

**THE IMPACT OF INTERNAL AUDIT ON FRAUD DETECTION
AND PREVENTION (A CASE STUDY OF FEDERAL INLAND
REVENUE SERVICE (FIRS) ILORIN, KWARA STATE**

BY

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**BEING A PROJECT SUBMITTED TO THE DEPARTMENT OF ACCOUNTANCY,
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CERTIFICATION

This is to certify that this research work conducted by **SULYMAN MUHAMMED** with matric number **ND/23/ACC/PT/0130** has been read and approved as meeting the requirements of the Department of Accountancy, Institute of Finance and Management Studies, Kwara State Polytechnic Ilorin for the award of National Diploma (ND).

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DEDICATION

It is with deep heartfelt gratitude to Almighty Allah that I dedicate this project, it is dedicated to my wonderful parent, MR & MRS SULYMAN for all their great effort in my years of school, my words could not express how much I love you both.

ACKNOWLEDGEMENT

In the name of Almighty Allah, the most merciful and the most beneficent I sincerely express my heartfelt gratitude to the bedrock academic achievement. My heavenly thanks go to Almighty Allah for bestowing upon me the knowledge to see the actualization of this project.

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ABSTRACT

This research project examines The Impact of Internal Audit on Fraud Detection and Prevention, using the Federal Inland Revenue Service (FIRS), Ilorin, Kwara State as a case study. The study investigates how internal audit functions contribute to identifying and preventing fraudulent activities within public institutions. Internal audit is a key mechanism for ensuring financial integrity and accountability in both public and private sectors. This study aims to evaluate the effectiveness of internal audit practices in detecting irregularities, enforcing compliance, and promoting transparency within the FIRS.

A descriptive research design was adopted, utilizing both primary and secondary data sources. Questionnaires were administered to selected FIRS staff, and relevant documents were reviewed. Data were analyzed using statistical tools to assess the relationship between internal audit activities and the level of fraud detection and prevention.

Findings revealed that internal audit significantly enhances fraud detection and plays a vital role in curbing financial misappropriation. However, challenges such as limited independence, lack of adequate training, and management interference were identified as hindrances to audit effectiveness. The study recommends strengthening the independence of the internal audit unit, investing in continuous training for auditors, and ensuring full implementation of audit recommendations.

This study contributes to the understanding of internal audit as a critical tool in public sector financial management and offers practical suggestions for enhancing its role in fraud prevention.

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CHAPTER ONE

1.1 BACKGROUND TO THE STUDY

The global financial landscape has grown increasingly complex, characterized by sophisticated transactions, digital innovations, and evolving regulatory demands. In this environment, the role of internal audit as a cornerstone of organizational governance cannot be overstated. Internal audit functions serve as a proactive mechanism to safeguard assets, ensure compliance, and enhance operational efficiency by systematically evaluating risk management, control systems, and governance frameworks. Its significance is particularly pronounced in public sector institutions, where accountability and transparency are critical to maintaining public trust and ensuring the effective utilization of resources.

In Nigeria, the public sector has faced persistent challenges related to financial mismanagement and fraud. According to the Economic and Financial Crimes Commission (EFCC), Nigeria lost over **₦2.9 trillion** to public sector fraud between 2018 and 2022, with tax-related fraud contributing significantly to this figure. The Federal Inland Revenue Service (FIRS), as the agency responsible for assessing, collecting, and accounting for tax revenues, plays a pivotal role in Nigeria's fiscal sustainability. However, its operations are often marred by vulnerabilities to fraudulent activities, including embezzlement, collusion with taxpayers, and diversion of funds. The FIRS Ilorin branch, located in Kwara State, is no exception. As a critical node in the national tax administration network, it handles substantial revenue streams, making it a prime target for both internal and external fraudsters.

The need for robust internal audit systems in institutions like FIRS is underscored by the direct link between effective auditing and fraud mitigation. Internal audit units are tasked with identifying control weaknesses, detecting irregularities, and recommending corrective actions.

However, the efficacy of these units is often compromised by systemic issues. For instance, a 2021 report by the Auditor-General of the Federation highlighted that **35% of federal agencies**, including FIRS, lacked adequate audit trails due to outdated manual processes and insufficient staffing. In FIRS Ilorin, anecdotal evidence suggests recurring issues such as delayed reconciliations, incomplete documentation, and unresolved audit queries, which create loopholes for fraud.

Scholarly discourse on internal audit in Nigeria has emphasized these systemic gaps. Olaoye (2020) noted that many public institutions, including tax agencies, operate with internal audit departments that lack independence, as auditors often report directly to management, creating conflicts of interest. Similarly, Adeyemi (2019) found that **62% of auditors** in Nigerian public agencies lacked specialized training in forensic accounting or data analytics, limiting their ability to detect sophisticated fraud schemes. These findings align with global studies, such as those by the Institute of Internal Auditors (IIA, 2021), which stress that audit effectiveness hinges on technological integration, auditor competence, and organizational support.

The FIRS Ilorin branch presents a compelling case for examining these challenges. Despite its mandate to drive tax compliance in Kwara State, the branch has faced allegations of irregularities, including underreporting of collected revenues and manipulation of taxpayer records. A 2022 internal review revealed **₦420 million** in unaccounted funds linked to procedural lapses and weak oversight. Such incidents not only undermine revenue generation but also erode taxpayer confidence, exacerbating Nigeria's struggle with low tax compliance rates, which stood at **18%** in 2023, far below the African average of **25%** (World Bank, 2023).

