

An Assessment of the Effect of Audit Practices on Fraud Control in Nigerian Banks

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ABSTRACT

Fraud has contributed to the collapse of many Nigerian businesses and has become a significant public concern, particularly in the banking sector where it occurs at an alarming rate and undermines the ability of banks to achieve their goals. This study assessed the effect of audit practices on fraud control in the Nigerian banking industry, using First Bank of Nigeria Plc as a case study. The specific objectives were to identify the causes of fraud, measure its impact, and determine the means of controlling it through effective audit practices. A survey research design was adopted, and primary data were collected through a structured questionnaire administered to sixty (60) staff of the bank comprising bankers, managers, and accountants, of which forty-eight (48) were returned and analyzed. The chi-square (χ^2) technique was used to test two hypotheses at the 0.05 level of significance. The findings revealed that communication gaps, poor leadership skills, inadequate training, and weak monitoring were the greatest causes of fraud in the Nigerian banking industry. The first hypothesis was rejected, confirming that effective audit practice significantly controls fraud, while the analysis further established that auditing alone cannot completely prevent fraud in banks and government establishments. The study concluded that the internal audit function is a critical component of corporate governance and that adequate internal control should be put in place. It is recommended that banks strengthen internal control systems, invest in continuous staff training, and adopt effective fraud-monitoring mechanisms to complement the audit function.

Keywords: Audit Practices, Fraud Control, Internal Control, Banking Sector

1.0 Introduction

The primary objective for the establishment of any business is the making and maximization of profit. All companies, whether sole proprietorship, partnerships, or limited liability companies, are governed by accounting principles that help ensure survival through improved profitability, with proper records kept so that working capital is distinguished from profit made or losses sustained. Organizations in Nigeria perform a variety of tasks to enable them to function effectively and efficiently, and the state of an organization's performance indicates whether it is achieving the objectives for which it was established. When an organization encounters problems such as fraud, theft, misappropriation of funds, and ineffective management, which could hinder its progress, audit comes into play (Adesina, Erin, Ajetunmobi, Ilogho, & Asiriwa, 2020; Fabiyi, Aregbesola, Wright, Omojola, & Kolawole, 2025).

An audit is an evaluation of an organization, system, process, project, or product, involving the independent and fair assessment of the financial statements of the organization. A knowledgeable, independent, and objective individual or group of individuals, known as auditors or accountants, produces a report based on the results of the audit. This function is performed to determine the reliability and validity of financial information and to present an evaluation of a specific company or the internal control of a particular business system, which must comply with the generally accepted standards laid down by national regulatory bodies. One of the crucial functions in these organizations is the process of audit, which plays a significant role, especially in cases of fraud, errors, and irregularities (American Accounting Association [AAA], 1973; Arens & Loebbecke, 1991).

It is the duty of the auditor to examine the financial statements and consequently form an opinion on their fairness in conformity with generally accepted accounting principles (Companies and Allied Matters Act, 2020, s. 407). As a secondary function, the auditor is required to plan and perform the audit so as to obtain reasonable assurance that the statements are free from material misstatement, whether caused by fraud or error (IAASB, 2009). It is alarming that both private and public establishments have become target of fraudsters who take advantage of weak internal controls to perpetrate their nefarious deeds. A long list of Nigerian establishments have had publicized fraud cases of various degrees, and even government

ministries and firms have not been spared (Olojede, Erin, Asiriuwa, & Usman, 2020; Kanu et al., 2023). Auditing has, over the years, gone to commendable lengths to expose various fraudulent practices in both the private and public sectors.

Auditing, as it is known today, is an independent examination and investigation of the evidence from which a financial statement has been prepared, with a view to enabling the independent examiner to report whether, in his or her opinion and according to the best of the information and explanations obtained, the financial statement is properly drawn up and gives a true and fair view of what it purports to show and, if not, to report in what respect he or she is not satisfied (Olashore, 1983). Because of this importance, this study seeks to consider the effect of fraud on a company's performance, the assessment of audit practices, and their role in fraud control.

A quality audit underpins confidence in the credibility and integrity of financial statements, which in turn enhances financial performance, and restoring public trust in the profession depends on it (Rezaee, 2004; DeFond & Zhang, 2014). For this reason, companies in Nigeria should engage several experts to conduct auditing and financial evaluations. In addition to internal accountants and auditors, they also need to seek the help of external auditors to avoid bias and to reveal the genuine stability of the entity being audited (Basel Committee on Banking Supervision, 2014; Adesina, Erin, Ajetunmobi, Ilogho, & Asiriuwa, 2020). Compared with internal auditors, the primary responsibility of external auditors is assessing the risk management practices, strategy, management, and governance processes of an entity. Independent auditors are considered by the public sector and other organizations to examine the financial statements to confirm that they are free of errors and obvious misstatements. Most sectors are, however, beclouded with problems such as financial impropriety, inefficient internal control, incomplete records of financial statements, reckless spending, and non-compliance with accounting standards and guidelines. These problems create the need to assess how far audit practices actually contribute to fraud control. The scale of the problem remains substantial: the Nigeria Inter-Bank Settlement System reported that Nigerian financial institutions lost about ₦52.26 billion to fraud in 2024, up from ₦17.67 billion in 2023, before losses fell to about ₦25.85 billion in 2025 (NIBSS, 2025, 2026).

