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Research Article

Effect of Internal Audit Quality on Fraud Prevention in Nigerian Public Sector Organizations

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Abstract

This study investigates the impact of internal audit quality on fraud prevention in Nigerian public sector organizations. Using a survey method, data were collected from 286 respondents, including audit professionals and staff across various public sector institutions. The findings reveal that a significant majority of respondents (52.8%) perceive internal audit systems as effective or very effective in detecting fraud. Furthermore, 62.9% of respondents believe that internal audits contribute to a reduction in the frequency of fraud incidents within their organizations. A notable proportion (64.3%) emphasized the importance of highly qualified audit staff in preventing fraud, with most respondents agreeing that advanced qualifications enhance audit effectiveness. However, a small portion (19.6%) reported that internal audits had no effect on fraud reduction, while a minority (6.3%) even observed an increase in fraudulent activities. The study concludes that while internal audits are generally regarded as effective tools for fraud detection and prevention, their success is contingent on both the qualifications of audit staff and the quality of audit processes. Based on these findings, the study recommends enhancing audit staff qualifications, strengthening audit processes, and fostering an anti-fraud culture within public sector organizations to further improve fraud prevention efforts.

Keywords: Internal Audit Quality; Fraud Prevention; Public Sector Organizations; Audit Effectiveness; Audit Staff Qualifications

Introduction

Fraud remains a significant threat to the efficiency, accountability, and credibility of public sector institutions in Nigeria. Public organizations have repeatedly suffered from financial irregularities, misappropriation of funds, and unethical practices that erode public trust and hinder service delivery. As a response mechanism, internal audit functions have been institutionalized to enhance financial oversight and promote fraud prevention (Ofori et al., 2020). However, the quality of these internal audit functions often determines their effectiveness in curbing fraudulent activities.

Internal audit quality encompasses dimensions such as auditor independence, technical competence, scope of audit work, and adherence to ethical standards. When internal audits are carried out with high quality, they serve as a deterrent to potential fraud by identifying weaknesses in internal control systems and recommending corrective actions (Yakubu & Bassey, 2021). Unfortunately, in the Nigerian public sector, internal audits are sometimes weakened by lack of autonomy, insufficient resources, and political interference, which undermines their ability to function optimally (Mohammed & Garba, 2019).

Several studies have underscored the importance of internal audit functions in promoting transparency and accountability. For instance, Alade and Ayodele (2023) observed that internal audit effectiveness is positively associated with reduced incidences of procurement fraud in public ministries. Similarly, Ejeh et al. (2022) found that auditor independence and periodic reporting significantly enhance fraud detection capacity. Nonetheless, the effectiveness of internal audits in Nigeria is often constrained by poor implementation frameworks and disregard for audit recommendations, especially in government institutions.

Given the peculiar nature of governance structures in Nigeria, internal audit quality must be robust and institutionally supported to serve its fraud prevention role. The institutional framework should ensure auditor independence, adequate funding, training, and the enforcement of audit findings. Strengthening these audit functions is not only vital for deterring fraudulent activities but also for restoring public confidence in government operations (Okonkwo & Adewale, 2020).

Therefore, examining the effect of internal audit quality on fraud prevention is imperative for enhancing public sector accountability in Nigeria. This study seeks to investigate how components of audit quality—such as auditor independence, technical competence, and reporting structure—influence the effectiveness of fraud prevention measures in public organizations. Moreover, the study aims to offer policy-relevant recommendations to reinforce audit integrity and improve public sector governance.

Statement of the Problem

In an ideal public sector environment, internal audit functions are designed to serve as independent, objective assurance activities that help detect and prevent fraud. These audit units are expected to operate with a high degree of professionalism, competence, and autonomy, enabling them to evaluate internal controls, ensure compliance, and support transparent financial management. When effectively implemented, internal audits contribute significantly to fraud deterrence and promote a culture of accountability within government institutions.

However, in the Nigerian public sector, internal audit quality is often compromised due to lack of independence, limited resources, poor technical capacity, and political interference. Many internal audit departments operate under weak institutional frameworks, making them unable to challenge fraudulent activities effectively or enforce audit recommendations. As a result, fraud continues to thrive within public institutions, and audit reports are frequently ignored or manipulated to conceal financial misconduct.

If these issues are not urgently addressed, the Nigerian public sector will remain vulnerable to persistent financial fraud, loss of public funds, and diminishing citizen trust in government. Weak audit systems will lead to poor fiscal discipline, corruption, and inefficient public service delivery. Furthermore, continued neglect of internal audit functions could negatively impact national development, deter foreign investment, and limit access to international financial support that depends on transparency and accountability.

Objectives of the Study

The main purpose of this study is to examine the effect of internal audit quality on fraud prevention in Nigerian Public Sector Organizations. The specific objectives of the study are to:

1. To evaluate the impact of audit effectiveness on the frequency of fraud incidents in Nigerian public sector organizations.
2. To investigate how audit staff qualifications influence the prevention of fraud.
3. To explore the relationship between internal audit processes and fraud mitigation in Nigerian public institutions.

Research Questions

The study provided answers to the following research questions.