This study situates itself within the broader context of Nigeria's anti-corruption agenda, which prioritizes institutional reforms to curb revenue leakages. By focusing on FIRS Ilorin, it seeks to

unravel how internal audit practices shaped by factors like technology, human capacity, and policy frameworks impact the agency's ability to detect and prevent fraud. The findings aim to contribute to policy discussions on strengthening fiscal governance and align with Sustainable Development Goal (SDG) 16, which emphasizes building effective, accountable, and transparent institutions.

In summary, the background to this study highlights the intersection of Nigeria's public sector fraud epidemic, the strategic role of FIRS in revenue mobilization, and the imperative for revitalizing internal audit mechanisms. It underscores the urgency of addressing gaps in audit frameworks to safeguard public funds and foster economic stability.

1.2 Statement of the Problem

Fraud remains a persistent challenge in Nigeria's public sector, with agencies like FIRS reporting recurring cases of revenue leakage and financial misconduct. FIRS Ilorin, despite its mandate to enhance tax compliance, faces allegations of internal fraud, including collusion with taxpayers to underreport liabilities and diversion of funds. While internal audit units exist to curb these issues, their effectiveness is questionable. Recent audits (FIRS Annual Report, 2022) revealed unresolved discrepancies, suggesting systemic weaknesses in audit processes.

The problem arises from inadequate audit frameworks, limited technological integration, and potential compromises in auditor independence. These shortcomings hinder timely fraud detection and erode public trust. Existing studies have focused broadly on internal audit in Nigeria but lack specificity on tax agencies like FIRS. This study addresses this gap by investigating how FIRS Ilorin's internal audit practices influence fraud outcomes, offering actionable solutions to strengthen fiscal integrity.

1.3 Research Objectives

The primary objective of this study is to evaluate the impact of internal audit on fraud detection and prevention (A case study of Federal Inland Revenue Service (FIRS) Ilorin, Kwara State), with a specific focus on (FIRS) Ilorin, Kwara State.

The specific objectives of this study are to:

1. To evaluate the effectiveness of FIRS Ilorin's internal audit system in detecting and preventing fraud.
2. To identify challenges hindering the optimal performance of internal audit in FIRS Ilorin.
3. To assess the role of auditors' competence and technological tools in enhancing fraud detection.
4. To recommend strategies for improving internal audit processes to mitigate fraud risks.

By achieving these objectives, the study seeks to provide insights into the practical implications of FIRS adoption in Ilorin, Kwara State.

1.4 Research Questions

To achieve the objectives of this study and provide a comprehensive understanding of the impact of internal audit on fraud detection and prevention (A case study of Federal Inland Revenue Service (FIRS) Ilorin, Kwara State), the following research questions are posed:

1. How effective is FIRS Ilorin's internal audit system in detecting and preventing fraud?
2. What challenges impede the internal audit unit from achieving its fraud control objectives?
3. How do auditors' expertise and technological adoption influence fraud detection capabilities?
4. What measures can FIRS Ilorin adopt to enhance its internal audit functions?

1.5 Significance of the Study

This study holds critical value for enhancing governance and accountability in Nigeria’s public sector. For the **Federal Inland Revenue Service (FIRS) Ilorin**, the findings will identify gaps in its internal audit framework, such as outdated technology, staffing shortages, and compromised auditor independence, which hinder fraud detection. By recommending solutions—like adopting data analytics tools or enhancing forensic training—the study empowers FIRS to strengthen revenue security. Improved auditing can curb incidents like the **₦420 million unaccounted funds** reported in 2022, fostering taxpayer trust and boosting Kwara State’s low tax compliance rate.

Policymakers will benefit from evidence to advocate for reforms, such as laws mandating audit independence or technological upgrades, aligning with Nigeria’s anti-corruption agenda. Academically, the study fills a gap by focusing on tax agencies, offering empirical data for future research on fiscal governance. Its linkage of local practices to global standards, like the Institute of **Internal Auditors’ guidelines and Sustainable Development Goal 16**, provides a transnational perspective for comparative studies.

Societally, reducing fraud at FIRS Ilorin can redirect lost funds—part of the **₦2.9 trillion** lost nationally to public sector fraud (2018–2022)—toward healthcare, education, and infrastructure. Enhanced transparency may also improve Nigeria’s global credibility, attracting foreign investment tied to governance reforms. Methodologically, the mixed-methods approach (audit report analysis and staff interviews) offers a replicable model for auditing studies in similar contexts.

Ultimately, this research transcends FIRS Ilorin, advocating for internal audit as a strategic tool—not just a compliance formality—to drive economic resilience, public trust, and sustainable development.

1.6 Research Hypothesis

To effectively evaluate the impact of internal audit on fraud detection and prevention (A case study of Federal Inland Revenue Service (FIRS) Ilorin, Kwara State), this study will test the following hypotheses:

H₁: A well-structured and independent internal audit system at FIRS Ilorin significantly enhances fraud detection and prevention capabilities.

H₂: The adoption of advanced technological tools (e.g., data analytics, AI) in internal audits correlates with improved identification of fraudulent activities.

H₃: Auditor competence in forensic accounting and fraud investigation techniques positively influences fraud detection rates at FIRS Ilorin.

H₄: Lack of auditor independence and inadequate staffing in the internal audit unit undermine its ability to mitigate fraud risks effectively.

These hypotheses provide a framework for statistically examining the impact of internal audit on fraud detection and prevention (A case study of Federal Inland Revenue Service (FIRS) Ilorin, Kwara State), allowing the study to derive meaningful conclusions regarding its benefits, challenges, and overall impact.

1.7 Scope of the Study

This study focuses on FIRS Ilorin, Kwara State, from 2018 to 2023. It examines internal audit processes, including risk assessment, control evaluation, and fraud investigation methods. Data will be sourced from audit reports, staff interviews, and secondary materials. Limitations include restricted access to confidential records and potential bias in self-reported responses.

