The Impact of Internal Control Measures on the Detection and Prevention of Fraud in Banks (A Case Study of Fifteen (15) Selected Deposit Money Banks in Nigeria)

Prof. Madubuko Cyril Ubesie, Ngozi Ibezim & Mgbobi Cyriacus
ubesiemadubuko@yahoo.com

DOI: 10.56201/ijbfr.v9.no1.2023.pg24.37

Abstract

This paper explores the impact of internal control measures on the detection and prevention of fraud in Banks. Primary data were used for this study. This study was carried out by collecting data from 15 quoted Deposit money banks in Nigeria as at March, 2022. The model of used for the study was least square regression. It was observed that strong internal control system, good corporate governance, and compliance with banking ethics have positive and significant influence on fraud prevention in banking industry. This indicates that a commitment in the implementation of the variables of this study will reduce fraud, errors and misappropriations in banking sector. The study recommended that banking institutions should establish and ensure effective and strict implementation of all these variables which is strong enough to prevent fraud, errors and misappropriations.

***Keywords**: Fraud Triangle, Internal Control System, Corporate Governance, Compliance with Banking Ethics*

Background of the study

Introduction

A system of effective internal control is a critical component of an organization's management (bank inclusive) and a foundation for its safe and sound operations. A system of strong internal control can help to ensure that the goal and objective of bank will be met, that it will achieve long term targets and maintain reliable financial and managerial reporting. Such a system can help to ensure that the banks will comply with laws and regulations as well as policies, plans, internal rules and procedures, and reduce the risk of unexpected losses and damage to the organization's reputation. Internal control is a broad concept that covers the entire range of procedure, methods and controls established by an organization to achieve its business goals (Institute of Internal Auditors (IIA), (2012). Also Internal control can be seen as a group of polices and procedures, that are embedded to form control on bank's activities to ensure the entity followed objectives set by management and board of directors (Yousuf, 2017). The banking industry in Nigeria has experienced significant bank failure and crisis over the years in which internal control weakness is among the reasons for this failures. Recent scandals had revealed situations where banks engaged in unethical accounting strategies to omit relevant information about banks financial data (Cohen, Holder-Webb, and Wood,2012). Bank failures are of great concern to central banks and other governing agencies because of its systematic nature on acting as a catalyst for financial crises (Bank for settlements 2011).

The banking sector is a special sector in the economy. It handles the massive volume of fund transactions daily and provides a different kind of services to the customers . All the economic activities depend on the stability and strength of the banking sector (Gamage, Lock, Fernando, (2014). A system of tough internal control can support to ensure that the goals and objectives of banks will be met.

Fraud is a threat to an organization's going concern and its interaction with external stakeholders such as customers, suppliers, financiers and business partners which can result in huge financial loss.

The internal control measures to detect and prevent fraud are : the use of a system of check and balance, reconciliation of agency bank account every month, provide board of directors oversight of agency, corporate governance; etc. Sarbanes Oxley Act (2002)

Against the backdrop of the above submission, the rest of this work will be divided into four sections namely; section two which is the review of related literature, section three which will present the study's methodology; section four, which is the presentation and analysis of data while section five will spell out the findings, conclusion and recommendation of the study.

Statement of the Problem

Association of Certified Fraud Examiners (ACFE) 2014 observes that the banking industry are becoming more and more susceptible to fraud over the years due to ineffective control measure been put in place, because fraudsters are now more skilful and versatile in designing other means of breaking these ineffective controls.

KPMG (2009) opined that the key contributor of fraud occurrence is poor system of internal contol while Beasley (1996) and ACFE (2014) were of the opinion that a poor corporate governance is the key contributor. Ajala ,Amuda and Arulogun (2015) conclude that effective and efficient internal control system is the best measure for detecting and preventing fraud in the banking sector. But as banking industries move on with wide range of activities, fraud can therefore occure from both internal and external sources, which without missing words have negative effect on the organization's going concern. Therefore, banking industry should not limit itself to internal control measures alone as opined by various existing studies, but also ensure compliance with banking ethics and good corporate governance which is the knowledge gap this study tends to fill. In light of the above, the following questions are asked: To what extent can a strong internal control measure detect and prevent fraud occurrence in banking sector?

