with Dandago and Muhammad's (2015) proposition that robust internal controls must combine with ethical culture and proper staffing to enable effective fraud prevention.

The present study builds on Adebisi and Gbegi's (2020) call for research on how organizational variables interact with internal control systems. It collects empirical data to assess potential correlations between internal control ratings, fraud prevention success, and other variables like organizational culture, employee training, management oversight, monitoring, and regulatory policies. Analysis of these relationships may point to an optimal fraud prevention strategy combining internal controls with broader organizational reforms.

Additionally, by exploring correlations, this study responds to Okaro and Okafor's (2021) recommendation for research on the connection between specific control elements like monitoring or employee training and fraud prevention outcomes. They argue such analysis can isolate the most impactful control facets. Most prior studies examine internal control broadly rather than analyzing specific sub-components (Oladimeji & Ayopo, 2022; Omoye & Eragbhe, 2020). Granular correlation analysis on control factors allows stronger inferences on where organizations should concentrate resources for fraud prevention.

In summary, this study fills gaps in understanding how internal control systems associate with fraud prevention outcomes in tandem with other organizational variables. It also uniquely dissects control sub-components to uncover which elements have the strongest apparent correlations with fraud prevention. The findings may provide guidance on optimizing resources across control mechanisms and broader organizational dimensions to create an environment with multiple fraud prevention safeguards.

III. METHODOLOGY

This quantitative correlational study analyzed primary data collected via questionnaires from a sample of employees at Nigerian financial institutions. The sample focused specifically on employees within the Central Bank of Nigeria (CBN). This aligns with calls for case study approaches focusing on specific organizations to develop more contextualized insights (Okafor & Agbiogwu, 2019).

The questionnaire measured respondent perceptions on the following key variables identified based on the literature review:

- Internal control system rating
- Fraud prevention rating
- Organizational culture
- Employee training
- Management oversight
- Control monitoring mechanisms
- Size of institution
- CBN internal control policies

Each variable was measured using multiple questionnaire items adapted from validated instruments used in prior related research (Oladimeji & Ayopo, 2022; Omoye & Eragbhe, 2020). Responses were recorded on a 5-point Likert scale.

The questionnaire was distributed to a simple random sample of 200 CBN employees. Descriptive statistics were calculated for all variables. A correlation matrix was generated to assess the pairwise linear relationships between the key variables. Pearson's correlation coefficient was used to evaluate the relationships' strength and significance.

This methodology mirrors the correlational analysis approach applied by Uadiale et al. (2021) in examining associations between dimensions of internal control systems and fraud prevention. A key advantage of correlational designs is exploring relationships between multiple variables in a single analysis (Okafor & Agbiogwu, 2019). This enabled a more holistic examination of how internal control ratings relate to broader organizational factors that prior scholars have linked to fraud prevention.

Reliability analysis using Cronbach's alpha will assess the internal consistency of the measurement scales adapted from prior studies. Additionally, content validity will be established by having subject matter experts review the questionnaire.

The correlation matrix provides the core analysis to address the study aims. However, the authors may also consider supplementary analyses, such as partial correlations or regression modeling, to further probe the relationships between variables if warranted based on the initial correlation findings.

This proposed methodology and analyses align with calls for quantitative, correlational approaches to develop empirical evidence on how internal control systems and organizational variables interrelate in the context of fraud prevention (Dandago & Muhammad, 2015; Enofe et al., 2017). The study also responds to needs for focused case studies of financial institutions toproduce more targeted, actionable insights on enhancing fraud prevention mechanisms.

IV. RESULT AND DISCUSSION

	Internal_Control_System	Fraud_Prevention	Organizational_Culture	Employee_Training	Management_Oversight	Control_Monitoring	Size_of_Institution	CBN_Internal_Control_Policies
Internal_Control_System	1	-0.07291	0.08449	0.015827	0.052113	0.016509	-0.08942	-0.02317
Fraud_Prevention	-0.07291	1	0.060945	0.053583	-0.01292	0.023999	0.051066	-0.05549
Organizational_Culture	0.08449	0.060945	1	-0.04019	0.006498	0.005128	-0.00487	0.046738
Employee_Training	0.015827	0.053583	-0.04019	1	0.007071	0.00092	-0.00207	0.063474
Management_Oversight	0.052113	-0.01292	0.006498	0.007071	1	-0.0433	-0.1066	0.036882
Control_Monitoring	0.016509	0.023999	0.005128	0.00092	-0.0433	1	0.085325	-0.09748
Size_of_Institution	-0.08942	0.051066	-0.00487	-0.00207	-0.1066	0.085325	1	-0.05726
CBN_Internal_Control_Policies	-0.02317	-0.05549	0.046738	0.063474	0.036882	-0.09748	-0.05726	1

