



Internal Audit Efficiency and Fraud Prevention: Empirical Study of Listed Manufacturing Companies in Nigeria

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ABSTRACT

Fraud has been a major factor to financial distress and poor operating performance of many organisations, this cut across all sectors, races, religious faiths and cultures. The recent increase in fraudulent activities as reported in many organisations worldwide are perceived to have adversely affected organisational going concern, dividend payout and stakeholders' confidence, this calls for internal audit efficiency. Researches have been conducted on fraud, but not many studied the influence of Internal Audit Efficiency (IAE) on fraud prevention. Therefore, this study examined the probable influence of IAE on fraud prevention in Nigerian Listed Manufacturing Companies (NLMC). The study employed survey research design with a study population of 19,443 workers in ten selected companies in manufacturing sector. Sample size of 392 was determined with a response rate of 86%. Data were collected with a validated questionnaire, these were analysed by making used of descriptive and inferential statistics at 5% level of significance. The study revealed that IAE positively influenced fraud prevention ($Adj.R^2=0.349$, $F_{(3, 337)}=59.502$, $p=.000$). The study concluded that IAE influenced and has significant impact on fraud prevention in NLMC. The study further recommends that management should ensure good policies to guarantee independence of internal audit, establish a robust internal control mechanism to limit risk of fraud, and employ experience and professional staff into audit unit/department.

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1.0 INTRODUCTION

Fraud has become a common phenomenon to financial distress and poor financial performance of many organisations and it cut across all races, religious faiths and cultures. This occurred due inefficient and ineffective management and poor internal control mechanism, ineffective management policy and lack of proper supervision. Fraudulent acts have negative impact on many companies, irrespective of size, location, industry or sector. Globally, fraud has been a most problematic and persistence issues in business organisation and public sector, this occurred in various form and it is not a new phenomenon. Many company's and public sector's management have been accused of fraud and corruption which created hardship for stakeholders, business owners, and citizens at large. In such situations, investors lose their savings, staff lose their jobs, company lose reputation and eventually end up being liquidated, citizens suffered, and investors also become anxious committing funds into other viable ventures as they become excessively cautious.

Fraud is an intentional deceit, suppression of truth, trust violation and manipulation of financial records in order to gain an unfair or illegal advantage by the perpetrators or fraudsters. It involves theft, distortion, suppression, falsification of financial statements or records for personal or institutional gains. Fraud is a disastrous activity or consequence which if not well checked could lead to organisational failure, liquidation, and loss of investor confidence. According to Agwor (2017) fraud is any deceit to cheat or deceive another or to cause another a damage or injury. Azim and Azam (2016) also reported that fraud is an obstacles to growth, operational performance, and development in an organisation. It is one of the most important risk which an organisation is exposed to in recent time, thereby affecting investors' confidence in investing. Fraud must be prevented and detected as soon as possible in order to minimise potential loss which might occurred if undetected and also to reduce the future harm that might affects an organisation.

Globally, billions of funds have been loss to fraud and corruption in private and public sectors resulting into various

financial challenges, projects abandonment, organisation failures and liquidations, inefficient services or operations, and in extreme cases, individual bankruptcy, and economic distress. All these occurred according to Cheng, Goh and Kim (2018), that weakness in quality of internal audit function has negative impact on the operational efficiency of companies. In the same vein, Soltani (2014) also identified weak corporate governance, weak internal control mechanism, irregularities, and lack of business ethics and values as factors contributing to cases of fraudulent activities in business entity. However, the recent increase in fraudulent activities in some organisation due to ineffective/weak internal control system, corrupt behaviour of top management, and weak legal system for prosecuting fraudster has negative impact on the organisational progress and status, this leads to huge operating loss, job loss, companies' closure or liquidation, this persistent problems calls for internal audit efficiency.

In reference to various fraud cases that have been discovered at the beginning of 21st century, especially with multinational companies, the ideal of fraud prevention has become an utmost importance. Auditor's responsibility to fraud prevention, detection and reporting has become an issue among the various stakeholders in the business cycle due to consistent collapsed of companies worldwide. Fraud prevention in an organisation can be achieved through the activities or role of the executive board, audit committee and the internal audit. The board established a sound internal control systems that will deter fraudulent activities, according to Lawal *et al.*, (2020), continuous improvement in internal control will ensure effective and efficient internal check. The audit committee act as watchdog on the executive from committing fraud while the internal audit carries out an efficient safeguard against fraud.

Internal audit is an independent unit/department that add value to organisation operations in order to achieve transparency, accountability and minimisation of fraud and corruption. It is a unit responsible for the review of the economic activity of an entity to ascertain its correctness and strict compliance to lay down rules and regulations. Internal audit is an approach or strict compliance to practices and procedures that are systematically established by management, to assess organisational processes, accomplish targets, strengthen internal control system, achieve good governance and effectiveness, detect deficiencies and increase productivity. According to Ziniyel, Otoo and Andzie (2018), internal audit is reported as the bedrock for efficient and effectives financial management in public and private institutions. The role of internal audit is key with varied set of responsibilities such as adequate support to management in fraud prevention, quick assessment of fraudulent activities and instant reporting, adequate support to the external auditor on fraud investigation, and ability to highlight any deficiencies in internal control system as established by management.