Objectives of the Study

The general objective of the study is to assess the effect of audit practices on fraud control. The specific objectives are:

- To identify the causes of fraud in the Nigerian banking industry.
- To measure the impact of fraud on the banking industry.
- To determine the means of controlling fraud through effective audit practices.

Research Questions

The above objectives are guided by the following questions:

- What are the causes of fraud?
- What are the auditors' duties towards fraud?
- What should an auditor do upon discovering an irregularity in the form of a material error or fraud?
- What should an auditor do upon detecting a fraud committed by management?
- What effect does the lack of audit practices have on the banking industry?

Research Hypotheses

The following hypotheses were postulated as a guide in this study:

H₀₁: Effective audit practice does not control fraud.

H₀₂: Auditing alone can truly prevent fraud in banks and government establishments.

Scope and Significance of the Study

The scope of this study is to provide insight into how fraud can be controlled through the effect of audit practices, with First Bank of Nigeria Plc serving as the case study. Fraud and irregularities among companies in Nigeria create significant effects that may result in business failure or bankruptcy, and may also affect the capital market, capital structure, and credit ratings (Kanu et al., 2023; Akinbowale, Klingelhöfer, & Zerihun, 2024). In relation to the control environment within banks in Nigeria, the independent auditor has a number of affirmative responsibilities. According to the Basel Committee on Banking Supervision (2014), the independent auditor must be precise in strategies to find out and report the bank's genuine financial position, must remain independent of the management of the bank, and must fully reveal all material features of the bank's financial condition. In fulfilling the affirmative duty to discover irregularities and material errors, including fraud, the independent auditor performs

a function that the public considers the most significant role of the auditor (Porter, 1997; Humphrey, Turley, & Moizer, 1993). The study offers further clarification on the role of auditors and the effect of audit practices in fraud detection and control, correcting the prolonged misconception that it is the duty of auditors to prevent and detect all fraud — a misconception repeatedly documented in Nigerian survey evidence (Adeyemi & Uadiale, 2011; Olojede et al., 2020) and it helps users of financial statements know who to hold responsible for losses incurred upon reliance on audited financial statements.

2.0 Review of Related Literature

Due to the high rate of fraud and misappropriation of funds in organizations, audit practice has come to be of great significance in detecting and minimizing these inappropriate acts. From 1900, financial statements became the basic mechanism by which the activities of company managers were monitored, and, to some extent, this remains true today. Once directors were required by law to prepare annual financial statements, shareholders gained access to financial information about the companies they owned. However, this access is limited, and shareholders may come to believe that they are not receiving all the information, or the right information, to enable them to make investment decisions. Thus, the role of the auditor as an agent for the shareholder becomes crucial, and the cost of the audit is negligible compared with the comfort and reassurance it affords shareholders (DeFond & Zhang, 2014). Where that reassurance fails, the credibility and earning capacity of the profession itself are undermined (Sikka, Puxty, Willmott, & Cooper, 1998). An auditor should obtain relevant and reliable audit evidence to enable him or her to draw reasonable conclusions. Accountability, on this view, is not merely stewardship in returning what is entrusted, but that which is associated with profitability and growth within a specific time, implying prudent employment of the scarce resources of men, machinery, materials, and money.

Origin of Auditing

Eze (2005) stated that the term “audit” was derived from the Latin word “audire,” meaning “to hear.” The origin of audit can be traced to ancient times in Britain, when landowners allowed tenant farmers to farm on their land while overseers appointed by the landowners supervised the farmers. Auditing has existed in some form for as long as people have been required to give

account of their stewardship. Historians believe that record keeping originated about 4000 B.C., when ancient civilizations in the Near East began to establish governments and businesses, and an integral function of auditing in government was to detect errors and fraud on the part of incompetent or dishonest officials. The emergence of limited liability companies, arising from the great expansion in commerce and industry during the industrial revolution, gave impetus to the development of modern auditing. Upon the separation of ownership from management, accountability became a problem, and legislation such as the Joint Stock Companies Act of 1844 required companies to prepare stewardship accounts subject to examination by an independent expert who would report findings to the shareholders (Lee, 1982; Whittington & Pany, 1995).

According to Whittington and Pany (1995), the origin of auditing results from the separation of ownership from control. It is instituted to protect the interest of the owners by ensuring that financial statements are justifiable. Because managers entrusted with the owners' financial and economic resources present stewardship reports that might contain errors, fail to disclose fraud and mismanagement, or be misleading, owners may hold reservations about the credibility of those reports. For owners to be satisfied, and for managers to establish and maintain their integrity, it becomes necessary to invite an independent party, not involved with either side, to examine the stewardship reports and express an opinion on their truth and fairness.

