

FORENSIC AUDITING AND FINANCIAL FRAUD PREVENTION AMONG LISTED FINANCIAL FIRMS IN NIGERIA

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Abstract

Financial fraud has remained a persistent challenge within financial institutions globally, particularly in emerging economies where weak control systems, technological vulnerabilities, and inadequate regulatory enforcement continue to expose firms to fraudulent activities. Thus, this study examined the effect of forensic auditing on financial fraud prevention among listed financial firms in Nigeria. The study adopted a quantitative cross-sectional survey research design using primary data collected through structured questionnaires administered to 302 respondents drawn from listed financial firms on the Nigerian Exchange Group. Data were analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM). The findings revealed that forensic auditing practices significantly improve financial fraud prevention ($\beta = 0.221$, $p = 0.002$), while forensic audit expertise and professional competence also exert a positive and significant effect ($\beta = 0.184$, $p = 0.007$). Furthermore, forensic audit tools and techniques ($\beta = 0.256$, $p = 0.001$), internal control systems ($\beta = 0.278$, $p = 0.000$), and regulatory compliance ($\beta = 0.205$, $p = 0.002$) all significantly enhance financial fraud prevention among listed financial firms in Nigeria. The study concludes that effective forensic auditing mechanisms are critical in reducing fraud opportunities and strengthening transparency and accountability within financial institutions. The study recommends that the management of financial firms should strengthen forensic auditing practices, invest in professional training and digital forensic technologies, improve internal control systems, and ensure strict regulatory compliance to enhance fraud prevention effectiveness.

Keywords: Forensic Auditing, Financial Fraud Prevention, Internal Control Systems, Regulatory Compliance

1. Introduction

Financial fraud prevention is a global priority in the era of a more complex and digitised financial system. In both developed and emerging markets, frauds, including cyber frauds, financial statement manipulation, and electronic payment frauds, have been growing in size and complexity, causing financial losses and eroding confidence of investors. For instance, recent global evidence indicates that financial institutions remain vulnerable to fraud, with billions of dollars being lost across the various sectors, including the banking and financial services (Oluyide, 2025). The rise of this threat has made the need to move beyond the traditional audit detection of fraud and lead to forensic auditing, which combines accounting,

investigative and analytical powers to detect and prevent fraud. In today's world, forensic auditing is considered as a crucial governance tool that plays a vital role in detecting complex financial crimes and assisting the legal enforcement process, particularly in areas where traditional audit methods have proven to be inadequate (Okoro, et al., 2026).

In the African context, the financial fraud challenge is further exacerbated by institutional deficiencies, regulatory gaps, and the rapid growth of digital financial services. The extent of the issue is evidenced by 1,574 arrests of suspected fraudsters via different operations (INTERPOL's Operation Serengeti, Operation Sentinel & Operation Jackal III) and \$196 million financial losses resulting from cybercrime and financial misconduct recorded in recent enforcement actions in African countries (Banchereau, 2024; Interpol, 2025). The developments have led to an increased need for more comprehensive forensic auditing frameworks throughout the continent. Studies have highlighted several critical aspects of effective forensic auditing in Africa, such as the implementation of structured approaches to forensic auditing, the presence of trained personnel equipped with investigative skills, and the application of advanced audit techniques like data analytics and digital forensics (Jinadu, et al., 2026). Moreover, robust internal control systems and compliance with regulatory standards play a pivotal role in achieving successful fraud prevention results from forensic auditing. These together serve as a multifaceted strategy to fight financial fraud in African financial systems.

Nigeria's financial sector has suffered from a heavy burden of fraud, exacerbated by significant volumes of transactions and technological advancement as reported by the Nigeria Inter-Bank Settlement System (2024) that fraud losses in the banking industry rose dramatically in just one year, from ₦17.67 billion in 2023 to ₦52.26 billion in 2024. Also, in its 2024 Financial Stability Report, the Central Bank of Nigeria noted a 45% increase in financial fraud incidents, with digital channels and virtual transaction platforms accounting for almost 70% of the resulting losses (Esonwune & Ogiri, 2024; Melum-Nwogbo, 2025; Akujobi, et al., 2026). This situation has contributed to the increasing relevance of forensic auditing in the Nigerian financial sector, where it is used to enhance the financial sector's fraud detection and prevention systems. In particular, forensic auditing techniques like fraud investigation and risk assessment are used to detect irregularities, and forensic audit skills and competence improve the accuracy and credibility of investigations. In addition, forensic audit tools and techniques such as data mining and computer-assisted audit tools increase the effectiveness and efficiency of fraud detection. Internal control systems also serve a complementary function as they offer a framework for monitoring and accountability, and regulatory compliance makes sure that firms stick to market- approved and economic and auditing standards. Empirical evidence from Nigeria confirms that the integration of these forensic auditing components significantly improves fraud detection and prevention outcomes, although gaps remain in their consistent implementation across firms (Adam, et al., 2024).