2. How does internal control measure help corporate governance in detecting and preventing fraud in banking sector?

3.Does internal control measure play significant role with banking ethics in detecting and preventing fraud in banking sector?

Objective of the Study

The broad objective of this study is to examine the effect of internal control measure on the detection and prevention of fraud in bank sectors While the specific objectives are to :

a. ascertain the effectiveness of strong internal control measures in detecting and preventing banking fraud
b. evaluate the use of internal control measure in improving corporate governance of banking sector?
c. examine the significant role internal control measures play with banking ethics in detecting and preventing fraud in banking sector?

Hypotheses

Ho1: Internal control measure does not have any impact on detecting and preventing banking sector fraud

Ho2: The use of internal control is not significant in improving fraud prevention in corporate governance of banking sector

Ho3: Internal control measures does not play significant role with banking ethics in detecting and preventing fraud in banking sector.

Concept Of Internal Control

According to Steller (1997) internal control system is a technique that can assist the management to attain its objectives.

Aguolu (1998) noted that "it is the whole system of controls financial or otherwise established by management in order, to secure as far as possible the accuracy and reliability of the records run the business in an orderly manner and safeguard the company's assets, its objectives being the prevention or early detection of fraud and errors."

According to Millchamp (2002) internal control system "is the whole system of controls financial and otherwise established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records."

According to Boynton and Johnson (2006) internal control system "is a process effected by an entity board of directors, management and other personnel designed to provide reasonable assurance regarding the achievement of objective in the following categories; reliability of financial reporting, compliance with applicable laws and regulations and effectiveness and efficiency of operations."

According to Roger Adams "internal control system is the whole system of control financial and otherwise, established by management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets, secure as far as possible the completeness and accuracy of the records.

According to ChikeNowha, (2010) internal control is the whole system of control financial and otherwise, established by the management in the conduct of a business. It comprise the plan of organization and the coordinated methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies.

Looking at the above definition one can see that internal control system include the whole system of controls no matter the form that it takes.

In their view internal control system are policies, procedure and practices that are used to detect or prevent errors of commission and omission. It plays an important role in preventing and detaching fraud and protecting the organizations resources both physical e.g. machinery and property and intangible e.g. reputation or intellectual property such as trade marks.

Corporate Governance and Fraud Prevention

Corporate governance is a set of mechanisms through which outside investors are protected from expropriation by insiders (including management, family interest and or governments). It is essentially about the prevention of fraud or theft which can be craftily executed by either the management or board or both of them (Institute of Chartered Accountant of Nigeria (ICAN), 2010). Corporate governance established three elements as monitoring mechanisms in ascertaining good corporate governance, which are directorship, internal auditing and external auditing (Anderson, Francis and Stokes, 1993). The fourth element was added by the institute of internal Auditors (IIA) (2003) which is audit committee. Unegbu (2003) sees corporate governance as the way and manner at which organizations are directed and managed for improving the value of the shareholders and for the enhancement of corporate performance and ensuring accountability, while taking into cognizance the interest of other stakeholders. Poor governance is one of the major factors that lead to fraud in the banking sector (Adeyanju, 2014). Hunkin (2002) opined that is a truly great organization, passion is tempered by good corporate governance and a constructive dynamics exist between the organization's management and the board of governance processes. It sees that an effective board would provide check and balances on management without being compromise to ensure fraud prevention.

Compliance with Banking Ethics and Fraud Prevention and Detection

Ethics are the well-grounded standards of what is right and wrong which actually shows what individuals ought to do or not, majorly in terms of rights, obligations, benefits to society, fairness or specific virtues (Adeyanju, 2014). Aron (2006) sees ethics as those that carry some virtues such as compassion, honesty and loyalty. Therefore ethics is not the same as feelings, religion, norms, science, values and morality but in general term it is an attempt to state or determine what is good, both for individual and society as a whole (ICAN, 2014). Aron (2006) opined that banking ethics set out overall principles about the industry's belief on the issue such as quality, privacy, mission and their environment. The ethical issues involved here are the principles and value that are fixed, either explicitly or implicitly to guide behaviours of bankers against unethical behaviour. Carse (1999) noted that code of ethics is very indispensable to both bankers and general public, banks are responsible for protecting the interest and right of their numerous customers, establishment of stability and ensuring confidence to financial markets and economic development, this makes it very germane for banks to ethnically go on with their day to day activities in compliance with the principle of impartiality, integrity, reliability, transparency, social responsibility and controlling money laundering in order to prevent fraud both from the inside and outside. The objective of setting ethical code of code of conduct is to enable bankers make their thoughts clear on what represent immoral and unethical conduct, this helps experts and professionals to know moral issues and figure out restrictions on what constitutes an acceptance or unacceptable attitude towards curbing unethical behaviour.