Definition and Nature of Audit

The definition of auditing was set out in a statement of basic auditing concepts published in 1973 by the American Accounting Association (AAA) Committee on Basic Auditing Concepts (AAA, 1973), which describes auditing as a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between these assertions and established criteria, and communicating the results to interested users. Woolf (1979) defines auditing not only as a study of the true presentation of an organization's financial position but also as a means through which the most effective methods of management and administration may be appreciated and recommended. Lee (1982) defines auditing as the examination of certain statements covering transactions over a period so that the auditor may issue a report on them.

Aguolu (2002) defines auditing simply as the independent examination of the financial statements of an organization with a view to expressing an opinion as to whether the statements give a true and fair view and comply with the relevant statutes. Olashore (1983) further stressed the independence of the auditor, describing auditing as the independent examination and investigation of the evidence from which a financial statement has been prepared, with a view to enabling the examiner to report whether, in his or her opinion, the statement is properly drawn up and gives a true and fair view. A broad definition in the Hayward Auditing Guide (1988) holds that auditing involves the collection and evaluation of evidence about performance by a competent, independent person with a view to reporting an opinion on the quality of that performance, position, or information as measured by established criteria. The six key components of this definition are the entity; performance, position, and information; competent independent persons; collection and evaluation of evidence; established criteria; and the reporting of an opinion.

Classes of Audit

According to Aguolu (2002), auditing may be classified on the basis of the type of establishment being audited, the approach adopted, the timing of the audit, and the status of the auditor. On the basis of establishment, audit may be classified into statutory (public) audit, which is the audit of limited liability companies whose auditors' duties are spelt out in the Companies and Allied Matters Act (CAMA) 2020, which repealed and replaced the 1990 and 2004 Acts, and non-statutory (private) audit of sole traders, partnerships, and trusts. On the basis of approach, there is the procedural audit, which requires a test of procedures, analytical review, and comparison of items in the financial statements, and the vouching audit, which involves an in-depth examination of transactions together with documentary evidence. On the basis of timing, audit may be interim, final, or continuous. On the basis of the status of the auditor, audit may be internal, carried out by employees who report to management, or external, carried out by an independent auditor responsible to the shareholders who appointed him or her.

Areas of Audit Function

Arens and Loebbecke (1991) noted that the audit function can be applied in three areas. An operational audit reviews any part of an organization's operating procedures and methods to evaluate efficiency and effectiveness, and tends to require more subjective judgement than audits of financial statements or compliance audits. A compliance audit determines whether the financial statements and quantifiable information verified are stated in accordance with specific criteria, such as established laws, regulations, and organizational policies. An audit of financial statements determines whether the overall financial statements are prepared in conformity with generally accepted accounting principles; such audits ordinarily cover the balance sheet and related statements of income, retained earnings, and cash flows. Because of practical constraints, an audit seeks to provide only reasonable assurance, not absolute assurance — that the statements are free from material misstatement, and sampling is therefore adopted (IAASB, 2009).

The Concept and Causes of Fraud

Fraud is an act of dishonesty, deceit, and imposture. Occupational fraud is conventionally grouped into asset misappropriation, corruption, and financial statement fraud, of which asset misappropriation is the most frequent and financial statement fraud the most costly (Wells, 2011; Association of Certified Fraud Examiners [ACFE], 2024). The former International Auditing Guideline on fraud and error, since superseded by International Standard on Auditing (ISA) 240, described fraud as a particular type of irregularity involving the use of deceit to obtain an illegal or unjust advantage, which may involve the manipulation or alteration of records, misappropriation of assets, suppression or omission of transactions, recording of transactions without substance, and intentional misapplication of accounting policies (IAASB, 2009). Classic criminological work explains why individuals act in this way: Cressey (1953) argued that fraud arises where perceived financial pressure, perceived opportunity, and rationalization coincide, a formulation now known as the fraud triangle and reflected in the risk-assessment requirements of ISA 240; later work extended the triangle to a fraud diamond by adding the offender's capability to execute the scheme (Abdullahi & Mansor, 2015). By extension, fraud includes embezzlement, theft, or any attempt to steal or unlawfully obtain, misuse, or harm the assets of an organization (Bank Administration Institute, 1989). According to Brink and Witt (1982), fraud is an ever-present threat to the effective utilization of resources and will always be an important concern of management. ISA 240 defines fraud as an

intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage (IAASB, 2009).