1. What is the relationship between internal audit independence and fraud prevention in Nigerian public sector organizations?
2. How does the professional competence of internal auditors influence the effectiveness of fraud prevention mechanisms?
3. To what extent does internal audit reporting and follow-up help in reducing fraudulent activities in the public sector?

Statement of Hypotheses

The following hypotheses in null form (H_0) guided this study

1. There is no significant relationship between internal audit independence and fraud prevention in Nigerian public sector organizations.
2. The professional competence of internal auditors has no significant impact on the effectiveness of fraud prevention mechanisms in Nigerian public sector organizations.
3. Internal audit reporting and follow-up do not significantly reduce fraudulent activities in Nigerian public sector organizations.

Definition of Terms

The following terms operationalized the study:

i. **Internal Audit Quality:** Internal audit quality refers to the effectiveness and efficiency with which internal audits are conducted within public sector organizations. It encompasses various dimensions such as audit independence, auditor competence, adherence to professional standards, and the timeliness and reliability of audit reports. In this study, it specifically refers to the degree to which the internal audit function can detect, prevent, and mitigate fraud through its processes and practices.

ii. **Fraud Prevention:** Fraud prevention refers to the measures, strategies, and activities implemented within an organization to detect, deter, and reduce the occurrence of fraudulent activities. In this context, fraud refers to any deliberate act of dishonesty, misrepresentation, or financial mismanagement aimed at gaining unauthorized benefits or causing harm to public sector resources. Fraud prevention involves implementing controls, conducting audits, and promoting a culture of transparency and accountability to minimize such incidents.

iii. **Nigerian Public Sector Organizations:** The Nigerian public sector organizations refer to governmental bodies and agencies, including federal, state, and local government departments, ministries, and parastatals, that are involved in the management and allocation of public resources. These organizations are responsible for carrying out governmental functions and providing services to the public, and their operations are subject to regulation, oversight, and audits to ensure proper use of public funds.

iv. **Audit Independence:** Audit independence refers to the freedom of the internal audit function from external influence or interference, which ensures that auditors can carry out their duties objectively and without bias. In this study, audit independence is considered critical to the integrity and effectiveness of internal audits in detecting and preventing fraud in public sector organizations. It refers to the ability of auditors to conduct their work without undue influence from management or political pressures.

v. **Auditor Competence:** Auditor competence refers to the knowledge, skills, and professional abilities of internal auditors, which enable them to perform audits effectively. Competence includes factors such as qualifications, experience, adherence to professional standards, and ongoing training. In the context of this study, auditor competence is viewed as a key determinant of the quality of internal audits and their ability to identify potential fraud risks and weaknesses in organizational controls.

vi. **Internal Audit Reporting:** Internal audit reporting refers to the process of communicating the findings, conclusions, and recommendations from an internal audit examination to relevant stakeholders. It includes the documentation and presentation of audit results to management, oversight bodies, and external auditors. In the study, the focus is on how internal audit reports, particularly those related to fraud detection, are communicated, followed up, and acted upon by management to prevent fraudulent activities.

vii. **Follow-Up Procedures:** Follow-up procedures are the actions taken after the completion of an internal audit to ensure that recommendations are implemented, deficiencies are addressed, and corrective actions are taken. Effective follow-up is crucial for fraud prevention, as it ensures that management responds appropriately to audit findings and recommendations. In this study, follow-up procedures refer to the systematic monitoring and tracking of actions taken in response to audit reports.

viii. **Public Sector Governance:** Public sector governance refers to the processes, structures, and mechanisms through which public institutions are directed, controlled, and held accountable. It includes aspects such as transparency, accountability, ethical conduct, and the rule of law. In this study, governance is related to how public sector organizations manage resources, ensure compliance with laws and regulations, and implement fraud prevention measures.

ix. **Fraudulent Activities:** Fraudulent activities in the context of this study refer to illegal actions taken by individuals or groups within public sector organizations aimed at misappropriating public funds or resources. These may include bribery, embezzlement, financial misreporting, corruption, and other dishonest practices designed to deceive stakeholders and benefit perpetrators at the expense of the public interest.

x. **Public Sector Financial Management:** Public sector financial management refers to the practices and processes involved in the planning, controlling, and monitoring of public financial resources. It includes budgeting, financial reporting, auditing, and the management of public assets. Effective financial management is essential for ensuring that public funds are used efficiently and that fraud is prevented through proper oversight and control mechanisms.

Literature Review

Conceptual Review

Concept of Audit Effectiveness

Audit effectiveness refers to the extent to which an audit process fulfills its objectives of providing a reliable and accurate evaluation of a company's financial position, performance, and compliance with relevant laws. Audit effectiveness is influenced by various factors, such as the competence and independence of the auditor, the quality of audit procedures, and the overall regulatory environment (Kerr & Harris, 2020). Effective audits provide stakeholders with credible financial information, thereby enhancing their decision-making processes. As such, understanding the determinants of audit effectiveness is essential in promoting greater transparency and accountability in corporate governance.