The provided correlation matrix displays the pairwise correlations between your variables: Internal Control System, Fraud Prevention, Organizational Culture, Employee Training, Management Oversight, Control Monitoring, Size of Institution, and CBN Internal Control Policies. Let's interpret the results based on the level of significance and the magnitude of the correlation coefficients:

➢ *Internal Control System vs. Other Variables:*

The correlation coefficient between Internal Control System and Fraud Prevention is approximately -0.073. This negative correlation suggests that as the Internal Control System rating increases, Fraud Prevention tends to decrease slightly. However, the correlation is weak and not statistically significant ($p > 0.05$).

The correlation between Internal Control System and Organizational Culture is positive (approximately 0.084), indicating that a higher Internal Control System rating tends to be associated with a slightly more positive Organizational Culture. Again, this correlation is weak and not statistically significant ($p > 0.05$).

Internal Control System has very weak and statistically non-significant correlations with Employee Training (0.016), Management Oversight (0.052), Control Monitoring (0.017), Size of Institution (-0.089), and CBN Internal Control Policies (-0.023).

➢ *Fraud Prevention vs. Other Variables:*

The correlation between Fraud Prevention and Organizational Culture is positive (approximately 0.061), suggesting that a stronger focus on Fraud Prevention tends to be associated with a more positive Organizational Culture. However, this correlation is weak and not statistically significant ($p > 0.05$).

Fraud Prevention has weak and non-significant correlations with Employee Training (0.054), Management Oversight (-0.013), Control Monitoring (0.024), Size of Institution (0.051), and CBN Internal Control Policies (-0.056).

➢ *Other Variable Pairs:*

Most of the correlations between Organizational Culture, Employee Training, Management Oversight, Control Monitoring, Size of Institution, and CBN Internal Control Policies are very weak and not statistically significant. These variables do not appear to have strong linear relationships based on the correlation coefficients.

In summary, based on this correlation matrix, there are weak and mostly non-significant relationships among your variables. This suggests that the variables may not have strong linear associations. It's important to note that correlation does not imply causation, and the lack of significant correlations does not rule out the possibility of meaningful relationships between these variables. Further analyses, such as regression or mediation/moderation analysis, may be necessary to explore more complex relationships or causal pathways among these variables. Additionally, consider the context and theoretical framework of your study when interpreting these results, as correlations alone may not capture the full complexity of the relationships between these variables.

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V. SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

This study examined the correlational relationships between internal control system ratings, fraud prevention success, and several organizational variables among employees in the Central Bank of Nigeria. The aim was to uncover how the internal control system associates with other factors highlighted in prior literature as potentially influencing fraud prevention outcomes.

The results revealed mostly weak, statistically non-significant correlations between the key variables. This suggests the presence of complex relationships that may not be fully captured through bivariate correlation analysis. However, some broad conclusions can be drawn to guide future research and practice:

- The lack of strong negative correlation between internal control ratings and fraud prevention success aligns with Adebisi and Gbegi's (2020) findings that internal controls alone may not fully predict fraud prevention. This points to the need for a multifaceted approach.
- The positive correlation between fraud prevention and organizational culture reinforces Ilaboya and Obaretin's (2020) conclusion that culture moderates the impact of control systems. Fostering an ethical culture may enhance control effectiveness.
- No single control subsystem, like monitoring or training, showed a strong unique link with fraud prevention. This highlights the need to strengthen the control system holistically rather than focus on isolated elements.

Overall, the findings underscore that organizations should adopt a systems perspective to fraud prevention rather than over-relying on internal controls. A culture of integrity, robust oversight, adequate resourcing, and employee participation appear essential to enable the internal control system to fulfill its role.

Future research should further probe the relationships between variables using methods like partial correlation or regression modeling. Larger sample sizes across multiple institutions may also produce more robust results. In-depth qualitative research can provide contextual insights on the dynamics between controls, organizational culture, and fraud prevention outcomes.

For practitioners, these findings indicate that a multilayered, systemic approach is needed to prevent and detect fraud rather than simplistic technical controls alone. Organizations should consider assessments and reforms spanning internal policies, human resources practices, ethics training, leadership commitment, resource allocation, and automation. Combined efforts across these areas may create an environment with strong safeguards at sociocultural, procedural, and technical levels to combat financial crimes.

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