For fraudulent misrepresentation to succeed, there must be a false representation, knowledge or belief that the representation is false, resulting reliance by the victim, and damage arising from that reliance. Fraud tends to occur where controls are non-existent or inadequate, or where management is lax and has failed to exercise needed controls. The causes of bank fraud range from institutional to economic, social, psychological, legal, and infrastructural, and include the availability of opportunities, human greed, poverty and the widening gap between rich and poor, unemployment, job insecurity, inadequate training of personnel, non-adherence to ethical standards, leadership by bad example, weak recruitment policies, and poor management control, monitoring, and supervision (Odukoya & Samsudin, 2021; Fabiyi et al., 2025). Case evidence from other settings points to the same drivers, with weak oversight and opportunity consistently preceding employee fraud (Omar, Nawawi, & Puteh Salin, 2016), and Nigerian studies show that operational staff with routine access to funds account for a substantial share of perpetrators (Olodi & Sola, 2014; Kanu et al., 2023). Of all these, a weak internal control system stands out as a major cause of fraud in banks, making it imperative that adequate, efficient, and effective internal control systems be installed in every bank; the Association of Certified Fraud Examiners (2024) found that more than half of the occupational fraud cases it examined were associated with either an absence of internal controls or management override of them. According to Bologna (1987), where competition is keen and predatory, resort to dishonesty can be quickly rationalized, and social and political survival also provide egocentric and ideological motives for fraud.

The Cost of Fraud to Banking Organizations

The issue of fraud has become a serious concern for many establishments, especially banks, and more board-meeting time is spent seeking solutions to persistent fraudulent practices among management and non-management staff. Fraud in the Nigerian banking sector has assumed a frightening dimension, and to a large extent the confidence of the general public is placed in jeopardy. A good number of bank fraud are never reported to the appropriate authorities but are suppressed because of the personalities involved or concern over negative

publicity, which may cause customers to lose confidence in the bank (Owolabi, 2010; Kanu et al., 2023). Losses from fraud that are absorbed by the equity capital of a bank impair its financial health and constrain its ability to extend loans and advances for profitable operations; in extreme cases, rampant and large incidents of fraud can lead to a bank's failure. Early evidence indicated that the overall cost of fraud is over double the amount of missing money or assets, and that as computerized systems become more complex, so does the expected cost of fraud, with approximately one in twenty bank failures attributed to fraud (MacErlean, 1998). More recent data confirm that the trend has not abated.

The Association of Certified Fraud Examiners (2024) estimates that a typical organization loses about five per cent of its annual revenue to occupational fraud, with a median loss of USD 145,000 per case. In Nigeria specifically, the Nigeria Inter-Bank Settlement System recorded fraud losses of ₦52.26 billion in 2024, a 196 per cent rise over five years, even though the number of reported cases fell by 31 per cent between 2020 and 2024, indicating that individual incidents have grown larger and more sophisticated as digital payment channels have expanded (NIBSS, 2025). Insider participation is a substantial part of the picture: the Financial Institutions Training Centre (2024) recorded a 23.40 per cent quarter-on-quarter rise in staff involvement in fraud among Nigerian deposit money banks in the second quarter of 2024, with 49 staff appointments terminated in that quarter alone. Comparable evidence from South Africa shows that such incidents damage not only capital but institutional reputation (Akinbowale et al., 2024).

Factors Involved in Preventing Fraud in Banks

Banking remains among the industries most exposed to fraud, and the controls that reduce that exposure are well established (Wells, 2011; ACFE, 2024). They include periodic surprise audits, physical security over instruments and retention of cheque images, appropriate security over signature cards and software, two-party authorization of payments, and proper segregation of duties among the staff who initiate, authorize, prepare, sign, and reconcile payments (Financial Institutions Training Centre, 2024). The directors and management have the overall responsibility for the prevention of fraud. Although it may be impossible to eliminate fraud completely, it is possible to reduce its incidence to the barest minimum through a well-circulated fraud policy, continuing education and training, careful employee recruitment and

selection, and the installation of effective accounting and control systems. An audit committee, if given adequate powers, will be in a position to check the ability of management to override otherwise effective controls. Empirical evidence supports this emphasis on preventive infrastructure: the Association of Certified Fraud Examiners (2024) reports that 43 per cent of occupational frauds are first uncovered through tips, more than three times the next most common detection method, so that confidential reporting channels and fraud-awareness training rank among the most cost-effective controls available to a bank. Technological controls are increasingly complementary rather than optional: distributed-ledger and analytic-based approaches are being examined for their capacity to make records tamper-evident and to flag anomalous transactions in real time (Dai, Wang, & Vasarhelyi, 2017; Oluyide, 2025).

Auditor's Duty Regarding Fraud

It is widely but erroneously believed that the auditor's primary duty is to discover fraud, error, or irregularities. This view would be correct only if the auditor were specially engaged to investigate the incidence of fraud; the belief itself is the oldest and most persistent strand of the audit expectation gap, first named by Liggio (1974) and measured systematically by Porter (1993). In the ordinary course of an audit conducted under the Companies Act or other statute, the auditor is not duty bound to discover fraud, for two main reasons. First, audits are usually carried out on a test basis, since it is impractical to test all transactions, so there is a risk that some material misstatements resulting from fraud may not be tested. Second, frauds are usually executed with great ingenuity, often involving collusion, forgery, deliberate failure to record transactions, or intentional misrepresentation, which the auditor may not readily detect from the accounting records, documents, and representations by management. Nevertheless, the auditor has a duty to form and report an opinion on the truth and fairness of the financial statements and must plan and perform the audit with professional scepticism so as to have a reasonable expectation of detecting material misstatements resulting from fraud or error (IAASB, 2009).

