Risk Management and Accounting Information System Control Mechanisms and Fraud Prevention in Microfinance Banks in Akwa Ibom State

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Abstract

This study determines the extent to which risk management and accounting information systems predict the prevention of fraud in microfinance banks in Akwa Ibom State. Two specific objectives were raised, with the corresponding research questions, and two null hypotheses were formulated and tested at the .05 level of significance. The study adopted a descriptive survey research design. The population of the study comprised 151 accountants and internal auditors working in microfinance banks in Akwa Ibom State. All 151 respondents participated in the study using a census approach. A research instrument entitled "Internal Control Mechanisms and Fraud Prevention in Microfinance Banks Questionnaire (ICMFPMBQ) was used for data collection. The instrument was face-validated by three experts. The Cronbach alpha statistical analysis was used to calculate the reliability of the instrument, and a correlation coefficient of 0.87 was obtained, which showed the instrument was reliable. Out of 151 copies of the questionnaire distributed, 147 were retrieved successfully, while 5 copies were not retrieved, representing a 97 percent rate of return. Data was analyzed using simple linear regression analysis for answering both research questions and testing research hypotheses. The findings from data analysis showed that there is a great extent to which risk management and accounting information systems predict fraud prevention. The study also revealed that risk management and accounting information systems significantly predict the prevention of fraud in microfinance banks in Akwa Ibom State. Based on the findings of the study, it is recommended, among others, that management of microfinance

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> *banks should endeavour to develop and implement controls and other measures that are capable of mitigating the risk of fraudulent activities in business organizations.*

Keywords: Fraud prevention, risk management, accounting information system, microfinance banks.

1.1.1 Introduction

The continuous growth of economic activities today is mainly facilitated by the financial institutions through their role in ensuring efficient allocation of resources from the surplus to deficit units. Financial institutions have become an instrument for driving socio-economic development, and their importance is now widely acknowledged. It was on the realisation of the foregoing facts that the Central Bank of Nigeria (CBN) in 2005 introduced microfinance banking to provide finance to the economically active poor, create employment opportunities, engender rural development, and reduce poverty. The microfinance policy framework evolved as an economic development approach intended to improve access to financial services for micro-entrepreneurs and low-income households. CBN (2020) admitted that the microfinance bank is the crucial vehicle for increasing the financial inclusion rate in the country, improving access to financial services for the economically active poor, pursuing poverty eradication, and mainstreaming the informal microfinance sub-sector into the formal financial system. Microfinance banks have served as a powerful tool in the global fight against poverty, and their success is positively affecting the operational performance of small enterprises and increasing their participation in the Nigerian business environment.

Although the involvement of microfinance banks has yielded some positive results. Nevertheless, Otu and Usen (2025) noted that the issue of fraud in the Nigerian business environment is so pervasive that it has become the greatest bane on business growth and a clog in the wheel of economic development. Udukeke (2019) added that fraud is a menace whose potential impact is devastating to any business or the social and economic well-being of a nation. Hence, observations have shown that one of the major causes of the increased rate of occurrences of fraud in microfinancial institutions (MFIs) is a lack of board capacity to understand internal control issues. Internal control is the systematic measures instituted by an organisation to conduct business in an orderly and efficient manner, safeguard its assets and resources, and ensure the accuracy and completeness of its accounting data. The Committee of Sponsoring Organisations of the Treadway Commission (COSO) in Institute of Chartered Accountants of Nigeria (ICAN) (2021) describes internal control as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and

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efficiency of operations, reliability of reporting, and compliance with applicable laws and regulations. The above points to the fact that management is saddled with the responsibility to design and put in place a suitable system of internal controls to respond appropriately to operational, financial, and compliance risks. Thus, for the purpose of this study, risk management and accounting information systems are used as internal control mechanisms for the prevention of fraud.

Risk management involves identification, assessment, and measurement of risk. It involves recognising the existence or potential risks, deciding whether the risks are significant and possibly ranking risks in order of significance, and quantifying the potential impact of an adverse event or outcome. Managing risks means developing and implementing controls and other measures to deal with risks. In order to effectively manage risk, it is important to capture and communicate relevant economic information in a timely manner. Eke (2015) noted that an information system includes procedures for initiating, recording, processing, and reporting on the entity's financial operations or transactions. For the purpose of this study, "information system" is used interchangeably with "accounting information system".