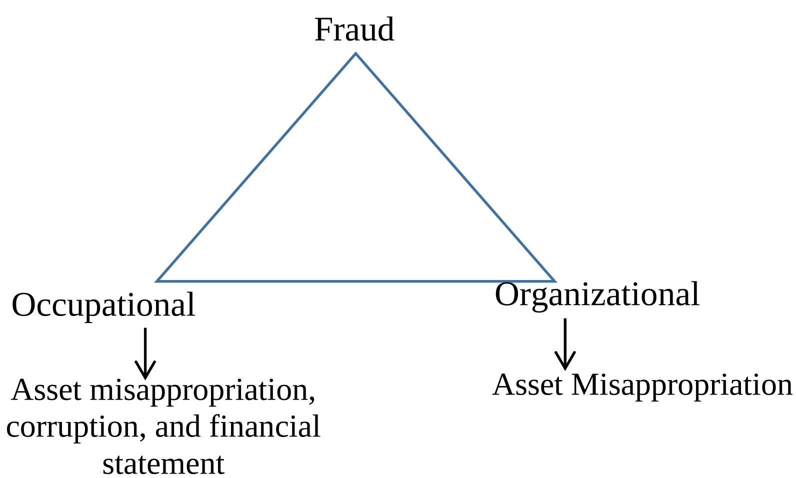
Concept of Fraud

The term fraud refers to intentional act by one or more individual among which results is a misrepresentation of financial statement. Fraud may involve : Manipulation, Falsification or alteration of records or documents; Misappropriation of company's assets; Recording of transaction without substance; Teeming and Lading or carry forward fraud, and complete omission from record and other relevant documents.

According to Inyiama, Oliver (2010) Fraud has been defined as the ''act of depriving a person dishonestly of something which is his or of something to which to which he is or would or might, but for the perpetration of fraud be entitled''. William, George and Jay (2013) defined fraud as a means by which a person can achieve an advantage over another by false suppression of the truth.

Aguolu, (1998) opined fraud as the intentional distortion of the financial statements to secure particular advantage such as the misappropriation of assets. The Laymaan's Dictionary of English Law defined fraud as '' Conduct based on deceit, forgery and corruption.

Categories of Fraud



Internal Organizational Fraud sometimes called occupational fraud '', this is when an employee, manager or executive of an organization deceives the organization itself. Think of embezzlement, cheating on taxes, and lying to investors and shareholders.

External Organizational Fraud

This includes fraud committed against an organization from the outside, such as vendors who lie about the work they did, demand bribes from employees and rig costs. But customers sometimes defraud organization, such as when they submit bad checks or try to return knock –off or stolen products. An increasingly , technology threatens organizations with theft of intellectual property or customer information.

Source: (ACFE) Association of Certified Fraud Examiners

As mentioned in the introduction, the lines of investigation in accounting fraud have been divided into five categories. For students of accounting, fraud the role of the auditor has been regarded as one of the main elements in the process, despite the fact that detecting fraud is particularly difficult due to companies efforts to hide it; therefore, trust in the auditing profession has suffered serious setbacks in recent years. Despite this, internal auditors are more easily able to detect misappropriation of assets, while for external auditor, fraud in the financial statements is easier to track. However, the auditing role continues to represent a greater guarantee against accounting fraud

especially when there is such little research work related to dissuasive measures, despite the enormous costs involved in this types of fraud. Their adequate academic training and experience in detecting fraud and due exercise of an appropriate professional skepticism are element that must be taken into account for optimum performance in their work. On the other hand, the fraud triangle and its three interactive elements (pressure, opportunity and rationalization) are common to all frauds, and those related to accounting are not an exception. Despite its importance, different authors do not agree on which of its three elements is most important. For some, for the emphasis is on the opportunity. Others, however, claim that the fraud triangle should not be seen as a sufficiently reliable model for anti-fraud professionals, since fraud is a multifaceted models. What the authors do seem to agree on is the assessing the risk of fraud. Trompeter et al conducted a comprehensive review of this construct in accounting and non-accounting research, complementing it with other fields such as criminology, ethics, psychology and sociology.