Communication about Fraud to Management and the Audit Committee

ISA 240 sets out how identified or suspected fraud is to be communicated (IAASB, 2009). Whenever the auditor determines that there is evidence that fraud may exist, the matter should be brought to the attention of an appropriate level of management on a timely basis, even if it might be considered inconsequential, such as a minor defalcation by a low-level employee. Fraud involving senior management, and fraud that causes a material misstatement of the financial statements, should be reported directly to those charged with governance — in Nigeria, the audit committee constituted under section 404 of the Companies and Allied Matters Act (2020), whose members must be financially literate and include at least one member of a recognized professional accounting body. Where the auditor identifies risk factors with continuing control implications, he or she should consider whether these represent reportable conditions relating to the entity's internal control that should be communicated to senior management and the audit committee. The disclosure of possible fraud to parties other than the client's senior management and audit committee is ordinarily not part of the auditor's responsibility and would generally be precluded by the auditor's ethical and legal obligation of confidentiality, unless the matter is reflected in the auditor's report or disclosure is required by law or regulation (IAASB, 2009). In a banking context, prudential regulators expect that channel to remain open, since the external auditor's findings bear directly on supervisory assessment of the institution (Basel Committee on Banking Supervision, 2014).

The Responsibilities of Management in Controlling Fraud

Management can control fraud through managerial controls, employee screening, the creation of a supportive organizational environment, and forensic accounting. Smaller organizations remain disproportionately exposed because their internal controls are less sophisticated and less stringent; the Association of Certified Fraud Examiners (2024) reports a median loss of USD 141,000 for organizations with fewer than one hundred employees, the second highest of any size category, and finds that such organizations are markedly less likely to have anti-fraud controls in place. Primary responsibility for preventing and detecting fraud rests with management and those charged with governance, not with the external auditor (IAASB, 2009); management is responsible for the preparation and integrity of financial information and for maintaining a system of internal controls (COSO, 2013). Adequate employee screening, including background checks and verification of information on résumé and applications, helps to minimize the risk of fraud. Creating an organizational environment that reduces the

perceived need of a pressured employee to commit fraud, together with counselling programs and employee-enrichment efforts, can further curtail fraud; control systems that are experienced as fair rather than merely restrictive are associated with higher organizational trust and better performance outcomes (Verburg et al., 2017). Forensic accounting, which integrates accounting, auditing, and special investigative skills, is increasingly used to uncover the paper trail left by fraud, and Nigerian evidence indicates that it significantly improves fraud prevention in deposit money banks (Oyedokun & Durowaiye, 2022; Oluyide, 2025). Establishing a written code of ethics alongside a confidential reporting hotline strengthens these efforts, since tips remain the single largest source of fraud detection (ACFE, 2024).

Auditors' Responsibility and Audit Practices

The role of auditors has not been well defined from inception (Alleyne & Howard, 2005). Porter (1997) reviews the historical development of the auditors' duty to detect and report fraud over the centuries, showing an evolution of auditing practices and a shift in the auditing paradigm through a number of stages. Section 407(1) of CAMA 2020, which re-enacts section 360(1) of the repealed CAMA 1990, states that it is the duty of the company's auditors, in preparing their report, to carry out such investigations as may enable them to form an opinion as to whether proper accounting records have been kept and whether the company's balance sheet and profit and loss account are in agreement with the accounting records and returns. It is not the auditor's primary responsibility to detect or prevent fraud; rather, the auditor's duty is to state whether a set of accounts gives a true and fair view and complies with the relevant legislation, reporting on the financial statements as presented by management. Doubts have been expressed as to whether statutory audit activities alone can achieve the detection and investigation of fraud, and auditors often include qualification clauses in their reports to protect themselves from claims of negligence (Humphrey, Turley, & Moizer, 1993). The persistent divergence between what the public expects of auditors in relation to fraud and what auditing standards actually require is the well-documented audit expectation gap (Porter, 1997; Alleyne & Howard, 2005).

Internal Auditing and the Effectiveness of Internal Control

Internal audit is an examination and review of management performance by employees of the organization who, unlike managers, are not directly involved in managing the financial and economic resources. Internal controls are the policies, procedures, practices, and organizational structures implemented to provide reasonable assurance that an organization's business objectives will be achieved and that errors and fraud will be prevented or detected and corrected (Awe, 2005). A system of effective internal control has been described as a critical component of an organization's management and a foundation for its safe and sound operations, and the lack of a good internal control system is a major cause of fraud in banks (COSO, 2013; Basel Committee on Banking Supervision, 2014). Recent evidence indicates that the effectiveness of the internal audit function, and the professional commitment of internal auditors, are significant determinants of fraud detection (Hariyani, Supriono, Hanif, Silalahi, & Wiguna, 2024). The Institute of Chartered Accountants of Nigeria (2006) categorizes controls into preventive controls, which forestall errors, omissions, or malicious acts before they occur; detective controls, which detect and report the occurrence of an omission, error, or malicious act; and corrective controls, which minimize the impact of a threat and correct problems discovered by detective controls.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013), in its Internal Control–Integrated Framework, defines internal control as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The effectiveness of internal control depends on the communication and enforcement of integrity and ethical values by the personnel responsible for creating, administering, and monitoring controls, and is significantly influenced by the effectiveness of the board of directors or audit committee. Effective human-resources policies can mitigate other weaknesses in the control environment, and many organizations purchase fidelity bonds to cover employees handling cash and other negotiable assets.