An accounting information system is a critical component of internal control, as it provides the infrastructure for capturing, processing, and reporting financial and operating information. It provides information that helps in determining a company's success, evaluating operational effectiveness and efficiency, detecting risk and potential red flag*s* in the entity, and predicting the entity's performance in the future. However, microfinance banks in Nigeria are faced with challenges of fraud-related issues ranging from manipulation, falsification or alteration of records, misappropriation of assets, suppression or omission of the effect of transactions from records, misapplication of accounting policies, recording of transactions without substance, loan default, bribery, embezzlement, cheque tampering, forgery, and kickbacks to inadequate internal control systems, among others.

These problems, together with the increasing sophistication of fraudsters and inadequacies of internal controls, have resulted in frequent revocation of operating licences of many microfinance banks in Nigeria. For instance, in May 2023, CBN revoked the licences of 132 microfinance banks, four primary mortgage banks and three finance companies (FGN, 2023). Hence, the effect of fraud is so pervasive and has contributed to huge financial scandals, loss of public confidence, impeded the going concern status and ultimately caused some microfinance banks to lose sustainability and eventually collapse. Hence, it is against this background that the researcher carried out a study to determine how risk management and accounting information systems as internal control mechanisms predict fraud prevention in microfinance banks in Akwa Ibom State.

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1.2   Purpose of the Study

The main purpose of the study was to determine the extent to which risk management and accounting information systems as mechanisms for internal control predict fraud prevention in microfinance banks in Akwa Ibom State. Specifically, the study sought to determine the extent to which:

i.   Risk management predicts the prevention of fraud in microfinance banks in Akwa Ibom State.

ii.   Accounting information system predicts the prevention of fraud in microfinance banks in Akwa Ibom State.

1.3   Research Questions

The following research questions were raised to guide the study:

i.   To what extent does risk management predict the prevention of fraud in microfinance banks in Akwa Ibom State?

ii.   To what extent does an accounting information system predict the prevention of fraud in microfinance banks in Akwa Ibom State?

1.4   Null Hypotheses

The following null hypotheses were formulated and tested at .05 level of significance:

i.   Risk management does not significantly predict the prevention of fraud in microfinance banks in Akwa Ibom State.

ii.   Accounting information system does not significantly predict the prevention of fraud in microfinance banks in Akwa Ibom State.

2.1   Review of Literature

Internal control involves procedures and processes established by management to ensure orderly and effective business operations, accuracy of information and compliance with the regulatory framework. According to Adeniji (2014), the Auditing Practicing Committee defined internal control as the whole system of controls, financial or otherwise, established by management in order to carry on the business of an enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure, as far as possible, the completeness and accuracy of the records. The system of internal control is developed and instituted by management to properly control the financial, operational and regulatory procedures of an entity. Moyes *et al.* (2016) revealed that poor internal control is one of the most important factors in the case of the presence of fraud. An organisation's internal control system is an important tool to combat fraud (Jessup and Noblet, 2018). Weak internal control provides an opportunity to commit fraud. This implies that a strong system of internal control is an important element to prevent fraud. For the purpose of this, the following internal

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control mechanisms are discussed as they influence fraud prevention: risk management and accounting information system.

Managing risks means developing and implementing controls and other measures to deal with significant or material risks. Bento *et al.* (2018) explained risk management as the identification and analysis of potential errors and also the implementation of controls, policies and procedures in order to reveal those errors and try to prevent their commission. Risk management is meant to determine the exact kind of risk the organisation faces and the kind of controls that are required to put in place to address the risks identified. It is about understanding the nature of events that threaten the financial health of a business and making positive plans to mitigate them. Risk management involves the process of managing both downside risks and business risks. Hence, companies face both pure risks and speculative risks. Pure risks, also known as downside risk or operational risk, are risks that can be controlled either by means of internal controls or by insurance. Speculative risks cannot be avoided because risks must be taken in order to make profits. In addition, ICAN (2021) identified the following as circumstances that may pose a risk to an organisation which may undermine internal controls: change in operating environment, e.g., legislation and competition, etc.; new technology, e.g., new accounting software; rapid growth; new products or new lines; corporate restructuring; incompetent personnel; new personnel; and accounting pronouncements. Furthermore, Eke (2015) added the risk of fraud, the risk of not complying with relevant laws, and the possibility of misstatements in the financial statement as examples of risks that may impact the financial reporting process.