The quality of audit effectiveness is highly contingent on the skills and expertise of auditors, as well as their ability to apply rigorous audit methodologies. According to recent studies, auditors who possess deep knowledge of financial regulations and the industry are more likely to deliver effective audits (Nguyen & O'Reilly, 2021). Additionally, the independence of auditors is crucial to maintaining objectivity in their assessment, which is essential for ensuring that the audit results are unbiased and trustworthy (Jensen & Smith, 2022). Independence can be compromised if auditors have conflicts of interest, potentially undermining the audit's effectiveness.

Another significant determinant of audit effectiveness is the regulatory framework within which auditors operate. Strong regulatory environments help to enforce ethical standards, ensure compliance with auditing standards, and create a more reliable audit process (Miller & Carter, 2023). A robust legal framework not only supports auditors in their role but also enhances the credibility of their findings. Effective regulations foster transparency, helping to ensure that audit reports provide an accurate picture of a company's financial health. This, in turn, boosts investor confidence and reduces the risks of financial misstatements.

Moreover, the use of advanced technology and data analytics in auditing processes has become increasingly prevalent. Technology helps auditors to detect discrepancies and irregularities more effectively by enabling them to process large volumes of data quickly and accurately. With these technological advancements, auditors can assess a broader spectrum of financial data, which strengthens the effectiveness of their conclusions. The integration of automated tools also enhances the speed and efficiency of audits, allowing firms to complete audits in a timely manner.

Furthermore, audit effectiveness is not only dependent on technical skills and regulatory structures but also on the audit environment. The culture within an organization, the commitment to ethical standards, and the willingness of stakeholders to cooperate with auditors significantly impact the outcomes of an audit (Wilson & Roberts, 2019). Auditors who operate in a supportive environment with open communication channels tend to produce higher-quality results. It is therefore essential to foster a collaborative approach between auditors and management to ensure that the audit process is both effective and transparent.

Fraud Incidents

Fraud incidents refer to deliberate and dishonest actions intended to secure an unfair or unlawful gain, typically at the expense of others. These incidents can occur in various forms, ranging from financial fraud to identity theft, and they often involve falsifying information, misappropriating funds, or manipulating data. The prevalence of fraud incidents in both public and private sectors underscores the need for effective prevention mechanisms and robust oversight to safeguard stakeholders' interests (Morris & Parker, 2020). Detecting and preventing fraud is crucial for maintaining trust and integrity in organizational operations.

Fraud incidents often arise due to weaknesses in internal controls and a lack of accountability within organizations. When employees or external actors perceive opportunities for dishonest gain without fear of detection or punishment, the likelihood of fraud increases (Taylor & Davis, 2021). Effective internal controls, including auditing practices, oversight committees, and whistleblower mechanisms, are essential in mitigating the risk of fraud. Moreover, the role of corporate governance in establishing a culture of transparency cannot be overstated, as strong governance structures reduce the risk of fraudulent activities (Ramos & Brooks, 2022).

The impact of fraud incidents on organizations can be profound, both financially and reputationally. Financially, fraud can lead to significant losses, disrupt operations, and result in legal costs. Reputation-wise, organizations that experience fraud can face diminished trust from clients, investors, and the public, which can have long-term effects on their viability (Harris & Wilson, 2023). As such, combating fraud requires proactive strategies that focus on both prevention and the swift identification of fraudulent actions.

Furthermore, the increasing sophistication of fraud techniques, particularly with advancements in technology, presents new challenges in fraud detection. Cyberfraud, for example, leverages digital platforms to perpetrate scams that are more difficult to trace and combat. As organizations adopt digital tools and technologies, the risk of fraud in the form of hacking, phishing, and other cybercrimes has grown substantially (Adams & Carter, 2024). This shift highlights the importance of updating fraud prevention strategies to include technological solutions, such as data analytics and artificial intelligence, to detect anomalous behavior patterns indicative of fraud.

Moreover, the societal impact of fraud incidents is far-reaching, extending beyond the immediate parties involved. Fraud erodes public trust in institutions, contributes to economic instability, and increases the cost of doing business for everyone. Governments, businesses, and individuals must collaborate to strengthen anti-fraud measures and ensure that those responsible for fraudulent activities are held accountable (Foster & Nelson, 2023). This holistic approach is essential for minimizing fraud incidents and fostering a culture of honesty and integrity in the marketplace.

Audit Staff Qualifications

Audit staff qualifications refer to the professional competencies, academic credentials, certifications, and practical experience required for individuals to effectively perform auditing tasks. These qualifications are critical in ensuring the reliability, accuracy, and integrity of financial audits. A well-qualified audit team enhances confidence in financial reporting and strengthens the assurance function in both public and private sectors (Franco & Delgado, 2019). Regulatory bodies often emphasize the importance of academic grounding and ethical training in shaping competent audit professionals (Nwokolo & Bashir, 2020).

Professional certifications such as ACCA, CPA, and ICAN, combined with relevant academic qualifications, are foundational for effective auditing. These credentials equip auditors with knowledge in accounting standards, risk assessment, and regulatory compliance. Without such qualifications, auditors may lack the analytical and technical skills necessary for complex audit engagements (Obele & Udeh, 2021). Moreover, continuous professional development is crucial in a field constantly affected by regulatory and technological changes (Mensah & Akoto, 2022).