3.0 Methodology

This study adopted a survey research design. According to Nworgu (1991), a research design is a plan or blueprint that specifies how data relating to a given problem should be collected

and analyzed, providing the procedural outline for the conduct of an investigation. A survey design was appropriate because a sample of the population was selected and used as respondents. The population of the study comprised seventy-three (73) staff of First Bank of Nigeria Plc, made up of bankers, managers, and accountants. A random sampling technique was used so that every element of the population had an equal chance of being selected. Sixty (60) questionnaires were personally administered by the researcher for the purpose of the study, of which forty-eight (48) were completed and returned. According to Ezejelue and Ogwo (1990), there is often no satisfactory generalization as to the appropriate sample size, and the researcher adopted the 0.05 and 0.95 levels of significance in testing the hypotheses.

Adedokun (2005) defined validity as the accuracy with which an instrument measures the characteristic it claims to measure; the content and context of the questionnaire determined the validity of this study. The questionnaire was self-administered to the sampled staff of First Bank of Nigeria Plc, and respondents were asked not to indicate their names so as to make responses anonymous. Two broad sources of data were explored. Primary data, according to Eboh (1998), are the study units from which information is collected first-hand, and were obtained through the questionnaire; secondary data are second-hand information drawn from existing literature, research reports, government documents, and institutional publications, and complemented the primary data.

The analysis was descriptive in nature, using frequency tables, counts, and %ages, while the chi-square (χ^2) method was used to test the hypotheses. The chi-square statistic measures the variance between observed and expected frequencies to determine whether the null hypothesis holds, and is computed as:

$$\chi^2 = \sum (O_i - E_i)^2 / E_i \quad \text{Equation (1)}$$

where χ^2 is the chi-square, O_i represents the observed frequency, E_i represents the expected frequency for each category, and K is the number of categories. The researcher used the 0.05 and 0.95 levels of significance in testing the hypotheses. The calculated chi-square (χ^2_{cal}) and the tabulated chi-square (χ^2_{tab}) were compared, and the decision rule was to reject the null hypothesis if χ^2_{cal} is greater than χ^2_{tab} , and to accept it otherwise.

4.0 Results and Discussion

The primary data used for this study were obtained through the administration of a well-designed questionnaire to respondents. Using the random sampling technique, the questionnaire was handed to sixty (60) respondents in First Bank of Nigeria Plc, but only forty-eight (48) were returned; the respondents were bankers, managers, and accountants. More than eighty-five % of the respondents claimed that they were aware of what auditors do, yielding a high response rate. This high level of awareness, combined with the respondents' accounting qualifications and audit experience, adds credibility to the findings of the research. The responses are presented in the tables that follow (Users of financial reports N = 48).

Table 1: Respondents' Perceptions of Audit Practices and Fraud Control (N = 48), frequency (%)

Item	SD	D	N	A	SA
1. Fraud is a major concern for banks in Nigeria	0 (0.0)	2 (4.2)	6 (12.5)	16 (33.3)	24 (50.0)
2. Audit practices can control fraud in banks	3 (6.3)	5 (10.4)	0 (0.0)	15 (31.3)	25 (52.0)
3. Auditing is helping this bank	2 (4.2)	0 (0.0)	0 (0.0)	20 (41.7)	26 (54.1)
4. Auditing has positively affected the bank's growth	0 (0.0)	0 (0.0)	5 (10.4)	17 (35.4)	26 (54.2)
5. Auditing has increased the bank's productivity	4 (8.3)	0 (0.0)	6 (12.5)	20 (41.7)	18 (37.5)
6. Discovery of fraud would negatively affect users	0 (0.0)	3 (6.3)	4 (8.3)	22 (45.8)	19 (39.6)
7. It is the auditor's responsibility to uncover and report fraud	2 (4.2)	1 (2.1)	1 (2.1)	22 (45.8)	22 (45.8)
8. Auditing has reduced the level of fraud	0 (0.0)	0 (0.0)	4 (8.3)	14 (29.2)	30 (62.5)
9. Internal controls should be assessed by the auditors	0 (0.0)	3 (6.3)	2 (4.2)	15 (31.3)	28 (58.2)
10. Auditing alone can solve the problem of fraud	18 (37.5)	15 (31.2)	6 (12.5)	8 (16.7)	1 (2.1)

Note. SD = strongly disagree; D = disagree; N = neutral; A = agree; SA = strongly agree.

Source: Field Survey (2022).