1.8 Limitations of the Study

While this study provides valuable insights into internal audit's role in fraud detection and prevention at FIRS Ilorin, several limitations should be acknowledged:

1. **Scope Limitation:** The study focuses specifically on FIRS Ilorin branch, which may limit the generalizability of findings to other FIRS branches or different government agencies.
2. **Data Accessibility:** Access to sensitive audit reports and confidential fraud cases may be restricted due to organizational privacy policies, potentially limiting the depth of analysis.
3. **Time Constraints:** The study covers a specific time period (2018-2023), which may not capture longer-term trends in fraud patterns and audit effectiveness.
4. **Respondent Bias:** Interviews with audit staff may be subject to response bias, as participants might provide socially desirable answers rather than complete honesty about audit shortcomings.
5. **Dynamic Nature of Fraud:** Fraud techniques constantly evolve, and findings may not fully account for emerging fraud schemes that develop after the study period.
6. **Resource Limitations:** Constraints in research budget and time may limit the sample size and comprehensiveness of data collection.

1.9 Operational Definition of Terms

For clarity and consistency, key terms used in this study are operationally defined as follows:

1. **Internal Audit:** An independent, objective assurance and consulting activity designed to add value and improve an organization's operations through systematic evaluation of risk management, control, and governance processes.
2. **Fraud Detection:** The process of identifying actual or attempted fraudulent activities

through examination of financial records, transactions, and operational processes.

3. **Fraud Prevention:** The implementation of policies, procedures, and controls designed to deter fraudulent activities before they occur.
4. **Federal Inland Revenue Service (FIRS):** The Nigerian government agency responsible for assessing, collecting, and accounting for tax and other revenues accruing to the federal government.
5. **Auditor Competence:** The combination of knowledge, skills, and professional qualifications that enable auditors to effectively perform their duties.
6. **Audit Independence:** The freedom of internal auditors from conditions that threaten their ability to carry out their responsibilities in an unbiased manner.
7. **Forensic Accounting:** The application of accounting principles and investigative skills to identify financial irregularities and gather evidence for potential legal proceedings.
8. **Revenue Leakage:** The loss of government income due to inefficiencies, errors, or fraudulent activities in the revenue collection process.

Control Systems: The policies and procedures implemented by management to ensure the achievement of organizational objectives, including the reliability of financial reporting and compliance with laws and regulations.

CHAPTER TWO

2.0 LITERATURE REVIEW

Internal audit in Nigeria's public sector is a mandated managerial control function established by financial regulations. In Chapter 17 of Nigeria's Financial Regulations (FR), an internal audit unit is

charged with providing "a complete and continuous audit of the accounts and records of revenue and expenditure, assets, allocated and unallocated stores".

In practice, this means the internal audit unit continuously reviews transactions and controls to ensure compliance with laws and rules. As an official government source explains, the internal audit "measures and evaluates the effectiveness of internal control in an organization" osgf.gov.ng. The function is directly accountable to the accounting officer and, by extension, helps ensure that public funds are properly used national planning.

Because public-sector resources in Nigeria are vulnerable to mismanagement and corruption, internal audit plays a key role in fraud detection and prevention. The Federal Ministry of Defense notes that internal audit exists "to protect the assets and interest of the Ministry and help to prevent or detect fraud, misappropriation of funds".

In other words, auditors inspect and monitor operations to spot irregularities. For example, internal audit staff routinely "inspect/monitor departments... to safeguard, prevent or for early detection of errors and anomalies".

They also perform 100% pre-payment checks on vouchers, verify that payments are correctly authorized, and ensure compliance with financial procedures. These controls – mandated by

Nigeria's Financial Regulations – are intended to catch wrongdoings early. In summary, Nigeria's regulatory framework (FR and related policies) enshrines internal audit as an independent assurance activity. It is explicitly tasked with ensuring compliance, safeguarding assets, and “prevent[ing] or detect[ing] fraud”. By continuously reviewing accounts and internal controls, Nigerian internal auditors aim to plug gaps through which fraud could occur. This broad mandate aligns with Nigeria's fiscal accountability laws (such as the Fiscal Responsibility Act 2007) that emphasize transparency and prudent management of public funds.

Effective internal audits are thus recognized as critical for improving governance and curbing fraud in government agencies.

2.1 Conceptual Review

This section provides a detailed explanation of the major concepts relevant to this study. Understanding these concepts is essential for evaluating the role of internal audit in the detection and prevention of fraud, especially in the context of the Federal Inland Revenue Service (FIRS), Ilorin, Kwara State.

Internal Audit

Internal audit is defined as an independent and objective assurance and consulting function that is designed to improve an organization's operations. According to the Institute of Internal Auditors (IIA), internal auditing is a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes. In the Nigerian public sector, internal auditing has gained more recognition due to the increasing demand for transparency and accountability in government agencies. The internal audit function

within FIRS is structured to evaluate the adequacy and effectiveness of internal controls, detect financial irregularities, and ensure compliance with statutory regulations. Unlike external auditors, internal auditors operate within the organization and continuously review its financial and operational activities.

Fraud

Fraud is a deliberate act of deception with the intention of securing an unfair or unlawful gain. It can manifest in various forms including embezzlement, bribery, misappropriation of funds, and manipulation of financial records. In the Nigerian public sector, fraud has become a significant challenge, leading to the loss of huge sums of public funds. At FIRS, fraud may occur in the form of unauthorized tax waivers, falsification of revenue reports, collusion with taxpayers, and diversion of public funds. The presence of effective internal auditing mechanisms is necessary to identify, investigate, and prevent such activities.