Statement of the problem

Financial fraud has long been a problem in financial institutions and is a major concern in emerging economies like Nigeria. Despite progress in the financial systems and the regulatory

environment, fraud persists, erodes stakeholder confidence, has an impact on the credibility of financial institutions and financial reporting. Adam, et al., (2024) asserted that financial fraud in financial institutions in Nigeria is fuelled by inadequate monitoring system, weak investigative processes and lack of adequate utilisation of specialised auditing techniques. Although forensic auditing has been widely promoted as a solution to fraud detection and prevention, its practical implementation remains inconsistent. In particular, the effectiveness of forensic auditing in the fight against financial fraud is hindered by its failures to effectively manage fraud risk, to gather evidence and to have a sound investigative framework. Chukwu, et al., (2025) indicate that although forensic audits can be a powerful tool for fraud prevention, they can be limited by weak integration with audits and lack of ongoing monitoring processes.

Furthermore, the effectiveness of forensic auditing is heavily dependent on the availability of skilled professionals and the application of appropriate technological tools. In Nigeria, a major challenge lies in the limited forensic audit expertise and professional competence, as many financial institutions lack adequately trained forensic accountants capable of handling complex fraud cases. This deficiency is compounded by the underutilisation of modern forensic audit tools and techniques, such as data analytics, digital forensics, and computer-assisted auditing systems, which are critical for detecting sophisticated financial crimes. Kabara & Aliyu (2025) highlight that although technological tools like big data analytics can significantly enhance fraud detection, their adoption in Nigerian financial institutions remains slow due to high costs and inadequate technical capacity. In addition, weak internal control systems continue to undermine forensic auditing effectiveness, as poor segregation of duties, ineffective monitoring, and weak accountability structures create opportunities for fraud to thrive even in the presence of auditing mechanisms.

Another major concern is the issue of regulatory compliance and forensic auditing procedures that are not uniform in the Nigerian financial institutions. Although regulatory authorities have set standards to ensure transparency and accountability, there remain challenges in enforcement and compliance, and this makes forensic auditing less effective in the fight against fraud. It is indicated that while forensic auditing mechanisms may exist, they may be influenced by institutional aspects like compliance culture, whistleblowing protocols, and governance frameworks (Sabo & Almustapha, 2025). Financial fraud remains prevalent even with the implementation of forensic auditing practices, indicating a lack of understanding of the interactions among these elements (practices, expertise, tools, internal controls and regulatory compliance) and their impact on financial fraud prevention results. This gap underscores the need for a comprehensive empirical investigation into the effectiveness of forensic auditing in preventing financial fraud among listed financial firms in Nigeria. To achieve this, the following hypotheses are formulated:

H0₁: Forensic audit practices have no significant effect of financial fraud prevention among listed financial firms in Nigeria;

H0₂: Forensic audit expertise and professional competence do not significantly affect financial fraud prevention among listed financial firms in Nigeria;

H0₃: Forensic audit tools and techniques have no significant influence of financial fraud prevention among listed financial firms in Nigeria;

H0₄: Internal control systems and forensic auditing effectiveness have no significant

effect of financial fraud prevention among listed financial firms in Nigeria;
H0₅: Regulatory compliance and forensic audit implementation have no significant impact of financial fraud prevention among listed financial firms in Nigeria;

2. Literature Review

2.1 Conceptual framework

Financial Fraud Prevention

Financial fraud prevention refers to the systematic processes, controls, and investigative mechanisms put in place to detect, deter, and mitigate fraudulent activities within organisations, particularly in high-risk sectors such as financial services. It has been defined as the application of structured control systems and monitoring procedures to reduce the occurrence and impact of fraud (Abdulrahman, 2019). Similarly, it is viewed as the use of specialised techniques, including forensic accounting and data analysis, to identify fraudulent transactions and ensure financial integrity (Ajagun, et al., 2025). Another perspective defines financial fraud prevention as a continuous risk management process involving internal controls, regulatory compliance, and investigative audits aimed at safeguarding assets and maintaining reporting credibility (Adam, et al., 2024). In practice, financial fraud manifests in several forms within Nigerian financial firms, including embezzlement, loan fraud, insider abuse, money laundering, and financial statement manipulation (Oke & Ofor, 2026). With respect to measurement, financial fraud prevention measures include the implementation of strong internal control systems, adoption of forensic auditing practices, use of advanced analytical tools such as data mining, and enforcement of regulatory compliance frameworks (Alhassan, 2020; Okoro, et al., 2026).