Internal auditor serves as watchdog, monitoring officer, consultant and management partner for safeguarding company's assets, preventing, detecting and reducing fraudulent activities in an organisation. Internal auditor is expected to provide and ensure adequate assurance that business activities are carried out effectively and efficiently according to the laid down rules and standards. Therefore, auditor's role in preventing and controlling fraudulent activities is vital to an organisation. In the past, companies' gives less emphasis to fraud prevention due to strong trust, good human behaviour and ethics, good established internal audit tools, and internal control mechanisms. However, all these have change over times resulting into human attitudinal changes into fraudulent acts and corruption. At time, organisation management deals with fraudulent activities or cases with levity due to weak internal control system, mistrust, favoritisms and corrupt legal system. This had led to the various fraud cases that shook the world at the beginning of the 21st century, this fraud cases had led to the financial loss and liquidation of many large multi-national companies likes World Com, Tyco International Limited, Bernie Madoff Scandals, and Enron in United States of America. Pamalat in Italy, Satyam in India, Barings Bank and Equitable life in United Kingdom, and HIH Insurance Limited in Australia, Cadbury Nigeria Plc and Nampak in Nigeria. As reported by Huang, Lin, Chiu and Yen (2017), liquidation of companies such as Enron had led to a serious loss in capital market to a value of USD 70 billion.

In recent time, fraud prevention has become a things of utmost importance in most organisation, it also received the attention of academicians, investors, stakeholders and regulators, and citizens, as fraud has been regarded as one of the important risk exposure that affects organisation going concern, operating performance, and return on investment. Denman (2019) reported that trillion of dollars are loss on yearly basis due to fraudulent activities in developed countries while that of developing countries could be higher. However, organisations with effectives and efficient internal audit are presumed better in terms of fraud management than those without (Radu, 2012). Potential and intending investors have become sensitive to fraud risk or financial loss that might occur from weak internal control mechanism, inefficient and ineffective internal audit which has negative impact on firm's profitability, dividend payout, market price per share, company's goodwill and future prospect. The recent cases of fraudulent activities in all facets of life has shown that fraud prevention and detection in earnest time will minimised operating financial loss, organisational failure and liquidation.

Various researchers had conducted study on fraud prevention with various independent variables and also internal audit as dependent variable or with various independent variables with focus on other sector and operating performance as case study with less emphasis on manufacturing sector or internal

auditors' efficiency. Some of these previous studies are quality of internal audit and operational efficiency/financial performance (Arum & Wahyudi, 2020; Kolawole *et al.*, 2020; Zaidan & Neamah, 2022), internal audit and banks fraud (Ezejiofor & Okolocha, 2020; Olaoye & Dada, 2017; Nwaobia, Omotayo & Ajibade, 2021), role of internal audit/auditor in fraud prevention (Patrascu & Tieau, 2014), internal control and risk assessment (Demirovic, Isakovi-Kaplan & Proho, 2021; Ozigbo, 2015), fraud prevention in private universities and business performance (Adetoro, Oladejo & Akesinro, 2013; forensic accounting and fraud detection (Lawal *et al.*, 2020), Agwor, 2017), auditors independence and financial performance (Mwiti, Elijah & Ignatius, 2019). However, the aim of the study is to examine the effect of internal audit efficiency on fraud prevention in Nigerian listed manufacturing companies. This study would help to show the importance of internal audit efficiency in fraud prevention and makes an appropriate recommendations and other forms of strategies that would minimise fraudulent acts and financial irregularities in companies, enhance company's liquidity, goodwill and profitability. In order to address the study, the research hypothesis, which suggest a tentative answer to the problem or question under investigation was tested at 0.05 significance level.

Hypothesis:

H₀₁: Internal audit efficiency does not contribute significantly to fraud prevention in listed manufacturing companies in Nigeria.

This hypothesis was designed to explain the internal audit efficiency on fraud prevention in listed manufacturing companies in Nigeria. Internal audit plays an important role on fraud detection and prevention in an organization. Despite the various internal control mechanism put in place by management in companies, fraudulent activities still posed serious challenge to financial liquidity, going concern and profitability of company. If fraudulent cases are not checked, this might leads to operating losses, company's liquidation, and economic depression. Finding solutions to this problem of fraudulent activities in an organisation and adopting mechanisms to prevent it with the aid of internal audit efficiency, is the knowledge gap which this study tries to fill. The rest of the paper is divided into four sections, section two deals with review of relevant literatures. This is followed by methodology in section three, data analysis and discussion of findings in section four, while the last section focused on summary, conclusion and recommendations of findings.