Fraud Detection

Fraud detection refers to the processes and procedures used to uncover the occurrence or risk of fraud. It involves reviewing financial transactions, examining internal records, and identifying inconsistencies or unusual trends that may indicate fraudulent behavior. At FIRS Ilorin, internal auditors use various techniques such as internal control testing, analytical procedures, forensic reviews, and surprise audits to detect fraud. Detecting fraud early helps management take corrective actions and prevent further losses. In many Nigerian institutions, failure to detect fraud on time has led to financial mismanagement and erosion of public trust.

Fraud Prevention

Fraud prevention involves the implementation of systems, controls, policies, and ethical practices

aimed at reducing the opportunity and motivation to commit fraud. Effective fraud prevention strategies include strong internal control systems, employee training, ethical leadership, and segregation of duties. At FIRS, the internal audit unit plays a proactive role by assessing risks, recommending preventive measures, and evaluating the adequacy of controls. Fraud prevention not only protects public resources but also enhances the credibility of the institution in the eyes of stakeholders.

Internal Control System

An internal control system comprises the policies and procedures established by management to ensure the organization's objectives are achieved efficiently. These controls help safeguard assets, prevent fraud, and ensure accurate financial reporting. In Nigeria, the Financial Regulations 2009 and the Public Sector Audit Guidelines provide frameworks for internal controls in government institutions. The internal audit function evaluates the design and effectiveness of these controls to ensure they are functioning as intended.

In conclusion, the conceptual review has provided clarity on the major constructs underpinning this study. The concepts of internal audit, fraud, fraud detection, fraud prevention, and internal control are interrelated and central to the effectiveness of public institutions like FIRS. Understanding these concepts within the Nigerian context helps lay a strong foundation for further theoretical and empirical exploration in the subsequent sections of this research work.

2.2 Theoretical Framework

The theoretical framework serves as the foundation upon which this research is built. It provides the lens through which the relationship between internal audit and fraud detection and prevention can be examined. In this study, several theories are relevant to understanding how

internal audit mechanisms can reduce the likelihood and impact of fraud within public sector organizations like the Federal Inland Revenue Service (FIRS), Ilorin. The major theories considered are the Agency Theory, Fraud Triangle Theory, and Systems Theory.

Agency Theory

Agency theory, developed by Jensen and Meckling (1976), is concerned with the relationship between principals (owners or stakeholders) and agents (managers or employees). In the context of public sector organizations such as FIRS, the taxpayers and government represent the principals, while the public servants or revenue officers serve as agents. The theory posits that agents may not always act in the best interest of the principals due to conflicting goals and the presence of asymmetric information. This divergence of interest can lead to fraudulent practices such as embezzlement, under-reporting of revenues, and mismanagement of resources.

Internal audit serves as a mechanism to align the interests of the agents with those of the principals. By continuously monitoring financial activities and ensuring adherence to regulations, internal audit reduces information asymmetry and limits the opportunity for misconduct. In the Nigerian context, where there is often limited oversight and a high incidence of public sector corruption, internal auditing plays a critical role in safeguarding public resources.

Fraud Triangle Theory

The Fraud Triangle Theory, developed by Donald Cressey (1953), identifies three elements necessary for fraud to occur: pressure, opportunity, and raationalization.

- Pressure refers to the financial or personal pressures that drive individuals to commit fraud.

In the Nigerian public service, such pressure may stem from low wages, debt, or family expectations.

- Opportunity exists when there are weak internal controls, poor supervision, or lack of segregation of duties. At FIRS, where large sums of revenue are handled, a weak internal audit function could present significant opportunities for fraud.

- Rationalization is the mental justification an individual uses to legitimize fraudulent behavior. Some public officers may rationalize fraud by citing systemic corruption or delay in salaries.

Internal audit, through the implementation and evaluation of internal controls, helps eliminate the opportunity for fraud. Regular audit reviews, control testing, and policy enforcement serve as deterrents. By promoting ethical standards and transparency, internal auditors also challenge rationalizations that might lead to fraudulent behavior.

Systems Theory

Systems theory views an organization as a system composed of interrelated and interdependent parts. The internal audit function is a subsystem that interacts with other departments to ensure that the organization operates effectively and efficiently. Within FIRS, the internal audit unit works closely with departments such as Finance, Revenue Collection, and Taxpayer Services to assess compliance and detect irregularities.

According to systems theory, any dysfunction in one part of the organization can affect the whole system. If internal controls are weak in the revenue collection process, for example, it can lead to revenue losses, inaccurate reporting, and loss of public trust. The internal audit function ensures that all components of the organizational system are functioning as expected and that

risks are identified and managed proactively.

Application to the Nigerian Public Sector

In Nigeria, public institutions are often faced with poor governance structures, inadequate internal controls, and limited accountability. These weaknesses create an environment conducive to fraud. Applying the agency theory helps in understanding the need for strong oversight, while the fraud triangle explains why individuals engage in fraud. Systems theory underscores the importance of integrating internal audit into the broader structure of public administration.

The theoretical framework thus provides a multi-dimensional basis for examining the role of internal audit in fraud detection and prevention. By applying these theories, this study will better understand the effectiveness of internal auditing in managing risks, enhancing accountability, and safeguarding public resources at FIRS Ilorin.

2.3 Empirical Studies

Empirical studies serve as an important foundation for this research by providing real-life evidence and findings on the relationship between internal auditing and fraud detection and prevention in Nigeria. This section reviews various academic and institutional studies that have examined the effectiveness of internal audit in combating fraud in both the public and private sectors within the country.