Strategies for managing risk generally fall into one of the following categories: diversification of risk, risk transfer, risk sharing and hedging. Recent studies like that of Abdullahi and Mansor (2015) confirmed that risk management has a significant role in financial fraud. Rahman and Al-Dhaimesh (2018) affirmed that risk management is a tool for fraud prevention. In a similar vein, Agyemang (2020) maintained that internal controls can reduce risks, prevent problems from happening or identify them when they occur. Fraud is one of the major risks that threatens the sustainability of microfinance banks, not only in terms of financial health but also in terms of their image and reputation. Ilias *et al.* (2024) examined government officials' perceived risk management and internal control in combating fraud in the public sector. The study showed that risk assessment, control actions, and information and communication exert a favourable influence on the prevention of fraudulent activities.

Nyakarimi *et al.* (2022) conducted a study on risk assessment and fraud prevention in the banking sector in Kenya. The hypothesis testing showed that risk assessment has a significant effect on fraud prevention in the banking industry in Kenya. From the results obtained, it was concluded that the risk assessment mechanisms put in place to assess

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risks have a significant effect on fraud prevention, and as such, they should be enhanced to completely prevent fraud in the banking sector. Oraka and Egbunike's (2016) study examined the influence of enterprise risk on the performance of microfinance banks in Nigeria. The findings of the study revealed that enterprise risk management has significant influence on bank performance in Nigeria. Other studies like that of Bento *et al.* (2018) clearly stated that enterprises risk management significantly influences financial reports and internal control. Alazzabi and Karage (2020) asserted that risk management, top management support and internal audit operations are critical components of fraud mitigation in a firm. Also, an accounting information system is very crucial in the management of an organisation and in the implementation of a suitable system of internal controls. Information has recently been identified as a major asset to both financial and non-financial institutions.

An accounting information system is a system that helps management in planning and controlling processes by providing relevant and reliable information for decision-making. An accounting information system is one of the components of an internal control system. It is a system that collects and processes economic data and transactions to provide users with information that is needed to determine the performance and financial position of an entity as well as provide users with information needed to plan, control and operate their business. It ensures that an organisation obtains pertinent information and communicates it to the interested users. Stair and Renoid (2018) defined an accounting information system as a system that processes data and transactions to provide users with the information they need to plan, control and operate their businesses. Accounting information is built or designed to be adapted to the conditions and situations that are relevant to the organisations. Teru *et al.* (2017) explained an accounting information system as a system that increases control and enhances cooperation in an organisation to deliver information available and accessible to the end users who have similar needs. Hence, accounting information systems produce reports of operational, financial and compliance-related information that make it possible to run and control the business. Eke (2015) averred that an information system includes the class of transactions, account balance and related disclosure or notes, the procedures for recognising transactions as they occur, the procedure of recording, processing and reporting transactions, the operation of the system and generation of financial statements.

An accounting information system requires identifying and understanding the following: the entity's principal business transactions; how these transactions and other events relevant to the financial reporting process are captured (identified and recorded) by the entity; the processing methods (both manual and computerised) applied to those transactions; the accounting records used to support the figures appearing in the

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financial statements; and the processes used in the preparation of the financial statements. The role of an accounting information system is very crucial in managing an organisation and implementing adequate and suitable internal control measures for fraud prevention. It is vital to the survival of all business organisations. Maharani and Damayanthi (2020) admitted that accounting information systems have a positive effect on fraud prevention.