Practical experience is another indispensable component of audit staff qualifications. Experience in the field helps auditors apply theoretical knowledge to real-world scenarios, handle audit risks, and exercise professional judgment. Firms that prioritize hiring experienced staff often deliver more reliable and efficient audits (Ibrahim & Lawal, 2018). Additionally, mentorship and on-the-job training play essential roles in developing junior auditors into proficient professionals over time (Chukwu & Okafor, 2023).

Technology has redefined the landscape of auditing, requiring auditors to be proficient in data analytics, digital tools, and IT audit techniques. Thus, audit staff qualifications now extend beyond traditional accounting to include technological competencies. Firms increasingly demand auditors who can utilize software for automated testing and fraud detection (Adegbite & Musa, 2023). Educational institutions and professional bodies have also updated their syllabi to include courses in forensic accounting, blockchain auditing, and cybersecurity assurance.

Moreover, ethical orientation and soft skills such as communication, teamwork, and critical thinking are vital components of audit staff qualifications. These traits enable auditors to navigate ethical dilemmas, interact effectively with clients, and produce clear, comprehensive reports. The increasing complexity of business environments necessitates a holistic qualification framework that integrates both technical and interpersonal skills. Moreso, strengthening audit staff qualifications contributes to audit effectiveness, promotes public confidence, and enhances corporate accountability.

Fraud Prevention

Fraud prevention refers to proactive strategies, controls, and policies established by organizations to detect and deter fraudulent activities before they occur. It entails implementing systems that reduce vulnerabilities, promote transparency, and ensure ethical conduct. Effective fraud prevention frameworks often incorporate internal control systems, whistleblower mechanisms, and rigorous audits to minimize risk (Adebanjo & Salisu, 2021). As fraud schemes become more sophisticated, firms are investing in digital technologies and compliance programs to reinforce deterrence strategies and maintain stakeholder confidence.

The role of corporate culture in fraud prevention has gained increased attention in recent years. A culture that emphasizes accountability, honesty, and transparency discourages unethical behavior and promotes adherence to internal policies (Munyoro & Alhassan, 2020). When ethical values are reinforced from leadership down, employees are less likely to engage in fraud. Training programs on fraud awareness also play a critical role by sensitizing staff to red flags and encouraging early reporting.

Technological innovation has transformed the landscape of fraud prevention by enabling real-time monitoring and predictive analytics. Tools such as artificial intelligence and blockchain are being deployed to track transactions and detect anomalies, thereby improving fraud detection efficiency. Moreover, biometric systems and digital verification processes have enhanced the security of financial systems, reducing unauthorized access and manipulation (Kelechi & Ibrahim, 2022). The integration of such technology strengthens organizational defenses against internal and external threats.

Another critical element of fraud prevention is the legal and regulatory framework that governs business practices. Regulatory compliance with anti-fraud laws, such as anti-money laundering (AML) and financial reporting standards, provides the foundation for accountability (Obidike & Hassan, 2019). Regulatory bodies play a monitoring role, ensuring firms follow prescribed procedures and penalizing those who fall short. Risk assessments and compliance audits are also vital in uncovering system weaknesses and improving controls (Irewolede & Bolaji, 2021).

Sustainable fraud prevention requires continuous improvement of internal systems, employee vigilance, and stakeholder collaboration. Periodic policy reviews, employee rotation in sensitive roles, and strong whistleblowing protections can foster a fraud-resistant environment (Chukwuma & Folarin, 2024). Organizations that prioritize fraud prevention enjoy better reputations, enhanced financial performance, and reduced legal exposure. Moreover, as fraudulent schemes evolve, adaptive strategies are essential to stay ahead of threats and ensure long-term corporate resilience.

Internal Audit Processes

Internal audit processes involve a systematic and independent evaluation of an organization's internal controls, risk management systems, and governance practices to ensure compliance, efficiency, and accountability. These processes help organizations assess operational effectiveness, detect irregularities, and recommend corrective measures (Edeh & Makinde, 2019). The internal audit function is structured around planning, fieldwork, reporting, and follow-up activities, all of which are designed to provide assurance to management and stakeholders regarding the soundness of internal operations (Ibrahim & Tanko, 2022).

A well-structured internal audit begins with risk-based planning, where auditors assess the areas of highest vulnerability and prioritize them during audits. This planning stage ensures that limited resources are allocated to the most critical functions (Obasi & Sunday, 2023). Once planning is complete, auditors move into the fieldwork stage, collecting data, reviewing documentation, and conducting interviews to evaluate internal controls. Effective fieldwork relies heavily on auditors' technical competence and understanding of the entity's operational environment (Chinonso & Ladi, 2020).

The reporting phase of the internal audit process involves documenting findings and providing recommendations for improvement. Clear, concise, and evidence-backed reports are essential for influencing management decisions and enhancing transparency (Omotayo & Ebong, 2021). Auditors must ensure that reports communicate issues effectively while maintaining objectivity and professional skepticism. The quality of reporting can significantly influence the implementation of recommendations and the overall effectiveness of the audit function.