A study conducted by Olaoye and Dandago (2014) investigated the role of internal audit in the prevention and detection of fraud in selected Nigerian government ministries. Their research revealed that internal auditors played a significant role in identifying financial irregularities through periodic reviews and monitoring. However, the effectiveness of internal audit was found to be hampered by poor independence, inadequate training, and management interference. The

study recommended the restructuring of audit units to promote autonomy and professionalism.

Similarly, Olatunji (2009) examined internal control and fraud prevention in Nigerian public institutions, with a focus on internal audit's involvement in enforcing internal controls. The study concluded that internal auditing positively influences fraud prevention when backed by proper enforcement of internal control systems. The research emphasized the importance of continuous capacity building for internal auditors to enable them to handle emerging fraud schemes effectively.

In a more sector-specific study, Agbaje and Fagbemi (2015) focused on tax-related fraud and the role of internal auditing in Nigeria's revenue-generating agencies, including the Federal Inland Revenue Service (FIRS). Their findings indicated that internal audit units contributed significantly to detecting tax evasion and fraudulent accounting practices, particularly when equipped with adequate tools and management support. However, the researchers also highlighted challenges such as limited staff capacity and political influence, which often restrict internal auditors from functioning independently.

A study by Okoye and Gbegi (2013) titled "An Evaluation of the Effectiveness of Internal Audit in the Detection of Fraud in Nigerian Public Enterprises"* concluded that internal audit functions were often underutilized in many government organizations. According to their findings, internal audit's contribution to fraud detection was only effective when there was independence from the management and access to relevant financial documents. The study suggested the establishment of audit committees and whistleblower policies to further support internal auditors.

Furthermore, Adeniji and Aruwa (2018) explored the relationship between internal audit practices and the level of financial fraud in federal agencies. Their research, which involved data

from various federal institutions in Nigeria, showed a statistically significant inverse relationship between the strength of internal audit and the prevalence of fraud. Institutions with a well-resourced and independent internal audit unit were found to have fewer instances of fraud.

In summary, these empirical studies reveal that internal audit has the potential to be an effective tool for fraud detection and prevention in Nigerian public institutions. However, for internal audit to be truly effective, factors such as independence, adequate funding, skilled personnel, and organizational support must be present. The evidence from these studies supports the need for a robust internal audit structure within FIRS, Ilorin, to ensure effective management of public funds and promote transparency.

2.4 Summary

This chapter has examined the existing body of literature concerning internal audit and its impact on fraud detection and prevention, particularly in public sector institutions such as the Federal Inland Revenue Service (FIRS), Ilorin, Kwara State. The literature review provided a conceptual, theoretical, and empirical foundation that frames the research problem and guides the direction of the study.

In the conceptual review, key terms and constructs central to the study were discussed. Internal audit was defined as an independent and objective assurance activity aimed at adding value and improving an organization's operations. The concepts of fraud, fraud detection, fraud prevention, and internal control were also explored in the context of Nigerian public sector practices. It was established that fraud, in its various forms, is a persistent challenge in Nigeria due to factors such as weak governance, limited oversight, and systemic corruption. Internal audit plays a preventive and detective role by evaluating internal controls, identifying risk areas, and

recommending corrective measures.

The theoretical framework examined relevant theories that support the study. These included the Agency Theory, which explained the conflict of interest between principals (government/taxpayers) and agents (public servants); the Fraud Triangle Theory, which described the conditions under which fraud is likely to occur (pressure, opportunity, and rationalization); and the Systems Theory, which viewed internal audit as an integral component of the overall functioning of a public institution. Each of these theories provided insight into how internal audit functions can reduce the likelihood and impact of fraudulent activities when adequately implemented.

In the empirical review, several studies conducted in Nigeria were critically examined to understand the practical implications of internal auditing in fraud prevention and detection. The reviewed studies consistently pointed out that while internal audit is vital, its effectiveness is often limited by factors such as poor funding, lack of independence, inadequate training, and interference from management or political authorities. These studies emphasized the need for organizational support, autonomy, and ongoing training for internal auditors to effectively execute their responsibilities.

The studies also demonstrated a positive correlation between a strong internal audit function and reduced incidences of fraud in government institutions. Specifically, evidence from research conducted in ministries, tax offices, and public enterprises in Nigeria revealed that internal audit units contributed significantly to fraud prevention and detection when empowered with the necessary authority and resources.

Overall, this chapter provides a comprehensive understanding of the internal audit landscape in Nigeria, particularly in relation to its role in fighting fraud. It underscores the necessity for government institutions like FIRS to maintain a strong, independent, and well-equipped internal audit unit as part of a broader strategy for achieving financial integrity and public accountability. As the next chapter will detail the research methodology, this literature review serves as a foundational guide, justifying the relevance and need for this study and shaping the research design, population, sampling, and data analysis techniques to be employed. The gaps identified in the literature further highlight the significance of conducting an in-depth study specifically focused on FIRS Ilorin, to contribute to improved practices in internal auditing and fraud management in Nigeria's public sector.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the research methodology adopted for this study. It describes the research design, the population of the study, the sampling technique, instruments for data collection, interview schedule, data collection procedures, and the method of data analysis. The purpose of this chapter is to ensure clarity and replicability of the research process in studying the impact of internal audit on fraud detection and prevention within the Federal Inland Revenue Service (FIRS), Ilorin.

3.1 Research Design

This study adopts a descriptive survey research design. This design is appropriate because it allows for the collection of data from a specific population with the intent of describing the current state of internal auditing and its effectiveness in detecting and preventing fraud. Both qualitative and quantitative approaches were utilized to ensure comprehensive data analysis.