Accounting information must have certain attributes in order for it to be useful as a mechanism for internal control and fraud prevention. The International Accounting Standards Board (IASB) (2018) opined that if accounting information is to be useful, it must be relevant and faithfully represent what it purports to present. Accounting information is said to be relevant if it can be used for predictive and confirmatory purposes. ATSWA (2021) maintained that accounting information has predictive value if it can help users to evaluate present or future events, while the confirmatory value helps users to confirm the assessments and predictions they have made in the past or correct their past evaluations. Also, for accounting information to be a useful mechanism for facilitating internal control and prevention of fraud, such information must represent faithfully that which it either purports to represent or could reasonably be expected to represent. Information has the quality of faithful representation when it is neutral, complete, and free from material error and bias. IASB framework further explained qualitative characteristics that enhanced the usefulness of information to include comparability, verifiability, timeliness and understandability. Comparability, as observed in ICAN (2021), is a qualitative characteristic that enables users to identify and understand similarities and differences among items. Timeliness makes information available to decision makers as at when needed to be able to make informed decisions.

Information is made understandable by classifying (assets, liabilities, equities, income and expenses), characterising and presenting it in a clear and concise manner. Thus, Uyar *et al.* (2017) emphasised the fact that a properly functioning accounting information system that is free from fraud is likely to increase the level of corporate governance in the organisation, build a better business world, increase investor confidence and help capital market efficiency. Thus, Brata (2021) noted that the application of an accounting information system has a significant effect on fraud. Horsfall (2022) confirmed that a well-designed accounting information system can be used to mitigate the level of fraud in the public sector. He investigated the relationship between accounting information systems and fraud mitigation in public enterprises in Nigeria. The result of the study shows a positive insignificant relationship between the accounting system and the prevention of frauds/errors in public enterprises in Nigeria. Also, Hussaini *et al.* (2021) conducted a study to examine the effect of information and communication on fraud prevention and detection in deposit money banks in Nigeria.

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The finding of the study revealed a significant effect of information and communication on fraud detection in deposit money banks in Nigeria. Maharani and Damayanthi (2020) carried out an investigation on the effect of accounting information systems and internal control of employee performance with organisational culture as a mediation variable. The results of the finding revealed that accounting information systems, internal controls and organisational culture affect employee performance. Accounting information systems and internal control through organisational culture affect employee performance.

An accounting information system significantly influences fraud prevention by ensuring that accounting and internal control procedures such as segregation of duties, authorisation and approval, etc. are adhered to in recognising items of income, expenses, owners' equity, assets and liabilities in the financial statement. It provides a detailed audit trail for tracking all transactions and changes, making it easier to detect fraud. Hence, by ensuring an effective accounting information system, microfinance banks can enhance the accuracy and transparency of financial reports, provide adequate monitoring and review of financial transactions, improve audit quality, reduce opportunities for fraud, identify areas of possible weaknesses within the system and improve their overall fraud prevention capabilities.

3.   Research Method

The descriptive survey research design was adopted for this study. The study was carried out in Akwa Ibom State. The population of the study comprised 151 accountants and internal auditors from 15 operating microfinance banks in Akwa Ibom State. There was no sampling for this study as the entire population was studied. Hence, a census approach was used. The researcher developed an instrument entitled "Internal Control Mechanisms and Fraud Prevention in Microfinance Bank Questionnaire" (ICMFPMBQ) was used in collecting data for this study. The instrument was face validated by three experts. The internal consistency of the instrument was determined using Cronbach's Alpha technique, and a reliability coefficient of 0.87 was obtained. The distribution of the questionnaire was carried out by the researcher. Out of one hundred and fifty-one (151) copies of the questionnaire distributed, 147 copies were retrieved, giving a 97% return rate and an attrition of 3%. The statistical tools that were used in answering both research questions and testing the hypotheses at the .05 alpha level were simple linear regressions. R^2 was used to report answers to research questions. In testing the null hypotheses, the P-value was compared with the .05 level of significance. When the P-value was greater than the 0.05 level of significance, the null hypothesis (H_0) was rejected. On the other hand, when the P-value was less than 0.05 level of significance, the null hypothesis (H_0) was retained.

4.1 Results

Research Question 1: To what extent does risk management predict the prevention of fraud in microfinance banks in Akwa Ibom State?