2.0 REVIEW OF EXTANT LITERATURE

2.1 Conceptual review

2.1.1 Fraud: Fraud is a universal corporate problem that affect organisation in all sectors, industries and sizes (Adetoro, Oladejo & Akesinro, 2013). Fraud is the application of deceit, concealment of facts, and violation of trust to obtain an unjust or illegal financial gain. It occurred

anytime, anywhere, and by any individual or company saddled with responsibility and authority, it leads to financial loss, liquidation, depression, and loss of confidence. Fraud is falsification, illegal acts, and omission carried out with intention of deceits or to mislead. It involves use of deceit to gain illegal or unjust advantage over another individual or organisation (Adekoya, Oyebamiji & Lawal, 2020). According to Adeniji (2012), fraud is described as an illegal tort by one or more persons in management, employees, or third parties that results in a financial statement misrepresentation. Fraud may also be described as misuse of the truth for the purpose of deceit to an individual's or an organisation's financial detriment, which includes money laundering, attempt to steal or unlawfully acquisition, misuse, or damage of organisation's asset. Fraud has increased considerably in recent times and professionals believe this trend is likely to continue if nothing is done to curb this menace in private and public sectors. Fraud is an act that has negative impact on organisation, causing huge financial losses, loss of trust and confidence, liquidation and economic depression. Alleyne and Howard (2005), defined fraud as deception, cheating, and theft where fake creditors are created, ghosts workers are included on the payroll, cash sales are falsified, stock balances are understated or not declared, makes illegal write-offs without appropriate approval, and reporting of fake or dubious expenses. Fraud is stealing by tricks and deceits. It is a deliberate trick or misrepresentation to cheat or mislead individual which causes one to suffer damages, usually monetary losses.

Fraud can be classified into two, these are management and employee fraud. Management fraud can be described as an intentional fraud committed by organisation management which caused injuries to investors, creditors and other stakeholders through falsification of financial statements whether by deliberate act or omission, or otherwise. Management frauds are committed by management for organisation benefit such as financial manipulation, falsification of financial records and documents, window dressing of financial reports, and embezzlement of company's money. Employee fraud are committed against the company by workforce, this involves falsification of accounting records and vital documents for illegal and personal benefit. Besides, Association of certified fraud examiners classified fraud into three, these are corruption, misappropriation of assets, and financial statements fraud. Corruption means bribery and extortion, conflict of interest, extortion and illegal giving. Asset misappropriation involves stealing and misuse of organisation assets and resources, these are cash fraud, inventory fraud, non-cash fraud and other assets fraud. Financial statement frauds involves deliberate or intentional misstatement or omission of material information in the organisation financial statements. This also means window dressing of financial statements and records

by management for purpose of deceit and misrepresentation, either non-financial or financial.

2.1.2 Fraud Prevention and Detection: Fraud prevention is a proactive measures or strategy to limit, avoid or mitigate fraudulent activities in an organisation. Fraud prevention involves application of analytical skills in reducing opportunity and limiting the temptation of potential fraudsters, testing the procedures of cases of financial and economic crimes such as falsification of accounting records, bribery and corruptions, investment fraud, and assets misappropriation (Drogalas *et al.*, 2017). According to Riney (2018) fraud prevention and detection acts as a means of ensuring stronger financial performance and minimisation of fraudulent activities in an organisation. In the same vein, Sow *et al.*, (2018) opined that the best way to enhance profitability and minimise financial loss in an organisation is to have an effective and efficient fraud prevention policy. Fraud Prevention requires enthroning steps that can, in any case, deter extortion from occurring. It involves recognising at early stage various signs of possible fraudulent activities. ACFE (2020) defined fraud prevention as practical rules or guidelines put in place in an organisation to avoid, minimise or stop fraud occurrence. Besides, fraud detection involves all measures to identify fraud occurrence as quick as possible when committed (Othan *et al.*, 2015). Fraud detection strategy involves the use of analytical and other procedures for highlighting fraud anomalies and suspected fraudulent acts.

The major impediment to business growth and dividend payment is crime and corruption, however, corruption in business cycle leads to business failure and liquidation. In order to curb corruption and fraud in business entity, there is need for efficient and effective internal control mechanism using audit to deterred fraudulent activities. Therefore, the beginning stage of fraud risk management analysis is fraud prevention, which includes the execution of proper strategies that can dissuade extortion in an entity. This involves four security pillars, these are strong value of organization culture, establishment of strong internal control mechanism, a sound functioning internal audit, and existence of independent external auditor. Fraud prevention and detection will be achieved where various factors that can lead to fraud can be identified and checked. This can be achieved through the following: effective training policy for audit staff, communication of appropriate internal control policies, rules and procedures to employees on regularly basis, quick recognition of loopholes to fraudulent activities, employees attitudinal changes to fraud and corruption, and adequate separation of power/functions where no single individual is allowed to initiate and complete a whole cycle of activities. However, the role of internal auditor in detecting and preventing fraud depends on his experience, professional competence, practical abilities, analytical skill and level of professional training (Petraseu & Tieanu, 2014).