3.2 Population of the Study

The population of this study comprises the staff of the Federal Inland Revenue Service (FIRS) in Ilorin, Kwara State. The agency has approximately ****120 employees**** across various departments including audit, tax collection, administration, and finance. This population is considered adequate for evaluating the internal audit structure and its effectiveness in fraud control.

3.3 Sampling Technique

The Taro Yamane formula was used to determine the sample size for this study:

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

Where:

- **n** = sample size
- **N** = population size (120)
- **e** = level of precision (0.05)

$$n = \frac{120}{1 + 120(0.05)^2} = \frac{120}{1 + 0.3} = \frac{120}{1.3} \approx 92$$

Where:

- n = sample size

- N = population size (120)

- e = level of precision (0.05)

Thus, the sample size is 92 respondents, selected using a simple random sampling technique to ensure equal representation and avoid bias.

3.4 Instruments for Data Collection

Primary data were collected using structured questionnaires and semi-structured interviews. The questionnaire consisted of closed-ended questions to capture quantitative data, while the interview allowed for deeper insight into respondents' perspectives and experiences regarding internal audit operations and fraud control at FIRS.

3.5 Interview Schedule

Interviews were conducted with key officers from the Internal Audit and Finance departments. A total of five (5) senior staff members were purposively selected based on their roles and experience in internal audit practices. The interview guide focused on their views about the adequacy of audit controls, frequency of audit checks, and their impact on fraud prevention.

3.6 Data Collection Procedures

The researcher personally administered the questionnaires to the selected staff during working hours, with the assistance of a liaison officer from FIRS. Respondents were given a three-day window to complete and return the questionnaires. The interviews were scheduled in advance and conducted in a quiet, private setting to ensure confidentiality and open dialogue.

3.7 Method of Data Analysis

Data collected were analyzed using both descriptive and inferential statistical methods. Descriptive statistics such as frequency tables and percentages were used to present the demographic information and general responses. Inferential statistics, including the chi-square test, were used to test the research hypotheses and measure the relationship between internal audit practices and fraud detection/prevention. Qualitative data from interviews were transcribed and thematically analyzed to support quantitative findings.

CHAPTER FOUR

4.0 DATA PRESENTATION AND ANALYSIS

This chapter presents the analysis of the data collected through questionnaires and interviews administered to staff of the Federal Inland Revenue Service (FIRS), Ilorin, Kwara State. The purpose of this chapter is to interpret the data in a manner that reveals the impact of internal audit on fraud detection and prevention. The data was collected using both quantitative and qualitative instruments, which have been organized under several subsections: respondent demographics, responses to research questions, and a discussion of key findings.

4.1. PREAMBLE

A total of 92 questionnaires were distributed, out of which 86 were properly completed and returned, yielding a response rate of 93.5%. In addition to the questionnaires, in-depth interviews were conducted with five senior staff of FIRS in the audit and finance departments to validate and enrich the quantitative findings. The results presented in this chapter are categorized into demographic information, responses to research questions, and the discussion of findings.

4.2 Respondents' Characteristics and Classification

Variable	Category	Frequency	Percentage (%)
Gender	Male	52	60.5
	Female	34	39.5

Source: *Questionnaire survey, 2025*

Variable	Category	Frequency	Percentage (%)
Age	21–30 years	19	22.1
	31–40 years	37	43.0
	41 years and above	30	34.9
	31–40 years	37	43.0

Source: *Questionnaire survey, 2025*

Variable	Category	Frequency	Percentage (%)
Educational Qualification	OND/HND	18	20.9
	B.Sc./B.A	49	57.0
	M.Sc./MBA	19	22.1

Source: *Questionnaire survey, 2025*

Variable	Category	Frequency	Percentage (%)
Department	Internal Audit	26	30.2
	Finance	24	27.9
	Administration/Others	36	41.9

Source: *Questionnaire survey, 2025*

4.3 Presentation and Analysis of Data

Research Question 1: To what extent has internal audit helped in fraud detection at FIRS?

- **Strongly Agree:** 44 (51.2%)
- **Agree:** 21 (24.4%)
- **Neutral:** 12 (14%)
- **Disagree:** 7 (8.1%)

- **Strongly Disagree:** 2 (2.3%)

Interpretation: Over 75% of respondents agreed that internal audit significantly aids in fraud detection at FIRS.

Research Question 2: Does internal audit serve as a preventive tool against fraud?

- **Strongly Agree:** 36 (41.9%)
- **Agree:** 29 (33.7%)
- **Neutral:** 11 (12.8%)
- **Disagree:** 8 (9.3%)
- **Strongly Disagree:** 2 (2.3%)

Interpretation: The majority of respondents (approximately 76%) believe internal audit contributes to fraud prevention through timely checks and controls.

Research Question 3: How independent is the internal audit department at FIRS?

- **Strongly Agree:** 28 (32.6%)
- **Agree:** 22 (25.6%)
- **Neutral:** 18 (20.9%)
- **Disagree:** 12 (14.0%)
- **Strongly Disagree:** 6 (7.0%)

Interpretation: Less than 60% of respondents believe the internal audit department is independent, suggesting potential managerial interference.

4.4 Analysis of Personal Information of Respondents

Understanding the demographic and professional characteristics of the respondents is essential in determining the credibility and reliability of the data obtained in this research. These characteristics provide insight into the respondents' levels of experience, exposure to auditing

processes, and familiarity with the internal operations of FIRS. The major elements analyzed include gender, age, educational qualification, years of experience, and departmental placement.

The data is critical in assessing whether the views expressed on internal audit effectiveness in fraud detection and prevention are well-informed and reflective of actual practice.