An often-overlooked but vital component of internal auditing is the follow-up phase. This step assesses whether management has taken action on audit findings and ensures accountability in implementing corrective actions. Without follow-up, audit efforts may not translate into tangible improvements. Many organizations now use audit management software to track the status of issues and enhance response times, improving the reliability of audit outcomes and fostering compliance with internal policies.

Moreover, internal audit processes must continually evolve in response to emerging risks, technological changes, and regulatory demands. Integration of data analytics, real-time monitoring tools, and automated controls has significantly enhanced audit precision and responsiveness. Internal auditors must remain adaptable and committed to lifelong learning to stay relevant in a dynamic business environment. Moreso, effective internal audit processes contribute to strategic decision-making, risk mitigation, and long-term organizational sustainability.

Public Sector Governance

Public sector governance refers to the framework of rules, institutions, and processes that guide how public organizations are directed and controlled to deliver services efficiently, transparently, and accountably. It emphasizes the roles of oversight, accountability mechanisms, and ethical leadership in managing public resources. Effective governance in the public sector is critical for building trust in government, ensuring citizen participation, and enhancing the quality of service delivery in line with societal expectations (Agu & Sadiq, 2023).

The core principles of public sector governance include transparency, accountability, inclusiveness, and responsiveness. These values ensure that public managers act in the public interest, respect legal frameworks, and maintain financial integrity (Ekanem & Tobi, 2020). Governance practices also emphasize participatory decision-making processes that involve multiple stakeholders, including civil society and private entities, to foster democratic governance and reduce elite capture (Afolabi & Danladi, 2019).

Institutions that oversee public sector governance—such as audit offices, anti-corruption bodies, and legislative assemblies—play critical roles in evaluating how public policies are executed and how funds are utilized. Strengthening institutional capacity, independence, and operational transparency is vital to the integrity of governance systems (Nnaji & Fagbohun, 2022). When oversight institutions function effectively, they deter mismanagement and ensure the public sector fulfills its mandates ethically and efficiently.

Digital transformation has increasingly been integrated into governance structures, enhancing monitoring systems and improving accessibility to public information. E-governance tools such as open data platforms and digital reporting systems improve transparency and reduce administrative bottlenecks. These innovations not only foster efficiency but also enable citizens to hold public officials accountable through real-time access to service delivery metrics and government spending.

Moreover, reforms in public sector governance are often driven by global standards and domestic demands for better performance. Initiatives like public financial management reforms, citizen feedback mechanisms, and legislative amendments continue to shape how governance is practiced (Iloh & Bello, 2023). Moreso, strengthening public sector governance is essential for achieving sustainable development goals, ensuring social justice, and maintaining political stability in both emerging and established democracies.

Theoretical Review

This study was theoretically underpinned on Agency Theory

Agency Theory primarily focuses on the relationship between principals (e.g., government stakeholders, taxpayers) and agents (e.g., public sector employees, managers, and auditors) who are entrusted with decision-making responsibilities on behalf of the principals. It suggests that because agents may have different interests and may not always act in the best interests of the principals, there is a need for mechanisms (such as audits) to ensure that agents act in accordance with the principals' objectives and to mitigate the risk of agency costs (such as fraud, mismanagement, and inefficiency).

Relevance to the Study:

i. Agency Theory posits that when agents (e.g., managers or employees) are given control over resources, they may act in their own self-interest, leading to inefficiencies or fraudulent behavior. Internal audits are seen as a critical monitoring mechanism to reduce these "agency costs." In the Nigerian public sector, where corruption and mismanagement can be prevalent, the role of internal audits becomes crucial in ensuring that agents (public sector employees) are held accountable. The study's focus on internal audit quality directly addresses how effective audits can mitigate the agency problem by ensuring that agents' actions align with the public's interest, ultimately reducing fraud and corruption.

ii. One of the core tenets of Agency Theory is the need for mechanisms to align the interests of principals (e.g., the government and taxpayers) with those of agents (e.g., public sector managers). This alignment is essential to ensure that agents work toward the principals' goals rather than their own. The study will explore how quality internal audits can ensure that public sector employees act in the best interests of the public, reducing the risk of fraudulent activities. Through auditing, the agents are incentivized to behave in ways that satisfy the principles of transparency, accountability, and efficiency in the use of public resources.

iii. Agency Theory highlights the problem of information asymmetry between principals and agents, where principals are often unable to fully monitor the actions of agents. In public sector organizations, this imbalance can lead to fraudulent activities if agents exploit the lack of oversight. The study is relevant because it emphasizes how internal audits, through their systematic and independent investigations, can bridge this information gap. By providing an objective assessment of financial operations and processes, audits reduce the risk of fraud and financial mismanagement in the Nigerian public sector.

iv. Agency Theory underscores the importance of competent agents who are entrusted with the responsibility of monitoring other agents. In the context of internal audits, this means that auditors themselves must be highly skilled and knowledgeable to effectively detect and prevent fraud. The study's investigation of how audit staff qualifications influence fraud prevention ties directly into Agency Theory by suggesting that the more competent and professional the auditors are, the more likely they are to fulfill their role in minimizing agency costs. If auditors are not well-trained or lack expertise, they may not effectively prevent fraud, leading to a failure in the agency control mechanism.

v. In public sector organizations, a lack of effective fraud prevention can erode trust between the public (the principal) and government institutions (the agents). Agency Theory advocates for establishing effective control systems to mitigate risk and build trust. This study is relevant because it aims to show how high-quality internal audits can contribute to better governance by preventing fraud. This, in turn, fosters greater public trust in governmental institutions and ensures that public resources are used responsibly. The long-term benefits include improved public sector performance, enhanced reputation, and increased public confidence in the ability of the government to manage resources transparently.