The relationship between accounting fraud and organizational aspects of the company has also been widely studied. Accounting, auditing and financial information and corporate governance are related. The influence of incentives in the performance of managers, the relationship between corporate governance and sustainability, the rotation of managers in fraudulent companies, professional connections between managers, collusion, the role of employees in detecting fraud, the use of internal and external telephone lines, the integration of ethics with finance and accounting, and investors and the use of the company financial information to detect fraud.

On the other hand, the investigation of the psychological factors related to fraud is a recent study trend. According to Ramamoorti and Olsen (2007) understanding them could shed light on the understanding of the behaviour of fraudsters. Thus, the narcissism of the CEO has been studied as a psychological trait that correlates positively with fraud.

Finally, the use of information technologies is a trend that seems to be breaking through in the study of accounting fraud. New technologies seem to favour fraud, but also provide more sophisticated detection techniques. Data analysis, support vector machines, blockchain and data mining are some of the technique used. In this same line, corporate governance should also use a systematic approach to investigate fraud in a company. This means using appropriate software to detect unusual activities.

Theoretical Review

Theory of Fraud Triangle

This theory entails the triangle of different fraud aspect which includes perceived pressure/motives, perceived opportunities and rationalization. The term perceived is important in the context because at times pressure, opportunities and rationalization may not be necessarily real (William, George and Jay, 2013; and Chiezey and Onu, 2013). Kanu and Okafor (2013) argue that these opportunities are due to weak control measures, lack of expectation for punishments which can serve as a deterrence and inadequate infrastructure. The last factor in the fraud triangle is the perceived rationalization. Rationalization is the justification of an unethical behaviour with an organization other than a criminal activity. Mahinda (2012) opined that individual who cannot rationalize its unethical behaviour might probably not commit fraud. From the argument above, it is glaring that beyond internal control and corporate governance, strict compliance with banking ethics has great potential for preventing opportunity and rationalization for fraud which in turn break the fraud triangle.

Agency Theory

According to agency theory propounded by Jensen and Meckling (1976), corporations experience conflicts of interest arising between owners (principals) and managers (agents) due to the separation of ownership and management (agent) not performing in the best interest of principal (Berle and Meanes, 1932); Coase, 1937; Jensen and Meckling, 1976), and suggest paying necessary incentives to managers and monitoring their activities as strategies to limit this opportunistic behaviour (Hill and Jones, 1990; Subramaniam, 2006). Onwujiuba (2014) also stressed that the owner of the business must ensure that the employees work in the best interest of the shareholders, this can be achieved through the use of both financial and non-financial incentives to the employees. This incentives will ensure that employees stayed motivated all times and thereby reducing the perceived pressure to commit fraud. This incentives can be inform of leave bonuses, medical insurance schemes, availability of staff loan, quick response to their needs, etc (Mutesi, 2011). It is a statement of fact that the contemporary materialistic tendencies have rendered ineffective the incentive packages in reducing agency cost which could be mirrored most of times by fraudulent engagement of the agents (i.e. management). Hence, beyond internal control measures and corporate governance, compliance with banking ethics becomes important as far as banking

Internal Control Measure and Fraud Detection and Prevention

Internal control consist of all the measures taken by the organization for the purpose of : protecting its resources against waste, fraud, and inefficiency; ensuring accuracy and reliability in accounting and operating data; secure compliance with the policies of the organization and evaluate records. ICAN (2010) defines internal control as the whole system control, financial or otherwise, established by the management in order to carry on the business of an enterprises in an orderly efficient manner, ensuring adherence to management policies, safeguarding the assets and secure as far as possible the completeness and accuracy of records. Internal control as defined by the commission of sponsoring organisation (COSO) (2010) is the process established by an organization’s board of director and management, which is designed towards providing a reasonable assurance in order to achieve their aim and objective in an efficient and effective manner, and ensuring reliability of their financial statement and in conformity with relevant rules and regulations.