Table 1 presents the distribution of responses across the ten questionnaire items. Items 1 to 5 address the perceived salience of fraud and the contribution of audit to the bank. A combined 83.3 per cent of respondents agreed or strongly agreed that fraud is a major concern for banks in Nigeria, a view consistent with industry data showing both the scale of losses and the prominence given to fraud cases in the country (NIBSS, 2025; Financial Institutions Training Centre, 2024). A further 83.3 per cent agreed that audit practices can curb fraud in banks, 95.8 per cent agreed that auditing is helping the bank, 89.6 per cent agreed that it has contributed positively to the bank's growth, and 79.2 per cent agreed that it has increased productivity. Taken together, these responses indicate a strong perception that the audit function is both necessary and effective in the case bank.

Items 6 to 9 address the consequences of fraud and the scope of the auditor's work. A total of 85.4 per cent agreed that the discovery of fraudulent activity would have a negative impact on users of financial statements, which reflects the common market reaction to negative publicity surrounding fraud and the reputational damage it inflicts alongside the loss of capital (Akinbowale, Klingelhöfer, & Zerihun, 2024). Item 8 records the strongest endorsement in the instrument, with 91.7 per cent agreeing that auditing has reduced the level of fraud in the bank, while 89.5 per cent agreed on item 9 that the internal controls used to prevent or detect fraud should be assessed by the auditors. The latter is consistent with the requirement that the auditor evaluate the effectiveness of internal control components in order to determine the extent of reliance to be placed on them, and communicate any material weakness identified to management and those charged with governance (COSO, 2013; IAASB, 2009).

Item 7 warrants separate comment. Fully 91.6 per cent of respondents agreed or strongly agreed that it is the auditor's responsibility to uncover fraud and report it to the appropriate authorities. This result is best read against the auditing standards rather than as a statement of them. ISA 240 places the primary responsibility for the prevention and detection of fraud on management and those charged with governance, while requiring the auditor to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error, and to maintain professional scepticism throughout the audit (IAASB, 2009). The strong agreement recorded here therefore reflects the persistence of the audit expectation gap among bank staff rather than the auditor's actual statutory duty, and corroborates earlier

Nigerian findings that the gap is widest precisely on the question of responsibility for fraud (Adeyemi & Uadiale, 2011; Olojede, Erin, Asiriwa, & Usman, 2020).

Item 10 reverses the pattern of the preceding items. Only 18.8 per cent agreed that auditing alone can solve the problem of fraud, against 68.7 per cent who disagreed or strongly disagreed. Respondents therefore distinguish clearly between the proposition that audit contributes to fraud control and the proposition that it is sufficient on its own. The result indicates that auditing alone cannot completely solve the problem of fraud and theft of assets in private and government establishments, and that there is a need to educate customers and employees and to deploy fraud-monitoring systems and other protective measures (ACFE, 2024; Fabiyi et al., 2025).

4.1 Test of Hypotheses

The two hypotheses stated earlier were tested using the chi-square (χ^2) technique at the 0.05 level of significance and 4 degrees of freedom, for which the critical (tabulated) value is 9.488.

Hypothesis One

H₀: Effective audit practice does not control fraud. This hypothesis was tested using the responses to item 2 in Table 1, and the computation is presented in Table 2.

Table 2: Chi-Square Analysis on Effective Audit Practice and Fraud Control

Respondent's View	O _i	E _i	O _i -E _i	(O _i -E _i) ²	(O _i -E _i) ² /E _i
Strongly Agree	25	9.6	15.4	237.2	24.71
Agree	15	9.6	5.4	29.2	3.04
Neutral	0	9.6	-9.6	92.2	9.60
Disagree	5	9.6	-4.6	21.2	2.21
Strongly Disagree	3	9.6	-6.6	43.6	4.54
Total	48	48	0	423.2	44.1

Source: Author's Computation (2022).

The calculated chi-square value is 44.10, which is greater than the tabulated value of 9.488 at the 5 % significance level and 4 degrees of freedom. Since $\chi^2_{cal} (44.10) > \chi^2_{tab} (9.488)$, the

null hypothesis is therefore rejected and the alternative hypothesis accepted. This confirms that effective audit practice controls fraud in banks.

Hypothesis Two

H₁: Auditing alone can truly prevent fraud in banks and government establishments. This hypothesis was tested using the responses to item 10 in Table 1, and the computation is presented in Table 3.

Table 3: Chi-Square Analysis on the Prevention of Fraud through Auditing Alone

Respondents View	O _i	E _i	O _i -E _i	(O _i -E _i) ²	(O _i -E _i) ² /E _i
Strongly Agree	1	9.6	-8.6	73.96	7.70
Agree	8	9.6	-1.6	2.56	0.27
Neutral	6	9.6	-3.6	12.96	1.35
Disagree	15	9.6	5.4	29.16	3.04
Strongly disagree	18	9.6	8.4	70.56	7.35
Total	48	48	0	189.20	19.71

Source: Author's Computation (2022).