Empirical Review

Oloyede and Akinyemi (2022) conducted a study titled "The Role of Internal Audit in Fraud Prevention in Public Sector Organizations in Nigeria." They surveyed 150 public sector employees and used regression analysis. The study found that effective internal audits significantly reduced fraud, highlighting the importance of transparency, skilled auditors, and regular audits in fraud prevention.

Chukwu and Iroegbu (2021) explored "The Impact of Internal Audit Effectiveness on Fraud Prevention in Nigerian Public Sector." Using a sample of 200 employees, the study found that internal audit effectiveness significantly reduced fraud. Strong internal controls and thorough risk assessments were key factors in minimizing fraudulent activities in Nigerian government ministries and agencies.

Oladipo and Adebayo (2020) conducted a mixed-methods study titled "The Influence of Internal Audit Quality on Fraud Prevention in Nigerian Government Agencies." They found that independent and skilled auditors were crucial in fraud prevention. The study emphasized that integrating internal audits into risk management frameworks enhanced fraud detection and financial integrity within Nigerian government institutions.

Ajibola and Fashina (2019) investigated "The Role of Internal Audit in Fraud Prevention in Nigerian Public Sector Organizations." The study found that strong internal audit systems significantly reduced fraud in Nigerian ministries. Transparency, efficient reporting, and a robust audit framework were identified as essential components for minimizing fraud, although limited resources and weak enforcement were challenges.

Oko and Ojo (2018) examined "Internal Audit, Governance, and Fraud Prevention in Nigeria's Public Sector." Their study showed that effective governance, which includes independent audits and transparent reporting systems, was critical for preventing fraud. It also highlighted the importance of professional independence for auditors to detect fraud and ensure public sector financial integrity.

Adewale and Oluwatayo (2017) conducted a study titled "The Role of Internal Auditing in Fraud Risk Mitigation in the Nigerian Public Sector." The research found that quality internal audits played a crucial role in reducing fraud risks. Well-trained auditors, modern tools, and effective processes were essential for detecting fraud and improving financial accountability in government organizations.

Methodology

Research Design

This study employed a survey research design to assess the effect of internal audit quality on fraud prevention in Nigerian public sector organizations. The survey method was chosen due to its ability to collect data from a large sample, making it suitable for understanding patterns and relationships in the population. The research was conducted within Nigerian public sector organizations, focusing on employees involved in internal audit and fraud prevention activities.

Area of Study

The study was conducted within Nigerian public sector organizations, specifically targeting those with established internal audit departments responsible for fraud prevention activities. The setting of this research ensured that the data collected would be relevant to the context of public sector organizations in Nigeria, which have varying levels of internal audit practices.

Population of the Study

The target population for this study consisted of employees working in the internal audit departments of Nigerian public sector organizations. The specific group of individuals targeted for this study included senior internal auditors, auditors and audit managers who play a direct role in fraud prevention. The population of employees working in the internal audit units of public sector organizations in Nigeria was estimated at 1,000 individuals.

Sample Size

To determine the sample size, the Taro Yamane formula was applied as follows:

$$n = \frac{N}{1+N(e)^2}$$

Where:

n = Sample size
N = Total population (1,000)
e = Margin of error (0.05)

$$n = \frac{1000}{1+1000(0.05)^2}$$

$$n = \frac{1000}{1+1000(0.0025)}$$

$$n = \underline{1000}$$

$$n = \frac{1000}{1+2.5}$$

$$n = \frac{1000}{3.5}$$

$$n = \mathbf{286}$$

Thus, the sample size for this study was approximately **286** respondents.

Sampling Techniques

The sampling technique used for selecting participants was simple random sampling. This technique ensured that every individual within the target population had an equal chance of being selected, thus minimizing bias in the sample. The respondents were chosen from various public sector organizations, ensuring that the sample represented a cross-section of internal audit professionals from different government departments.

Instrument for Data Collection

Data collection was achieved through two primary instruments: a structured questionnaire and interviews. The questionnaire was designed to collect quantitative data on the respondents' perceptions of internal audit quality and its impact on fraud prevention efforts. The questionnaire was structured with both closed and Likert-type scale questions to measure the effectiveness of internal audits and the occurrence of fraud prevention measures.

Validity of Instrument

Before using the instrument, a validity test was conducted to ensure that the questionnaire accurately measured what it intended to measure. This was achieved by consulting experts in internal auditing and fraud prevention to review the instrument. Adjustments were made based on their feedback, ensuring the questions were clear and relevant.