Campbell and Harther (2010) opined that internal control is established in order to put management on alert towards likely problems, to ensure they are being controlled before it got escalate to a big issue. Though these control measures cannot totally eradicate all the employee fraud or misappropriation and financial statement fraud but can minimize its occurrence. The problem encountered by the financial institution nowadays are both financial and non-financial are mostly as a result on none implementation of internal control measures. The antidote for the problems in banking industry is a strong implementation of internal control measures. Many banks have failed due to lack good internal control Tunji,(2013) Khanna and Arora (2009).

ICAN (2010) defines internal control as the whole system control, financial or otherwise, established by the management in order to carry on the business of an enterprises in an orderly an efficient manner, ensuring adherence to management policies, safeguarding the assets and secure as far as possible the completeness and accuracy of records. Internal control as defined by the commission of sponsoring organization (COSO) (2010) is the process established by an organization's board of director and management, which is designed towards providing a reasonable assurance in order to achieve their aims and objectives in an efficient and effective manner, and ensuring reliability of their financial statement and in conformity with relevance rules and regulations. Campbell and Harther (2010) opined that internal control is established in order to put management on alert towards likely problems, to ensure they are being controlled before it got escalated to a big issue. Though these control measures cannot totally eradicate all the employee fraud or misappropriation and financial statement or misappropriation and financial statement fraud but is minimize its occurrence. The problems encountered by the financial institution nowadays are both financial and non-financial are mostly as a result on none implementation of internal control measures. The antidote for the problems in banking industry is a strong implementation of internal control measure many banks have failed due lack of good internal control (Tunji, 2013) Khanna and Arora (2014).

Corporate Governance and Fraud Prevention

Corporate governance is a set of mechanism though which outside investors are protected from expropriation by insiders (including management, family interst and / governments). It is essentially about the prevention of fraud or theft which can be craftily executed by either the management or board or both of them (Institute of Chartered Accountant of Nigeria (ICAN), (2010). Corporate governance established three elements as monitoring mechanisms in ascertaining good corporate governance, which are directorship, internal auditing, and external auditing (Anderson, Francis, and Stokes, (1993). The fourth element was added by the Institute of Internal Auditors (IIA) (2003) which is audit committee. Unegbu (2003) sees corporate governance as the way and manner at which organization are directed and managed for improving the value of the shareholders and for the enhancement of corporate performance and ensuring accountability, while taking into cognizance the interest of other stakeholders. Poor governance is one of the major factors that lead to fraud in the banking sector (Adeyanju, (2014). Hunkin (2002) opined that in a truly great organization, passion is tempered by good corporate governance and a constructive dynamics exist between the organization's management and the board of governance processes. He sees that effective board would provide check and balance on management without being compromise to ensure fraud prevention.

Compliance with Banking Ethics and Fraud Prevention and Detection

Ethics are the well grounded standards of what is right and wrong which actually shows what individuals ought to do or not, majorly in terms of right, obligations, benefits to society, fairness or specific virtues Adeyanju, (2014). Aron, (2006) sees ethics as those that carry some virtues such as compassion, honesty and loyalty. Therefore ethics is not same as feelings, religion, norms, science, values and society as a whole (ICAN, 2014). Aron, (2006) opined that banking ethics set out overall principles about the industry's belief on the issue such as quality, privacy, mission and their environment. The ethical issues involved here are the principles and value that are fixed, either explicitly or implicitly to guide behaviour s of bankers against unethical behaviour. Carse, (1999) noted that code of ethics is very indispensable to both banks and general public; banks are responsible for protecting the interest and rights of their numerous customers establishment of stability and ensuring confidence in financial markets and economic development, this makes it very germane for banks to ethically go on with their day to day activities in compliance with principle of impartiality, integrity, reliability, transparency, social responsibility and controlling money laundering in order to prevent fraud both from the inside and outside. The objective of setting ethical code of conduct is to enable banks make their thought clear on what represent immoral and unethical conduct, this help experts and professionals to know moral issues and figure out restriction on what constitutes an acceptable or unacceptable attitude towards curbing unethical behaviour.

Empirical Study

Objective 1

To ascertain the effectiveness of strong internal control measure in detecting and preventing banking fraud.