2.1.3 Audit: Audit is derived from a Latin word "audire" which means "to hear". During the medieval period in Britain when manual bookkeeping was common and used. Auditors looked into the accounts and read it out to stakeholders and further affirmed that the organisation's employees were not negligent or dishonest in their duties. An audit is a methodical and impartial review of an organisation's finances, reports, statutory records, and other documents to determine whether or not the financial statements and non-financial records provide an accurate and reasonable picture of the company's activities for the period under review (Power, 1999). It also attempts to ensure that the books of accounts were properly maintained by management as required by law and organisation's policy. The auditor duty is to perceives and recognises all records for scrutiny, gathers data, analyses it, and formulates an opinion based on his findings, which is communicated to stakeholders in their audit report. However, internal auditing is a systematic and independent appraisal of financial records, activities and operational performance in an organisation to ascertain accuracy, authenticity and fairness of financial transactions (Butcher, Harrison & Ross, 2013). According to Ahmed (2018), internal audit involves all forms of procedures and measures adopted to safeguard operational efficiency and enhance strict compliance to managerial policies and standards. However, Al-Twaijry, Brierley and Gwilliam (2018) opined that effective internal audit within an organisation is not meant to check only fraudulent activities but also serves as a managerial control for evaluating other controls put in place for effective operations.

Internal audit plays a critical role in corporate governance and risk management, it also has a role in fraud detection and prevention. Internal audit is to identify problems, proffer solutions and improvements, and set guidelines for preventives measures (Alleyn & Howard, 2017). It is a unit or department assigned to monitor the employees' compliance to internal control system as stipulated by management. Internal auditing will be carried out in a systematic manner to detect and prevent fraud. Internal audit is a pre-requisite for efficient and effective performance of business activities within an organisation (Farouk & Hassan, 2014). It is an integral part of corporate governance system to ensure management adherence to organisation laid down rules and standards, safeguard organisation assets, prevent fraudulent activities, and ensure accurate and completeness of records. It is an independent unit within an organisation system saddled with the responsibilities to examine, evaluate and reports strict compliance to organisation rules and standards. Internal audit measures the efficiency and effectiveness of standards and controls set by management for smooth administration, it also add value to organisation operational performance. Internal audit department or unit independence is one of the critical influence of internal audit services (Clark, Gibbs & Schroeder, 2003). The independent of the unit or department within an organisation helps an

organization to realize its set goals and objectives through the application of systematic approach of risk management process, procedures and internal controls mechanisms. Independence of internal audit means that the unit has power of non-restriction by any condition or form that can threaten its ability to perform objectively, fairly and honestly. Independence of auditors either internal or external means ability to be fair, objectives, impartial and honest in their review and reports, and also free from all issues, circumstances, events and matters that will compromise or influence their objectivities or reports.

2.1.4 Internal Audit Efficiency: The Institute of Internal Auditor characterised internal audit as an autonomous, target confirmation and counseling action intended to add value and improve companies' tasks. It assists an entity with achieving its targets and improve the viability of hazard which the executives, control mechanism, and administration measures. Effectiveness and efficiency is the degree and quality by which an established goals are achieved. Internal audit is to evaluate all monetary transactions through continuous checking of all books and records in the organization in order to confirm or recognise extortion and right errors. This build trust and enhance operating performance, growth and investors' confidence. Efficiency of internal audit output leads to provision of quality goods and services, business growth and wealth maximization. Internal audit causes a huge commitment to the accomplishment of corporate destinations and the execution of plans to accomplish them. Therefore, internal audit will be efficient where internal auditors are professional, skillful, competent and knowledgeable in area of chosen career in order to be able to carry out their assignment objectively, honestly, and influence the quality of financial reporting and minimised fraudulent activities.

2.2 Theoretical Framework

The study adopts Agency theory and fraud triangle theory.

2.2.1 Agency theory: Agency theory exist in resolving conflict of interest that occurred between principal and agent in agency relationship with different risk perception. Agency theory originated dated back to 1973 with economic theory of agency by Stephen Ross and in 1975 with institutional theory of agency by Barry Mitnick. However, agency theory was popularised by Jensen and Meckling in 1976 for business and institutional setting. Agency theory is an economic theory of accountability as it helps to explain the development of audit. According to Adams (1994), agency theory did not explain and predict the function of internal audit alone but also shows the role and responsibilities of internal auditor in an entity. The relationship between agent (management) and principal (shareholders/stakeholder) can shift from wealth maximisation to fraudulent acts and financial loss perpetuated by agents, at time agent becomes untruthful as he makes himself better off at the expense of his principal. Trust is vital in agency relationship. In latin word, trust means “Fiducia”