Reliability of Instrument

The reliability of the instrument was tested using Cronbach's alpha coefficient, and a value of 0.85 was obtained, indicating a high level of internal consistency. This reliability score suggested that the questionnaire was suitable for gathering data for the study.

Method of Data Collection

Data collection was conducted through surveys distributed to the selected participants, and follow-up interviews were conducted with a subset of respondents to gain in-depth insights into the role of internal audit in fraud prevention. The interviews provided qualitative data that complemented the survey responses.

Method of Data Analysis

For data analysis, both descriptive statistics and frequency tables were used. Descriptive statistics, such as mean, standard deviation, and percentages, were employed to summarize the quantitative responses from the survey. Frequency tables were used to present the distribution of responses, providing a clear overview of the data and making it easier to interpret patterns and trends. These analyses helped to determine the relationships between internal audit quality and fraud prevention in Nigerian public sector organizations.

Data Presentation and Analysis

Table 1: How effective do you think the internal audit system is in detecting fraud in your organization?

Options/Responses	Frequency (n=286)	Percentage (%)
Very effective	45	15.7%
Effective	106	37.1%
Neutral	71	24.8%
Ineffective	40	14.0%
Very ineffective	24	8.4%
Total	**286**	**100%**

Source: Field Survey, 2025

This table illustrates the respondents' views on the effectiveness of the internal audit system in detecting fraud within Nigerian public sector organizations. From the data, it is clear that the majority of respondents (37.1%) believe the internal audit system is effective, followed by 15.7% who think it is very effective. A significant portion, 24.8%, remained neutral, indicating uncertainty or indifference about the system's effectiveness. On the other hand, 14.0% of respondents felt the system was ineffective, and 8.4% believed it was very ineffective. This distribution suggests that while the internal audit system is perceived as largely effective, there is still a notable portion of the respondents who see room for improvement or have reservations about its overall success in detecting fraud.

Table 2: In your opinion, has the frequency of fraud incidents in your organization decreased as a result of the internal audit system?

Options/Responses	Frequency (n=286)	Percentage (%)
Yes, significantly	60	21.0%
Yes, somewhat	120	41.9%
No change	64	22.4%
Increased	30	10.5%
Don’t know	12	4.2%
Total	**286**	**100%**

Source: Field Survey, 2025

This table illustrates the respondents' views on whether the frequency of fraud incidents in their organization has decreased as a result of the internal audit system. From the data, 41.9% of respondents believe that fraud incidents have decreased somewhat due to the internal audit system, while 21.0% indicated that the reduction was significant. However, 22.4% of respondents reported no change in the frequency of fraud incidents, suggesting that the internal audit system may not have had a noticeable effect in some areas. A smaller proportion, 10.5%, observed an increase in fraud incidents, while 4.2% were unsure of the impact. Overall, the responses suggest that the internal audit system has had a positive effect on reducing fraud, though its effectiveness may vary across different departments or organizations.

Table 3: How would you rate the impact of the qualifications of audit staff on their ability to prevent fraud in your organization?

Options/Responses	*Frequency (n=286)*	*Percentage (%)*
Very high impact	72	25.2%
High impact	110	38.5%
Moderate impact	66	23.1%
Low impact	28	9.8%
No impact	10	3.5%
Total	**286**	**100%**

Source: Field Survey, 2025

This table illustrates the respondents' views on the impact of audit staff qualifications on their ability to prevent fraud in Nigerian public sector organizations. The majority of respondents (38.5%) rated the impact of audit staff qualifications as high, and 25.2% believed it had a very high impact on preventing fraud. A significant portion, 23.1%, felt the qualifications had a moderate impact, while 9.8% and 3.5% rated the impact as low or nonexistent, respectively. This data indicates that the qualifications of audit staff are seen as a critical factor in preventing fraud, with most respondents emphasizing their significant role in improving fraud prevention efforts. However, there remains a small portion who feel that staff qualifications may not have a substantial effect on fraud prevention.

Table 4: Do you believe that audit staff with advanced qualifications are more effective at preventing fraud in comparison to those with basic qualifications?

Options/Responses	Frequency (n=286)	Percentage (%)
Strongly agree	85	29.7%
Agree	112	39.1%
Neutral	52	18.2%
Disagree	28	9.8%
Strongly disagree	9	3.1%
Total	**286**	**100%**

Source: Field Survey, 2025

This table illustrates the respondents' opinions on whether audit staff with advanced qualifications are more effective at preventing fraud compared to those with basic qualifications. A significant majority (39.1%) agreed that audit staff with advanced qualifications are more effective at preventing fraud, and 29.7% strongly agreed with this statement. A smaller portion (18.2%) remained neutral, suggesting that they did not have a strong opinion on the matter. On the other hand, 9.8% disagreed, and only 3.1% strongly disagreed. This indicates that most respondents believe that advanced qualifications enhance the effectiveness of audit staff in preventing fraud, with only a small minority expressing doubts.

Table 5: How would you rate the effectiveness of the internal audit processes in mitigating fraud within your organization?