Gender Distribution

The analysis reveals that 60.5% of the respondents are male, while 39.5% are female. This shows a relatively balanced workforce, though male respondents are in the majority. This distribution is important, as it highlights a gender-diverse working environment where perspectives from both male and female staff are considered in evaluating the effectiveness of internal audit systems.

The near-equal gender representation contributes to reducing bias in the response pattern.

Age Distribution

The age distribution indicates that 22.1% of the respondents fall within the 21–30 age bracket, 43.0% are between 31–40 years, and 34.9% are 41 years and above. This suggests that a majority of the respondents are middle-aged professionals who are likely to have acquired significant experience in the public sector. The fact that over 77% of respondents are aged 31 and above strengthens the reliability of the data, as these individuals have likely been in the service long enough to understand the strengths and limitations of internal audit systems.

Educational Qualification

The study shows that 57% of the respondents hold a bachelor's degree, 22.1% have postgraduate qualifications (M.Sc., MBA), while 20.9% have OND/HND. The dominance of bachelor's and postgraduate degree holders implies that most respondents are academically qualified and capable of understanding the importance and mechanics of internal audit in fraud prevention.

Their academic backgrounds equip them with the analytical skills required to assess the internal

control systems critically.

Years of Work Experience

Although not captured in the earlier table, the interview responses revealed that a significant portion of the respondents have between 5 to 15 years of working experience within the FIRS system. This further validates their competence in speaking authoritatively about the internal audit process and its effectiveness. Long-term employees are more likely to observe trends, improvements, or lapses in internal control mechanisms over time.

Departmental Classification

Departmental affiliation also plays a critical role in this analysis. About 30.2% of respondents work in the Internal Audit department, 27.9% in the Finance department, and 41.9% in other administrative roles. This distribution ensures that the data is drawn from diverse functional units, not just limited to audit-related staff. However, the significant percentage of respondents from audit and finance departments (over 58%) ensures that the data reflects expert opinions from those closest to the core of fraud detection and prevention efforts.

4.5 Analysis of Other Data

In addition to the statistical data gathered through the questionnaire, this section provides an in-depth analysis of qualitative data obtained through structured interviews with selected senior staff of the Federal Inland Revenue Service (FIRS), Ilorin. These interviews were conducted to gain deeper insight into the operational realities of the internal audit function and how it impacts fraud detection and prevention within the organization. The responses obtained were grouped under key thematic areas, including the scope of internal audit, challenges faced by the audit unit, management support, independence of the audit function, and effectiveness in fraud detection.

Scope of Internal Audit Activities

Interview findings revealed that the internal audit unit at FIRS is responsible for ensuring compliance with financial regulations, verifying financial transactions, and conducting periodic checks on departmental activities. Respondents agreed that the audit department plays an integral role in enforcing accountability and ensuring that standard operating procedures are followed.

They confirmed that the audit process covers financial transactions, tax collections, procurement practices, and payroll audits. These checks are routinely conducted and supported by internal memos and audit queries, which are issued to erring officers.

Management Support and Implementation of Audit Reports

One of the recurring themes from the interviews is the level of support the internal audit department receives from top management. While some respondents praised the management for providing timely responses and implementing audit recommendations, others expressed concern that certain audit reports are delayed or not acted upon. In some cases, disciplinary actions against staff found culpable of fraud-related practices are not consistently enforced, thereby reducing the deterrent effect of internal audits.

Independence of the Internal Audit Function

The independence of the audit function is critical in ensuring objectivity and transparency. Interviewees provided mixed responses on this issue. Some noted that the internal auditors report directly to top management and are allowed to carry out their duties without interference.

However, others indicated that certain politically-influenced cases are swept under the carpet due to senior interference. This compromises the autonomy of the audit unit and reduces its capacity to serve as an unbiased tool for fraud detection and prevention.

Challenges Facing the Internal Audit Unit

The study found that several challenges confront the internal audit unit. These include inadequate staffing, insufficient access to modern auditing tools and software, delay in the audit cycle, and limited training opportunities. These constraints reduce the efficiency of the audit process and limit the unit's ability to detect sophisticated fraud schemes. Some auditors also reported inadequate cooperation from other departments during investigations or audit queries.

Effectiveness of Internal Audit in Fraud Detection

Despite the aforementioned challenges, all interview participants agreed that the internal audit unit at FIRS has been instrumental in uncovering fraudulent practices. They cited cases of ghost workers removed from the payroll, unauthorized financial approvals that were flagged and reversed, and cases of inflated contract figures exposed during audit checks. The unit's role in preventing fraud was also noted through its pre-payment audit and routine review of financial documents.

4.6 Discussion of Findings

This section provides an interpretative analysis of the data presented in Sections 4.4 and 4.5, drawing connections between the results and the objectives of the study. The goal is to critically examine how internal audit influences fraud detection and prevention within the Federal Inland Revenue Service (FIRS), Ilorin, Kwara State. It also compares the empirical findings with existing literature and theoretical assumptions.

Internal Audit as a Mechanism for Fraud Detection

Findings from both the quantitative and qualitative data strongly indicate that internal audit is a vital mechanism for detecting fraudulent practices at FIRS. Respondents affirmed that the internal audit unit performs critical roles such as checking irregularities in financial transactions,

scrutinizing payroll for ghost workers, and ensuring compliance with financial regulations. These findings align with the views of Nwabueze (2018), who posited that a functional internal audit unit acts as the watchdog of an organization, especially in the public sector where fraud is prevalent.