this can be translated to hope, assurance, reliance, belief, confidence, security, and faith. Trust is the currency of exchange between the resources providers and resources managers, between shareholders and management, and between the leaders and the led (Adekoya, Agbetunde & Lawal, 2022). Mahrani and Soewarno (2018) postulated that agency relationship exists between owners/shareholders (principal) and the management (agent) where the agent is saddled with responsibility to make decision in the best interest of the principal. The agency theory holds that the interest for audit has been inspired by the need to oversee agency conflict. The agency theory predicts that agents and principals will perceive that it tends to be commonly gainful to decrease the ethical danger and they will devise plan to adjust their personal circumstance. One such game plan is the independent audit, which gives a checking gadget intended to improve data about customer execution and reduce data asymmetry. Furthermore, audit unit/department act as watchdog for minimising agent fraudulent activities, enhancement of organisation performance and maximisation of shareholders wealth.

2.2.2 Fraud Triangle Theory: In 1950, Donald Cressey studied reason for committing fraud in public offices, this lead to the formation of fraud triangle known as Theory of Fraud Triangle. The effort to understand why trusted individuals betrayed faith and commits fraud compelled him for over five-month period, to investigate two hundred and fifty convicted criminals. Cressey (1953), based his thesis on the factors that inspired people to engage in dishonest and immoral activity, the study became known as the theory of the fraud triangle. The fraud triangle theory was published in 1953 with three key elements of what inspired fraud, these are pressure, opportunity and rationalisation. He found out that the three elements must be present to individual in relation to fraudulent acts in order to betray the trust entrusted and to act dishonestly against fiduciary duty. Cressey came to the conclusion that three key elements that motivate criminals in every organization to commit fraud are pressure (incentive), opportunity and rationalisation.

Cressey (1953) fraud triangle shows the basis or factors for committing fraud, these are pressure- what push an individual to commit fraud such as money problem, addiction to gambling, drug and alcohol. Opportunity- opening to commit fraud without hindrance or high chance to be caught, this occurred due to weak internal control system. Besides, employees misuse their position of confidence to commit fraud when internal controls are inadequate or when internal control implementation is improperly controlled by management with a low perceived risk of being caught. The definition of perceived opportunity implies that individuals would take advantage of the conditions at their disposal. Rationalisation- discrepancy between individual belief and cultural value or behaviour. Fraud is committed after rationalisation as solution to personal problem rather than

being seen as a problem. It makes fraudster to make appropriate plan for committing the crime and ways of executing the plan accordingly.

Albrecht, Albrecht, Albrecht and Zimbelman (2009) also supported the three elements of fraud triangle as basic ingredient for committing fraudulent acts against trust entrusted and ethics of behaviour. Riney (2018) also postulated that fraud triangle theory was developed as a tool for preventing and detecting fraud, he further explained some rationale behind why an individual commit fraud. As fraud triangle is made up of three elements required for theft or fraud to occur, Albrecht, Hill, and Albrecht (2006) compared this fraud triangle with fire triangle. Fire triangle has three elements which are necessary for fire to occurred, these are Oxygen, Fuel, and Heat. In the same vein, Albrecht *et al.*, (2006) opined that just like what makes fire to occurred, fraud is unlikely to occur where the three elements of perceived pressure, opportunity and rationalisation in the theory of the fraud triangle are absence. However, the magnitude of fraud depends on the strength of each element. In other words, for a person to make any immoral decisions, there must be perceived pressure, an incentive, and a way to rationalise the behavior.

2.3 Empirical Review

Zaidan and Neamah (2022) studied the effect of the quality of internal audit functions in improving operational efficiency of companies in Iraq. The study revealed a positive relationship between internal auditors' qualification, training and professionalism, and operational efficiency. Besides, Arum and Wahyudi (2020) studied audit quality and fraud detection. The study revealed that audit quality has effect on fraud detection, it also showed that audit quality is a mediator of ethics and auditor professionalism on fraud detections. In the study carried out by Khan, Rafay and Shakeel (2020) on the attributes of internal audit, its prevention, detections and assessment of fraud in Pakistan. It was revealed that internal audit positively affects prevention, detection and assessment of fraudulent activities in Pakistan. The study thereafter recommends that internal audit functions should be more independent and effective in preventing fraudulent activities. Besides, Adetoro, Oladejo and Akesinro (2013) studied the efficiency of internal auditor in controlling fraud and other financial irregularities in private universities in South-West, Nigeria. The study revealed that internal auditor were effective in controlling fraud and other irregularities in private universities in South-West, Nigeria. The study recommends application of internal control mechanism in all areas of operations in order to ensure university assets are safeguarded.