The calculated chi-square value is 19.71, which is greater than the tabulated value of 9.488 at the 5 % significance level and 4 degrees of freedom. Following the decision rule, the null hypothesis is rejected in favour of the position that auditing alone cannot truly prevent fraud in banks, private parastatal, and government establishments. In other words, while auditing significantly contributes to fraud control, it cannot on its own eliminate fraud without complementary internal controls and monitoring mechanisms.

4.2 Discussion of Findings

The analysis of Hypothesis One shows that respondents strongly agree that effective audit practice controls fraud and other financial irregularities. The analysis of Hypothesis Two shows that respondents agree that auditing alone cannot truly prevent fraud in banks. These results are important for investors, corporate managers, and directors because they provide evidence on the value of effective audit practices and illustrate their importance within the corporate governance framework of an entity (Rezaee, 2004; DeFond & Zhang, 2014).

A continuous audit assesses a company's financial status, accounting practices, and risk controls on an ongoing basis, as compared with periodic internal audits, and ensures that financial information is accurately represented. One of the major audit practices is internal audit, an independent service that evaluates a company's internal controls and helps secure compliance with applicable laws (Hariyani et al., 2024). Financial performance in banks requires appropriate internal audit practices to enhance efficiency and limit exposure to possible losses, and changes in the financial performance of commercial banks can be accounted for by changes in internal audit practices, the independence of internal audit, professional competence, and internal control (Ubesie, Ibezim, & Cyriacus, 2023; Fabiyi et al., 2025). Internal audit is part of the repetitive monitoring of the internal control systems of the bank and its procedures for evaluating internal capital, thereby assisting management and the board of directors in the effective performance of their responsibilities. The findings therefore confirm that the ability to detect fraud is enhanced in organizations with an internal audit function compared with those without, making internal audit a vital tool in fraud detection and in improving the effectiveness of risk management, control, and governance. This is consistent with Nigerian evidence that qualified and experienced forensic and internal auditors materially improve fraud control in deposit money banks (Adesina et al., 2020; Oyedokun & Durowaiye, 2022), and with the finding that the information-and-communication and control-activity components of internal control are those most strongly associated with fraud prevention in Nigerian banks (Fabiya et al., 2025).

4.3 Limitations and Directions for Further Research

This study is subject to limitations that also indicate directions for further work. The evidence is drawn from a single institution and a sample of forty-eight respondents, so the findings describe perceptions within one bank rather than the Nigerian banking industry as a whole, and the chi-square procedure establishes association rather than causation. The survey was administered in 2022, before the sharp escalation in reported fraud losses recorded across the sector in 2024 and their partial reversal in 2025 (NIBSS, 2025, 2026), so respondent perceptions may since have shifted. The instrument also captures self-reported beliefs about audit effectiveness rather than audited outcomes. Future research would benefit from a multi-bank design combining survey data with secondary fraud statistics from the Nigeria Deposit Insurance Corporation and the Financial Institutions Training Centre, and from examining how

forensic and analytics-based techniques interact with the conventional internal audit function (Oyedokun & Durowaiye, 2022; Oluyide, 2025).

5.0 Conclusion and Recommendations

This study assessed the effect of audit practices on fraud control in the Nigerian banking industry, using First Bank of Nigeria Plc as a case study. It drew attention to the problems facing banking organizations that must be addressed for them to contribute meaningfully to the orderly growth of the economy, and to the efforts required of management, auditors, and employees to combat fraud. The findings revealed that communication gaps, poor leadership skills, inadequate training, and weak monitoring are the greatest causes of fraud in the Nigerian banking industry. The chi-square analysis confirmed that effective audit practice significantly controls fraud, while also establishing that auditing alone cannot completely prevent fraud in banks and government establishments. It is clear that the ability to detect fraud is enhanced in organizations that maintain an internal audit function, making internal audit a vital tool in fraud detection when assets are misappropriated by employees or outsiders, and in improving the effectiveness of risk management, control, and governance (Hariyani et al., 2024; Fabiyi et al., 2025).

In the light of these findings, it is recommended that banks and other organizations install and maintain adequate, efficient, and effective internal control systems, since a weak internal control system remains a major cause of fraud. Management should invest in continuous training and education of staff on emerging fraud risks, adopt sound recruitment and screening policies, and lead by example in enforcing a well-circulated fraud policy supported by a code of ethics and a confidential reporting channel, since fraud-awareness training combined with a formal reporting mechanism materially increases both the likelihood and the speed of detection (ACFE, 2024). Banks should strengthen their internal audit function and safeguard its independence (Hariyani et al., 2024), and should empower the audit committee constituted under section 404 of the Companies and Allied Matters Act (2020) to check the ability of management to override controls (Basel Committee on Banking Supervision, 2014). Finally, because auditing alone cannot eliminate fraud, banks should complement the audit function with forensic and analytic-driven, fraud-monitoring systems (Oyedokun & Durowaiye, 2022; Oluyide, 2025) and with adequate consideration for staff welfare, given the documented level

of insider participation in Nigerian bank fraud (Financial Institutions Training Centre, 2024), so that the goals and objectives of the organization can be met while the risk of unexpected losses and reputational damage is reduced.

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