The responses revealed that internal audit procedures such as periodic reviews, internal control checks, and audit queries contribute significantly to uncovering fraud. For instance, respondents cited instances where over-invoicing, unauthorized approvals, and tax leakages were detected and addressed. These practical occurrences underscore the operational relevance of the internal audit department.

Effectiveness of Internal Audit in Preventing Fraud

In terms of prevention, the data shows that internal audit contributes proactively by instilling a culture of compliance and risk aversion among staff. Routine prepayment audits, budget control mechanisms, and regular staff briefings on ethical conduct were among the strategies highlighted by respondents. This preventive role is consistent with the Fraud Triangle Theory, which suggests that reducing opportunities to commit fraud is an effective deterrent.

However, the effectiveness of the internal audit department is occasionally undermined by several factors. For example, delayed implementation of audit recommendations, lack of disciplinary follow-through, and interference from top management weaken the department's impact. These findings reinforce the concerns raised in the literature by Adegbe & Fakile (2019), who argued that internal auditors in Nigeria often operate under limited autonomy, which affects the objectivity of their findings.

Audit Independence and Management Support

A significant insight from the study is the mixed view on the independence of the internal audit

unit. While structural independence exists on paper, functional independence is sometimes compromised by internal politics or fear of reprisal. This aligns with the Agency Theory, which emphasizes that agents (employees and management) may pursue personal interests over Organizational goals unless strict control mechanisms like independent audits are enforced.

Furthermore, management support is critical to the internal audit function. The study found that although management is generally supportive, selective disregard for audit reports diminishes the credibility and deterrent effect of audits. Full implementation of audit recommendations and clear consequences for fraud-related infractions were recommended by several respondents.

The discussion of findings confirms that internal audit is essential for both detecting and preventing fraud at FIRS Ilorin. However, its full potential is curtailed by organizational challenges such as lack of independence, limited resources, and weak enforcement of recommendations. Strengthening internal audit capacity and reinforcing management accountability will significantly enhance fraud control efforts. These findings provide a strong foundation for the policy recommendations to be outlined in Chapter Five.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter presents the summary of the research, draws conclusions based on the findings from both the quantitative and qualitative data, and offers recommendations on how internal audit can be strengthened to improve fraud detection and prevention in the public sector, using the Federal Inland Revenue Service (FIRS), Ilorin, Kwara State, as a case study. Suggestions for further research are also presented at the end of this chapter.

5.1 SUMMARY OF FINDINGS

The study was designed to examine the impact of internal audit on fraud detection and prevention in FIRS Ilorin. Through the use of questionnaires and structured interviews, relevant data were collected, analyzed, and interpreted. The major findings are summarized as follows:

1. **Role of Internal Audit in Fraud Detection:** The internal audit unit of FIRS Ilorin plays a significant role in detecting fraud. The data revealed that periodic checks, financial transaction reviews, and audit queries are among the mechanisms through which the internal audit unit identifies fraudulent practices.
2. **Preventive Measures:** The internal audit unit also contributes to fraud prevention through proactive measures such as pre-audit of transactions, regular monitoring, and compliance enforcement. Staff awareness on ethical behavior and risk management is

part of their strategy to deter fraud.

3. **Challenges Identified:** Key challenges faced by the internal audit department include lack of functional independence, insufficient staffing, limited access to modern auditing tools, and poor cooperation from other departments. Additionally, some audit recommendations are not fully implemented by management, which weakens the audit function.
4. **Audit Independence and Management Support:** While internal auditors are structurally positioned to be independent, the reality indicates that management interference, especially in politically sensitive matters, undermines their autonomy and effectiveness.
5. **Effectiveness of Internal Audit:** Despite challenges, the internal audit unit has recorded tangible successes in uncovering financial irregularities, preventing revenue leakages, and promoting accountability.

5.2 CONCLUSION

Based on the findings of the study, it can be concluded that internal audit plays a crucial role in both detecting and preventing fraud at FIRS Ilorin. The internal audit function, when allowed to operate independently and equipped with the right tools and authority, significantly enhances transparency and accountability in public sector financial operations.

However, the study also revealed that the effectiveness of the internal audit is contingent upon the extent of support from management, the level of autonomy granted to auditors, and the availability of human and technological resources. Therefore, for internal auditing to achieve its full potential in fraud control, systemic and structural improvements are required within FIRS and similar institutions.

5.3 RECOMMENDATIONS

In light of the findings and conclusions of this research, the following recommendations are made:

1. **Enhance Auditor Independence:** The internal audit unit should be granted full operational independence, including authority to investigate without interference and to report directly to the board or a designated oversight committee.
2. **Implement Audit Recommendations Promptly:** Management must treat audit findings with seriousness by implementing recommendations without delay. A follow-up mechanism should be instituted to track actions taken.
3. **Increase Staffing and Training:** The audit unit should be adequately staffed with qualified professionals and provided with continuous training to keep up with evolving fraud techniques and audit standards.
4. **Modernize Audit Tools:** The adoption of advanced audit software and forensic accounting tools should be prioritized to aid in the quick detection and analysis of anomalies.
5. **Promote Ethical Culture:** Staff should undergo regular ethical training, and a whistleblower policy should be instituted to encourage reporting of suspicious activities without fear of victimization.
6. **Regular Oversight by External Bodies:** To ensure transparency and credibility, periodic reviews of the internal audit function by external audit bodies or regulatory agencies should be conducted.

5.4 SUGGESTIONS FOR FURTHER STUDIES

This study focused on FIRS in Ilorin, Kwara State. Future research could expand the scope to include multiple government revenue agencies or compare public and private sector organizations. Also, studies can delve deeper into the relationship between audit technology and fraud detection efficiency or evaluate the long-term impact of audit recommendations on institutional reforms.

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