Furthermore, Nwaobia, Omotayo and Ajibade (2021) studied internal audit and fraud detection in selected banks listed in Nigeria. The study revealed that internal audit positively and significantly affects fraud detection in financial reporting

while the quality of internal auditors influenced the effect of internal audit in fraud detection and prevention. The study concluded that internal audit is vital in curbing the incidence of fraud in Nigeria banks. The study further recommends an efficient internal control system and auditors knowledge on information technology in order to prevent and detect fraud in earnest. Olaoye and Dada (2017) also studied the roles of auditors in fraud detection and prevention in Nigeria deposit money banks in South-West, Nigeria. The study revealed that fraud control in deposit money banks in Nigeria is very low while the risk assessment management, system audit and verification of financial reports limits fraudulent activities. The study recommends internal control efficiency and mechanism for detecting fraudulent activities instantly. In the same vein, Ezejiofor and Okolocha (2020) studied the effect of internal audit function on financial performance of commercial banks in Nigeria. The study revealed that internal audit control and procedures have positive effect on financial performance of commercial banks in Nigeria. The study recommends that internal audit should ensure the minimisation of fraud in commercial banks in Nigeria.

In addition, Drogalas *et al.* (2017) studied the effect of internal audit effectiveness, auditor responsibility and training in fraud detection and prevention. The study revealed that internal audit is importance to fraud prevention and the need for companies to invest more on internal audit unit in addition to adequate training of internal auditors in order to achieve corporate performance, business growth and good return on investment. Besides, Petrascu and Tieanu (2014) also looked at the role of internal audit in fraud prevention and detection. The study revealed that internal audit act as assistance to management for better operation, rendering of judgments on activities for normal and efficient operations and value added. In the same vein, Ozigbo (2015) studied internal control and fraud preventions in Nigeria business organisation. The study revealed that internal control has a significant relationship with fraud prevention. The study concluded that internal control will ensure safeguarding of owners interest and efficient fund management. Demirovic, Isakovic-Kaplan and Proho (2021) also studied internal audit risk assessment on the function of fraud detections. The study revealed that the role of internal audit in fraud detection process is reflected in the fraud risk assessment.

In addition, Kolawole *et al.*, (2020) studied internal audit and financial performance of selected manufacturing industries in the consumer goods sector on the Nigerian stock exchange. The study revealed that there exist good interrelationship between internal audit and organisational performance. The study recommended a continuous training, workshop and seminars for improving auditors' professionalism, competency and organisation financial performance. Also, Agwor (2017) looked at fraud prevention and business performance in quoted manufacturing companies in Nigeria. The study revealed that the influence of fraud prevention is

more positive and significant in business profitability than on effectiveness of business. The study recommends that organisation should ensure improvement on fraud prevention mechanism in order to track all dubious and fraudulent activities. Furthermore, Lawal (2015) examined the impact of auditing in controlling fraud and other financial irregularities. The study revealed that lack of adequate training, poor leadership skills and communication gap enhances fraud and irregularities in Nigerian banking industry. The study recommends adequate internal control mechanism and good welfare packages for workers as an antidote to persistent fraudulent activities.

3.0 METHODOLOGY

The study adopts survey research design to gather the relevant primary data required for the study. The population for the study was 19,443 workers in ten selected companies in the manufacturing sector. Sample size of 392 was determined using Yamane (1967) techniques with the error term of 5%. The study used random sampling techniques for data collection from the management, audit and finance staff of the selected companies. Three hundred and ninety two (392) copies of questionnaires were administered to various respondents while three hundred and thirty seven (337) copies were received, this gives a response rate of 86%.

3.1 Reliability of Research Instrument

The reliability test of the instrument based on pilot study showed that independence of internal audit, competence of audit team, quality of internal audit and fraud prevention had Cronbach's alpha of 0.86, 0.79, 0.78 and 0.84 respectively. Bolarinwa, 2015; and Tavakol and Dennick (2011), reported that a composite reliability and Cronbach Alpha (α) calculated which is above 60% should be reported as a reasonable reliability, good and robust, and acceptable. Based

on this assertion, the pilot study results showed that the instrument was reasonable, robust and reliable since all the constructs figures were above the acceptable threshold of 0.6. The instrument was therefore suitable for the study.

3.2 Measurement of Research Variables

The dependent and independent variables were measured with relevant questions applicable to each variable using five-point likert scale primary data gathering. Each construct were measured with four items of the questions that are vital to each area of independence of audit, competence audit team, quality of internal audit, and fraud prevention.

3.3 Model Specification: The study expected that the independent variables of Independence of Internal Audit (IIA), Competence of Audit Team (CAT), and Quality of Internal Audit (QIA) would enhance dependent variable of Fraud Prevention (FP).

Internal audit efficiency and fraud prevention

$$FP = \beta_0 + \beta_1 IIA + \beta_2 CAT + \beta_3 QIA + \mu_1$$

Where:

IIA= Independence of Internal Audit, CAT= Competence of Audit Team, QIA= Quality of Internal Audit, FP= Fraud Prevention, μ = Error terms, β_0 = Intercept or the constant $\beta_1 - \beta_3$ = Partial regression coefficient of the explanatory variables.