According to Sang (2012) on his study, fraud control measures in Kenya deposit money banks. The study concluded that the effectiveness of internal control measures was affected by non-adherence to dual control aspect and lack of sufficient time to undertake the various periodic test with delight. He recommended that comprehensive measure militating against fraud be established and enforcement of compliance of fraud mitigation methods and increase the number of staff in key areas.

In support of Sang (2012), Nyakarimi and Karwirwa (2016) on their study: internal control system as a means of fraud control in deposit taking financial institution. In Imensi North sub-country confirmed that internal control measures showed a positive and significant relationship with banks fraud prevention.

Objective 2

To evaluate the use of internal control measure in improving corporate governance of banking sector.

According to Ajala, Amuda and Arulogun (2013) on their study "Evaluation of Internal Control System as a Preventive Measure of Fraud in Nigerian Banking Sector." In their study, they concluded that corporate governance (CG) showed both positive and significant relationship with banks fraud prevention. This means effective corporate governance can help banks in the prevention of fraud, errors and misappropriation. The finding of the work is also in conformity with that of Mohammed (2015) on his topic "The role of corporate governance in fraud reduction: A perception study in Saudi Arabia business environment." He found positive and statistically significant relationship which is consistence with the findings.

Objective 3

To examine the significant role internal control measure play with banking ethics in detecting and preventing fraud in banking sector.

According to Mohammed (2015) he also confirmed that compliance with Banking Ethic (CBE) was found to have positive and significant relationship with bank fraud prevention. This implies that increasing compliance with banking ethical standard can reduce unethical behaviour in banks. This is also in conformity with the findings of Adeyanju (2014).

METHODOLOGY

This study employed the use of primary data and questionnaire as a tool for collecting data, the population of this study was made up of 15 deposit money Banks listed on Nigerian stock exchange (NSE) as at December 2015, their Directors/Finance Managers, Branch Managers and Operations Managers, Compliance officers, Head of different units and Customers service officer were the respondents based on their experiences. A branch of each of the quoted banks was chosen at random to represent the entire branch in Nigeria, ten respondents each were selected from each of the quoted banks which makes it 150 respondents in total. This study uses simple random sampling technique. The instrument was an 8 – term survey questionnaire with a4 Likert scale responses which are Strongly Agreed (SA), Agreed (A), Disagreed (D) and Strongly Disagreed (SD).

Model Specification

The dependent variable for the study is the Banks Fraud Detection and Prevention (BFOP). The Independent Variable are internal control measure (ICM), Corporate Governance (GG) and Banking Ethnics (BE). For empirical analysis purpose the study used Regression model with ordinary least square (OLS) techniques to test the relationship between the dependent and independent variables, in such a way that the result obtained from the regression analysis are used to make decision in order to reject or accept formulated hypothesis of the study.

The following models were specified in accordance with the objectives and formulated hypothesis in other to guide and capture the effect of independents variable on dependent variable on this study:

BFP = f (ICS, CG, CBE) ………………………………………………………………… (i)

This is can be re-specified in a regression form thus:

$BFP_t = \beta_0 + \beta_1 ICS_t + \beta_2 CG_t + \beta_3 CBE_t + u_t$ ………………………… (ii)

Where:

BFP = Banks Fraud Prevention

β_0= Intercept/Constant, $\beta_1, \beta_2, \beta_3$ are slope/coefficient,

ICS = Internal Control System

CG = Corporate Governance CBE = Compliance with Banking Ethics u= Error term.

The Apriori signs are: **$\beta_1, \beta_2, \beta_3$,>0**

DATA ANALYSIS AND INTERPRETATION OF RESULTS

Table 1: Descriptive Statistics

	N	Range	Mean	Std. Deviation	Skewness	Kurtosis
BFP	150	3	2.36	1.004	0.105	-1.029
ICS	150	3	2.46	1.002	0.062	-1.I10
CG	150	3	2.39	1.014	0.104	-1.038
CBE	150	3	2.34	1.026	0.110	-1.160
Valid N (list wise)	150					

Source: SPSS Version 20.0 Descriptive Statistic (Table 1)

The descriptive statistics of the variables used in the analysis as presented in table 1 explains the range, mean, standard deviation and the normality of variables, Banks fraud prevention is the main variable of interest, which is the dependent variable. From the table banks fraud prevention had a mean value of 2.36 and the standard deviation is 1.004 which is a little close to the mean, this shows a low degree of variability of data. Banks Fraud prevention was positively skewed with a skewed value of 0.105 which shows it is normally distributed. All the explanatory variables are positively skewed which are Internal Control System (ICS), Corporate Governance (CG) and Compliance with Banking Ethics (CBE).