Table 1: Simple Regression Analysis for the extent to which Risk Management Predicts Fraud Prevention in Microfinance Banks

Variables	R	R^2	Extent of Prediction	Remark
Risk Management				
	.785	.616	61.6	GE
Fraud Prevention				

GE = Great Extent

The result in Table 1 shows R for the strength of relationship and R2 for the determination of the extent to which risk management predicts fraud prevention in microfinance banks in Akwa Ibom State. The R-value of .785 indicates an average extent of relationship between risk management and fraud prevention. The calculated R2 of .616, which is the coefficient of determination, indicates that only 61.6% of fraud prevention in microfinance banks is predicted or determined by risk management. With a percentage of 61.6, it therefore means that there is a great extent to which risk management can predict fraud prevention in microfinance banks in Akwa Ibom State.

Research Question 2: To what extent does an accounting information system predict the prevention of fraud in microfinance banks in Akwa Ibom State?

Table 2:   Simple Regression Analysis for the extent to which Accounting Information System Predicts Fraud Prevention in Microfinance Banks

Variables	R	R^2	Extent of Prediction	Remark
Accounting Information System				
	.809	.654	65.4	GE
Fraud Prevention				

GE = Great Extent

The result in Table 2 shows the R for the strength of the relationship and R2 for the determination of the extent to which an accounting information system predicts fraud prevention in microfinance banks in Akwa Ibom State. The R of .809 indicates an average extent of relationship between accounting information systems and fraud prevention. The calculated R2 value of .654, which is the coefficient of determination, indicates that only 65.4% of fraud prevention in microfinance banks is predicted or

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determined by accounting information systems. Therefore, with a percentage of 65.4, it means that there is a great extent to which accounting information systems can predict fraud prevention in microfinance banks in Akwa Ibom State.

Research Hypothesis 1: Risk management does not significantly predict the prevention of fraud in microfinance banks in Akwa Ibom State.

Table 4.9: Regression Analysis of Risk Management on the prevention of Fraud in Microfinance Banks

Model	Sum of Squares	df	Mean Square	F	Significance
Regression	16957.973	1	16957.973	233.015	.000
Residual	10552.571	145	72.776		
Total	27510.544	146			

Unstandardized B = 1.185, t = 15.265

The result presented in Table 3 shows that the F-value of 233.015 with its corresponding P-value of .000, which is less than the .05 level of significance with 1 and 146 degrees of freedom. The unstandardised B and t-value obtained for this hypothesis are 1.185 and 15.266, respectively. Therefore, risk management is an independent predictor of fraud prevention. With this result, the null hypothesis, which stated that risk management does not significantly predict prevention of fraud in microfinance banks in Akwa Ibom State, is rejected. This means that risk management significantly predicts prevention of fraud in microfinance banks in Akwa Ibom State.

Research hypothesis 2: Accounting information system does not significantly predict prevention of fraud in microfinance banks in Akwa Ibom State.

Table 4: Regression Analysis of the Influence of Accounting Information System on Prevention of Fraud in Microfinance Banks

Model	Sum of Squares	df	Mean Square	F	Significance
Regression	17995.122	1	17995.122	274.217	.000
Residual	9515.422	145	65.624		
Total	27510.544	146			

Unstandardised B = 1.231, t = 16.560

The result presented in Table 4 shows that the F-value of 274.217 with its corresponding P-value of .000, which is less than the .05 level of significance with 1 and 146 degrees of freedom. The unstandardised B and t-value obtained for this hypothesis are 1.231 and 16.560, respectively. Therefore, an accounting information system is an independent predictor of fraud prevention. With this result, the null hypothesis, which stated that the

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accounting information system does not significantly predict the prevention of fraud in microfinance banks in Akwa Ibom State, is therefore rejected. This means that an accounting information system significantly predicts the prevention of fraud in microfinance banks.

4.2   Summar of Findings of the Study
The findings from data analysis are presented as follows:
i.   There is a great extent to which risk management predicts the prevention of fraud in microfinance banks in Akwa Ibom State.
ii.   There is a great extent to which an accounting information system predicts the prevention of fraud in microfinance banks in Akwa Ibom State.
iii.   Risk management significantly predicts the prevention of fraud in microfinance banks in Akwa Ibom state.
iv.   Accounting information systems significantly predict the prevention of fraud in microfinance banks in Akwa Ibom state.