Options/Responses	Frequency (n=286)	Percentage (%)
Very effective	64	22.4%
Effective	118	41.3%
Neutral	70	24.5%
Ineffective	28	9.8%
Very ineffective	6	2.1%
Total	**286**	**100%**

Source: Field Survey, 2025

This table illustrates the respondents' views on the effectiveness of internal audit processes in mitigating fraud within Nigerian public sector organizations. A large proportion of respondents (41.3%) rated the internal audit processes as effective, and 22.4% considered them very effective. Meanwhile, 24.5% were neutral, indicating uncertainty or a lack of strong opinion on the matter. A smaller group (9.8%) found the processes ineffective, and 2.1% deemed them very ineffective. These results suggest that, overall, the internal audit processes are generally perceived as effective in mitigating fraud, but there are still a few individuals who feel that these processes are insufficient in addressing the issue.

Table 6: In your opinion, does the implementation of regular internal audits lead to a reduction in fraudulent activities in your organization?

Options/Responses	Frequency (n=286)	Percentage (%)
Yes, significantly	82	28.7%
Yes, to some extent	120	41.9%
No effect	56	19.6%
Leads to an increase in fraud	18	6.3%
Don’t know	10	3.5%
Total	**286**	**100%**

Source: Field Survey, 2025

This table illustrates the respondents' views on whether the implementation of regular internal audits leads to a reduction in fraudulent activities within their organization. A significant portion of respondents (41.9%) believe that regular internal audits have reduced fraudulent activities to some extent, while 28.7% feel that the reduction has been significant. However, 19.6% of respondents reported no effect, suggesting that for some organizations, regular audits may not be effective in curbing fraud. A small group (6.3%) observed that regular audits might even lead to an increase in fraud, while 3.5% were unsure of the impact. These results indicate that, while the majority believe regular internal audits help reduce fraud, there are varied perceptions on the extent of their effectiveness.

Summary of Findings

The following summarizes the key findings:

i. A majority of respondents (52.8%) consider the internal audit system either effective or very effective in detecting fraud within Nigerian public sector organizations. However, a substantial portion (24.8%) remained neutral, possibly indicating uncertainty about the effectiveness of the audits in their specific departments. Additionally, 22.4% of respondents felt that the internal audit system is ineffective or very ineffective, which suggests that while internal audits are generally perceived positively, there is still a need for improvements in certain areas to enhance their overall effectiveness in detecting fraud.

ii. The data reveals that a significant portion of respondents (62.9%) believe internal audits have contributed to a reduction in the frequency of fraud incidents within their organizations. However, 22.4% reported no change in the frequency of fraud, and 10.5% even observed an increase in fraud incidents, implying that the effectiveness of internal audits in reducing fraud may vary depending on the nature of the audits and the departments in which they are implemented. These findings suggest that while internal audits have been beneficial in some areas, their impact on fraud reduction might not be universally felt across all organizations.

iii. The qualifications of audit staff are seen as an important factor in preventing fraud, with 64.3% of respondents stating that highly qualified audit staff have a high to very high impact on fraud prevention. This suggests that respondents generally believe that the more qualified the audit staff, the more effective they are in detecting and preventing fraudulent activities. However, a small minority (13.3%) felt that staff qualifications have little to no impact on fraud prevention. This reflects some skepticism among certain respondents, possibly indicating that factors beyond qualifications, such as organizational culture or audit processes, might also play a significant role in preventing fraud.

Conclusion

In conclusion, the findings from this study indicate that internal audit systems are widely regarded as essential in detecting and preventing fraud within Nigerian public sector organizations. A majority of respondents acknowledged the positive impact of internal audits, with many believing that audits help reduce the frequency of fraud incidents. However, the perceived effectiveness of internal audits varies across organizations, with some respondents noting no significant changes or even an increase in fraud.

Additionally, the qualifications of audit staff are strongly linked to the effectiveness of fraud prevention efforts. The majority of respondents emphasized that highly qualified audit personnel play a crucial role in detecting and mitigating fraud. Nevertheless, a small minority remains skeptical about the direct impact of qualifications, suggesting that other factors, such as organizational culture and audit processes, also contribute to the overall success of fraud prevention measures.

Recommendations

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

i. To improve the effectiveness of internal audits in preventing fraud, public sector organizations should invest in continuous training and professional development for audit staff. This includes offering opportunities for further education, certification, and specialized training in fraud detection and prevention. Enhancing the skills and qualifications of audit personnel will ensure that they are well-equipped to identify and address emerging fraud risks.

ii. Organizations should review and improve their internal audit processes to ensure they are comprehensive, transparent, and capable of identifying potential fraud risks. This includes regular audits, improved monitoring systems, and better coordination between departments to ensure that audit findings lead to concrete actions that prevent fraud. Additionally, organizations should adopt advanced audit tools and technologies that can enhance the accuracy and efficiency of fraud detection.

iii. To complement the role of internal audits, public sector organizations should foster a strong anti-fraud culture at all levels. This can be achieved through the establishment of clear anti-fraud policies, promoting awareness programs, and encouraging employees to report fraudulent activities without fear of retaliation. Building a culture of integrity and accountability will reinforce the efforts of internal audits and contribute to a more effective overall fraud prevention strategy.

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