Table 2: The Computation of (OLS) Result

Variables	Coefficient	Standard error.	T-statistics	Probability
Intercept	3.574	0.247	8.968	0.000
ICS	2.165	0.120	3.865	0.017
CG	1.242	0.257	3.876	0.002
CBE	2.636	0.456	8.465	0.004
R^2=0.682, R^2 bar=0.634, F-stat., (3,150)=31.172, Pro(F-stat.,)=0.000 D.W = 2.131				

Source: SPSS Version 20.0 OLS Analysis (Table 2)

BFP = 3.574 + 2.165 + 1.242 + 2.636 +U S.E = (0.247) (0.120) (0.257) (0.456) T-Stat = {8.968} {3.865} {3.876} {8.465}

The intercept value shows 3.574 which means Banks Fraud prevention (FP) has 3.574 units when other variables are held constant. Internal Control System (ICS) shows that 1unit increase in internal control system will bring 2.165 unit increases in bank fraud prevention, and this is significant at 0.017, because it is less than 0.05 level of significance. Corporate Governance (CG) shows that 1unit increase in it will bring 1.242 unit increases in the bank fraud prevention, it is also significant at 0.002, because it is less than 0.05 level of significance. Compliance with Banking Ethics (CBE) shows that 1unit increase in it will bring 2.636 unit increases in the banks fraud prevention; it is also significant at 0.004, because it is less than 0.05 level of significance. The R-squared stand at 0.682 which shows the explanatory power of the model which can be seen as 68.2%, means 68.2% of changes in fraud prevention can be explained living 31.8% unaccounted for. The F – statistic shows the robustness of the model by comparing F-calculated to F-critical in order to explain the impact of whole explanatory variables on explained variable, and this was shown by looking at it from the angle of 0.01 and 0.05 level of significance which are 3.78 and 2.60 and are less than 31.172 calculated respectively, in terms of overall significance all independent variables showed a significant relationship with the dependent variable with the prob. (F-statistic) of 0.000. The Durbin Watson value of 2.131 is an indication of the absence of autocorrelation in the model.

Discussion of Findings

Based on the OLS table above, the result shows about 68.2% of the systematic variation in BFP is explained by three independent variables (ICS, CG and CBE). This coefficient determination is strong and shows a good fit of the regression line as well as indicating the forecasting power of the model is strong. The F value of 31.172 is statistically significant at 5%. This means that ICS, CG and CBE have significant positive relationship with FP and this is in compliance with the apriori expectation. The results from the analyses above are indications that the independent variables have a significant impact on the banks fraud prevention. Literature is filled to satisfaction with a very wide range benefits these variables offers its adopters.

In considering the variables individually, Internal Control System (ICS) showed both positive and significant relationship with banks fraud prevention. This implies that the control measures taken by the management of banks will be effective in the prevention of fraud. This is in consistent with the findings of Nyakarimi and Karwirwa (2015).

Corporate Governance (CG) showed both positive and significant relationship with banks fraud prevention. This means effective corporate governance can help banks in the prevention of fraud, errors and misappropriation. Mohammad (2015) also found a positive and statistically significant relationship which is consistence with this finding

Compliance with Banking Ethics (CBE) was found to have positive and significant relationship with bank fraud prevention. This implies that, increasing compliance with banking ethical standards can reduce unethical behavior in banks. This is line with the findings of Adeyanju (2014).

CONCLUSION

This study reviews the measures that can be effective and efficient in preventing fraud in banking industry. This study concludes that strong internal control system, good corporate governance and compliance with banking ethics have significant influence on fraud prevention in the banking industry, this suggest that an increase in the effective use of these variables can help reduce fraud occurrence in banking institutions. Based on these findings, banking institutions are hereby advised to establish and ensure effective use of all these variables which is strong enough to stand against the trick of fraud and encourage smooth operations free from errors and misappropriations.