3.4 Results and Findings

Data collected from the sampled questionnaires were analysed and interpreted with descriptive statistics of simple percentage, mean, standard deviation and frequency distribution while the hypothesis was tested with inferential statistics using the Ordinary Linear Square (OLS) regression and Analysis of Variance (ANOVA).

4.0 DATA ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Descriptive Analysis of test items

Table 1: Fraud Prevention

	Strongly Agreed	Agreed	Undecided	Disagreed	Strongly Disagreed	Mean
	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)	Freq.
Fraud prevention helps in establishing a culture that embraces ethics, honesty and integrity in the organisation.	40.1	41.5	11.3	1.5	5.6	4.09
Fraud prevention has been a major issue in this organisation	32.9	49.6	9.5	3.9	4.2	4.03
Fraud prevention helps in evaluating the organization's assessment of fraud risk	45.4	43.6	5.6	1.2	4.2	4.25
Fraud prevention has been the only solution in this organisation	39.8	47.5	2.7	1.5	8.6	4.08

Source: Field Survey, 2022

Table 1 shows the frequency count and percentages of respondents' responses to questions about fraud prevention. From the responses gathered on if fraud prevention helps in establishing a culture that embraces ethics, honesty and integrity in an organisation, 40.1% strongly agreed, 41.5% agreed, 11.3% undecided and 1.5% disagreed and 5.06% strongly disagreed. An average mean of 4.09 explains an agreed opinion that fraud prevention helps in establishing a culture that embraces ethics, honesty and integrity in an organisation. Response from if fraud prevention has been a major issue in an organisation, 32.9% strongly agreed, 49.6% agreed, 9.5% undecided and 3.9% disagreed and 4.2% strongly disagreed. On an average mean of 4.03 the

respondents agreed that fraud prevention has been a major issue in an organisation. The third question on if fraud prevention helps in evaluating the organisation's assessment of fraud risk, 45.4% strongly agreed, 43.6% agreed, 5.6% undecided, 1.2% disagreed and 4.2% strongly disagreed. An average mean of 4.25 explains an agreed opinion that fraud prevention helps in evaluating the organization's assessment of fraud risk. Lastly on if fraud prevention has been the only solution in organisation, 39.8% strongly agreed, 47.5% agreed, 2.7% undecided, 1.5% disagreed and 8.6% strongly disagreed. On an average mean of 4.08, the respondents agreed that fraud prevention has been the only solution in an organisation

Table 2: Independent Variables

Description	Overall mean frequency
Independence of Internal Audit (IIA)	4.40
Competence of Audit Team (CAT)	4.26
Quality of Internal Audit (QIA)	4.17

Source: Field Survey, 2022

Table 2 shows the overall mean frequency of the three independent variables. On overall, the mean of 4.40, 4.26 and 4.17 on independence of internal audit, competence of audit team and quality of internal audit respectively indicates that majority of the respondents agreed that independence of internal audit, competence of audit team and quality of

internal audit will aid fraud prevention in the listed manufacturing companies.

4.2 Test of Hypothesis

Research Hypothesis:

H₀₁: Internal audit efficiency does not contribute significantly to fraud prevention in listed manufacturing companies in Nigeria.

Table 3: Regression Results for Hypothesis

Model One $y_1 = \beta_0 + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \mu$	Unstandardized Coefficients		Standardized Coefficients Beta	T	Sig.
	B	Std. Error			
1	(Constant)	1.028	.237		4.344 .000
	IIA	.271	.079	.238 3.421	.001
	CAT	.103	.072	.099 1.432	.153
	QIA	.350	.060	.335 5.819	.000
a. Dependent Variable: Fraud Prevention					
b. R= 0.591 R²= 0.349 F(3, 337) = 59.502 P Value = 0.000					

Source: Researcher's Study, 2022

**Significant at 5% level ($p < 0.05$). IIA- Independence of Internal Audit

CAT- Competence of Audit Team. QIA- Quality of Internal Audit

$FP = \beta_0 + \beta_1 IIA + \beta_2 CAT + \beta_3 QIA + \mu_1$ Model 1

$FP = 1.028 + 0.271 IIA + 0.103 CAT + 0.350 QIA + \mu_1$

team (0.103) and quality of internal audit (0.350) have positive relationships with fraud prevention in listed manufacturing companies in Nigeria. An increase in independence of internal audit, competence of audit team and quality of internal audit by 1% would cause a 0.271, 0.103 and 0.350 respectively an increase in fraud prevention. The study revealed that internal audit efficiency positively influenced fraud prevention in listed companies in Nigeria ($Adj R^2 = 0.349$, $F (3, 337) = 59.5$; $P < 0.05$).