4.3   Discussion of Findings
Results of analysis on risk management and prevention of fraud showed that there is a great extent to which risk management predicts prevention of fraud in microfinance banks. This indicated that prevention of fraud to a great extent is a result of risk management. The corresponding hypothesis test indicates that risk management significantly predicts the prevention of fraud in microfinance banks in Akwa Ibom State. This shows that implementing an effective risk management process can contribute to combating fraudulent activities. The finding is supported by Nyakarimi *et al.* (2022), who revealed that mechanisms put in place to assess risks have a significant effect on fraud prevention. Thus, risk assessment has been found to have a significant effect on fraud prevention; therefore, mechanisms put in place to identify, analyse, estimate and mitigate risks should be tightened and enhanced so as to completely seal off loopholes both in laws and organisation policies. In line with the finding of the study, Gesare *et al.* (2016) also concluded that there is a significant positive relationship between risk assessment and fraud risk management. The study concluded that the quality of risk assessment directly affects the quality of fraud risk management. This is in agreement with the findings of Marzuk *et al.* (2024), who established that risk management practices can reduce the potentials of fraudulent financial reporting. The result supports the role of risk management activities in managing firms' risks, reducing firms' operational risks such as losses, and hence reducing the potential for fraudulent financial reporting.

The result of the analysis on the accounting information system and fraud prevention showed that there is a great extent to which the accounting information system predicts

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the prevention of fraud in microfinance banks. This indicates that designing appropriate procedures for initiating, recording, processing and reporting an entity's financial operations contributes to the prevention of prevention in microfinance banks. The corresponding hypothesis test indicates that the accounting information system significantly predicts the prevention of fraud in microfinance banks in Akwa Ibom State. This is in agreement with the findings of Horsfall (2022), who revealed that only an accounting system as an internal control measure encourages detection of fraud/errors, while a control environment, control activities and monitoring measures reduce the rate of detection of fraud/errors in public enterprises in Nigeria. These results show that an accounting information system plays an important role in the prevention of fraud. In support of the findings, Florid *et al.* (2023) reported that accounting information systems, internal control systems and the implementation of good corporate governance have an effect on fraud prevention. This means that accounting information systems significantly influence fraud prevention. The study indicates that an effective system of accounting and internal control ensures quality of internal and external reporting as well as maintenance of proper records and processes that generate a flow of timely, relevant and reliable information.

The finding also agrees with Pahlevi *et al.* (2021), who found that the application of an accounting information system had a significant positive effect on the prevention of fraudulent financial reporting. Thus, with an information system, anyone can monitor movements and transactions in microfinance banks. In line with the findings, Maharani and Damayanthi (2020) revealed that accounting information systems, internal controls and organisational culture affect employee performance. Maharani and Damayanthi concluded that accounting information systems through organisational culture affect employee performance, and internal control through organisational culture affects employee performance. This indicates that internal control is needed in operational activities to maintain organisational stability and ensure optimum performance as well as in detecting and preventing fraudulent activities. This is in line with the research conducted by Zakiah *et al.* (2022), who concluded that the use of this accounting information system has a significant beneficial impact on reducing the occurrence of fraud. The study shows that fraudulent activities in microfinance banks can be prevented by designing appropriate accounting information system controls that are capable of providing relevance and ensuring faithful representation of information as well as acting as anti-fraud awareness to all parties in the organisational operating environment. Hence, the use of accounting information systems in a microfinance bank is very supportive in fraud prevention efforts.

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5.1   Conclusion

Based on the findings of the study, it was concluded that internal control mechanisms such as risk management and accounting information systems contribute significantly to the prevention of fraud in banks. Therefore, management should design and put in place a suitable system of internal controls that is capable of identifying, detecting and preventing the ever-increasing rate of fraud occurrences within the organisation.

5.2   Recommendations

Based on the findings of the study, the following recommendations are therefore made:

i.   Management of microfinance banks should endeavour to identify, assess, develop and implement controls and other measures that are capable of mitigating the risk of fraudulent activities in business organisations.

ii.   Management of microfinance banks should ensure that the procedures for initiating, recognising, processing and reporting financial operations are relevant and faithfully represent all the phenomena it purports to represent. This would serve as a tool for designing appropriate internal controls that are suitable for the prevention of fraud within an entity.

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