References

Adeyanju, O.D. (2014). Code of ethics and professionalism: Implication for bank failure in Nigeria. *Research Journal of Finance and Accounting* 5(19), 75 – 86.

Aguolu, O. (1998). *Fundamentals of Auditing*.

Ajala, O.A., Amuda, T., &Arulogun, L. (2015). Evaluating internal control system as a preventive measure of fraud in the Nigerian banking sector. *International Journal of Management Science and Business Research*, 2(9), 15 – 22.

Anderson, D., Francis J.R., and Stokes, D.J. (1993). Auditing, directorships and the demand for monitoring. *Journal of Accounting and Public Policy*, 12(4) 353 – 375.

Aron, B. (2006). Ethics and decision making for interpreters. Retrieved 15th Sept 2016, from http://www.scu.edu/ethics/practicing/decision/whatisethics.html.

Association of certified fraud Examiner (ACFE) (2014). *Report to the nation on occupational fraud and abuse.* Austin, Texas: ACFE.

Bank for International Settlements (2011). Basel Committee on Banking Supervision Charter. Bank for International Settlement. Switzerland. https://doi.org/10.1163/ej.9789004163300.i-1081.

Beasley, M.S. (1996). An empirical analysis of the relation between the board of director composition and financial statement fraud. *The Accounting Review*, 71, 443-465.

Berle, A.T, and Meanes, G.C. (1932). *The modern corporation and private property*. New York: The Macmillan company.

Carse, D. (1999). The importance of ethics in banking. A paper presented at 2nd international conference on Banking Ethics. Hong Kong. Retrieved 19th September 2016, from http://www.bis.org/review/r9909922c.html

Chiezey, U. and Onu, A. (2013). Impact of fraud and fraudulent practices on the performance of banks in Nigeria. *British Journal of Arts and Social Sciences*, 15, 12 – 28.

Cohen, J.R, Holder-Webb, L.L., Nath, L., and Wood, D. (2012). Corporate reporting of nonfinancial leading indicators of economic performance and sustainability. Accounting Horizons, 26(1), 65 – 90.

COSO (2013). COSO-Internal Control Integrated Framework (executive summary) committee of sponsoring organization of the Treadway Commission 1-8.

Hills, C.W.L. and Jones, T.M. (1992). Stakeholders – agency theory. *Journal of Management Studies*, 29(2), 131 – 154.

Hunkin, J.S. (2002). *Ethics in business and everyday life.* Canada: Gale Group.

Institute of Chartered Accountants of Nigeria (ICAN) (2010). Lagos: VI Publishing Limited.

Institute of Internal Auditors (IIA) (2012).

Iyiama, O. (2010). Auditing principles and practice, vol. 1.

Jenson, M.C. and Meckling, W. (1976). Theory of the firm: managerial behaviour, agency costs, and capital structure. *Journal of Financial Economics*, 3, 305-360.

Mahinda, C.G. (2012). Determinants of Occupational fraud in commercial banks in Kenya. *Journal of Modern Accounting and Auditing*, 2(3).

Mutesi, J. (2011). Information sharing, risk management and financial performance of commercial banks in Uganda. *Journal of Emerging Issues in Economics, Finance and Banking (EIEFB),* 2(2).

Onwujuba, M. (2014). Overview and impact of fraud in the commercial banks in Nigeria (A case study of First Bank of Nigeria PLC). *International Journal of Research in Management, Economics and Commerce*. 2(3).

Sarbanes-Qley Act of 2002 (2002). The United States of America.

Subramaniam, N. (2006). Agency theory and accounting research: An overview of some conceptual and empirical issues. In Z. Hoque (Ed.), *methodological issues in accounting research: theories, methods and issues.* 55-81. London: Spiramus.

Unegbu, O.C.K. (2003). *Corporate governance in banking and other financial institutions: law, issues and ethics*. Lagos: The CIBN Press Limited.

William, George and Jay (2013). *Forensic Accounting and Fraud Examination*. United State of America: MC Graw Hill Companies, Inc.

Yousef, A.B. (2017). The impact of internal control requirements on profitability of Saudi shareholding companies.