There was evidence that independence of internal audit and quality of internal audit have significant relationships with

fraud prevention in Nigeria listed companies ($\text{IIA } \beta = 0.271$, $t = 3.421$, $p < 0.05$, $\text{QIA } \beta = 0.350$, $t = 5.819$, $p < 0.05$). Conversely, competence of audit team do not have significant relationships with fraud prevention in Nigeria listed companies ($\text{CAT } \beta = 0.103$, $t = 1.432$, $p > 0.05$). This implies that independence of internal audit and quality of internal audit were significant factors that influenced changes in the fraud prevention in Nigeria listed companies while competence of audit team are not significant factors that influenced changes in the fraud prevention in Nigeria listed companies. The overall coefficient of determination of adjusted R^2 , which is the explanatory power of the model 34.9%. This implies that within the model context, internal audit efficiency is responsible for 34.9% variations in fraud prevention while the remaining 65.1% is explained by other factors that can have effect the dependent variable not under this study. At a level of significance of 0.05, the F-statistics is 59.502, while the p-value of the F-statistics is 0.000 which is less than 0.05 adopted. Therefore, the null hypothesis that says, internal audit efficiency does not have significant impact on fraud prevention of listed manufacturing firms in Nigeria, will be rejected while alternate hypothesis of internal audit efficiency have significant impact on fraud prevention of listed manufacturing firms in Nigeria, will be accepted.

4.3 Discussion and implication of Findings

Empirical findings from the test of hypothesis on the internal audit efficiency and fraud prevention in listed companies in Nigeria revealed that independence of internal audit, competence of audit team and quality of internal audit have positive relationships with fraud prevention in listed companies in Nigeria. The F-statistic of 59.502 is statistically significant at $p = 0.000$ therefore, the study revealed that the internal audit efficiency has a significant influence on fraud prevention in listed companies in Nigeria at 5 percent level of significance. From the findings of this research, the data analyzed makes it evident that internal audit efficiency has a significant impact on fraud prevention and management by listed manufacturing firms in Nigeria. The implication of findings to policy makers is that they should strengthen internal audit efficiency through fraud management in order to enable them control, detect and prevent fraud. The implications of findings to investors is that the return on investment of investors will be maximised when they invest in organisations with strong internal audit policy and control. The implication of findings to accounting practice is the need to infuse internal audit efficiency into accounting practice since it is a useful tool to fraud prevention and management. From the findings of this research, the data analysed makes it evident that internal audit efficiency has a significant impact on fraud management in listed manufacturing companies in Nigeria. From regression model, it was revealed that the variables of internal audit efficiency has a positive significant impact on fraud prevention in listed manufacturing

companies in Nigeria. This signifies that an improvement in internal audit efficiency will increase fraud prevention and management in listed manufacturing firms in Nigeria and this would lead to increased operating transparency, trust, and company's profitability. This corroborated the findings of Agwor (2017), Ezejiofor & Okolocha (2020), Kham *et al.*, (2020), and Zaidan & Neamah (2022). The implication of this finding is that organisations should focus on enhancing the internal audit independence, training and professionalism, and integrating supreme audit institution so as to improve fraud prevention in listed manufacturing companies in Nigeria and worldwide.

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS OF FINDINGS

5.1 Summary and conclusion: Threat to fraud is one of the common challenges to corporate governance faced by business entity without regard to sector, industry, size or location. This research focused on internal audit efficiency and fraud prevention in Nigerian Listed Manufacturing Companies. The study provides an insight as to the extent to which each of the independent variable affects the dependent variables through descriptive statistics and provides an affirmation of the extent to which the variations in the dependent variables are caused by the independent variable covered in the models as depicted by the coefficient of determination (R^2). From our empirical findings, the study concluded that internal audit efficiency is a significant factor on fraud prevention in Nigerian listed manufacturing companies. Therefore, internal audit efficiency is vital and added value to organisation in fraud prevention, detection and management in order to enhance organisational profitability, stability and going concern. The study revealed that the internal audit efficiency has a significant influence on fraud prevention in listed manufacturing companies in Nigeria at 5 percent level of significance. From the findings of this research, the data analysed makes it evident that internal audit efficiency has a significant impact on fraud prevention in listed manufacturing firms in Nigeria.

5.2 Recommendations: Based on the findings and conclusions of the study, the following recommendations are made:

1. The board of directors should make sure they put in place policies to guarantee the independence of the internal audit.
2. The management of companies should ensure that they only recruit competent and professional staff in their internal audit team.
3. Policy formulation on corporate governance should cover the quality of the internal audit given that they significantly influence companies.
4. Organisation should establish a robust internal control mechanism to limit the risk of fraud

5. A fraud prevention and response plan should be put in place for quick identification of fraud and its management,
6. Internal audit should ensure a good management of fraud risk and assess the fraud risk exposure on an annual basis.
7. The organisation audit plan and assignment should include risk of fraud in order to evaluate the adequacy of anti-fraud controls as established by management.

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