Forensic Auditing Practices

Forensic auditing practices refer to the systematic application of investigative, analytical, and auditing procedures aimed at detecting, preventing, and documenting financial fraud within organisations, particularly in high-risk sectors such as financial institutions. It has been defined as a structured process involving the collection, verification, analysis, and reporting of financial evidence for fraud detection and legal purposes (Oyerogba, 2021). Similarly, forensic auditing practices are viewed as the application of specialised accounting techniques such as fraud investigation, fraud examination, and litigation support to uncover financial irregularities and enhance accountability (Eniola & Popoola, 2024). Another perspective defines it as the integration of accounting, auditing, and investigative skills to identify fraudulent transactions and support fraud prevention mechanisms within organisations (Ugwu & Ofor, 2026). In practice, forensic auditing encompasses several types of activities, including fraud risk assessment, fraud investigation, data analysis, continuous auditing, and litigation support, all of which are essential in combating complex financial crimes in modern financial systems (Uniamikogbo, et al., 2019; Idagu, 2025). Measurement of forensic auditing practices is typically based on indicators such as the frequency of forensic audits, extent of fraud investigation activities, use of analytical procedures, and integration of forensic techniques into internal audit functions (Ajagun, et al., 2025).

Forensic Audit Expertise and Professional Competence

Forensic audit expertise and professional competence refer to the specialised

knowledge, skills, experience, and professional judgment required to effectively detect, investigate, and prevent financial fraud within organisations, particularly in complex financial environments such as banking and financial services. It has been defined as the ability of forensic accountants to apply accounting, auditing, and investigative techniques in uncovering fraud and supporting litigation processes (Aigienohuwa, et al., 2017). Similarly, it is viewed as the possession of relevant certifications, training, and practical experience that enhance the effectiveness of forensic auditing in fraud detection and prevention (Ibrahim, 2020). Another perspective describes forensic audit competence as a combination of analytical, investigative, and legal skills required to interpret financial evidence and provide expert testimony in fraud-related cases (Ishaku, et al., 2019). Forensic audit expertise comprises several types of competencies, including investigative skills, analytical reasoning, litigation support, and digital forensic capabilities, all of which are critical in addressing increasingly sophisticated financial crimes (Ojukwu, et al., 2020; Almustapha, et al., 2025). Measurement of forensic audit expertise is typically based on indicators such as professional certifications (e.g., forensic accounting qualifications), years of experience, level of training, and technical proficiency in using forensic tools and techniques (Ibrahim, 2020; Ajagun, et al., 2025).

Forensic Audit Tools and Techniques

Forensic audit tools and techniques refer to the specialised technological, analytical, and investigative methods used to identify, analyse, and document financial irregularities for fraud detection and prevention (Okorie, et al., 2025). A forensic audit itself has been defined as a detailed examination of financial records conducted to obtain evidence suitable for legal proceedings (Tardi, 2026), while forensic approaches more broadly involve the application of scientific and analytical methods to investigate financial crimes and irregularities. Another perspective emphasises that forensic techniques rely on systematic evidence collection, preservation, and analysis to uncover fraudulent activities and support decision-making in legal contexts (Ugwu & Ofor, 2026). Forensic audit tools and techniques include digital forensics software such as data recovery and analysis systems, data mining tools, continuous auditing platforms, and computer-assisted audit techniques, which enable auditors to detect hidden patterns, recover deleted financial data, and trace fraudulent transactions (Almustapha, et al., 2025). Advanced tools such as digital forensic environments and specialised investigative platforms further enhance fraud detection by integrating evidence acquisition, analysis, and reporting processes, while structured forensic processes typically involve stages such as data acquisition, analysis, and reporting to ensure reliability and legal admissibility of evidence (Akinola, 2024).

Internal Control Systems and Forensic Auditing Effectiveness

Internal control systems and forensic auditing effectiveness represent a critical framework for strengthening fraud prevention, particularly within financial institutions where transaction risks are high. Internal control systems have been defined as the set of policies, procedures, and processes established to safeguard assets, ensure accurate financial reporting, and promote compliance with regulations (Salawu, et al., 2023). Similarly, they are described as integrated mechanisms involving control environment, risk assessment, control activities, information systems, and monitoring processes designed to prevent and detect fraud (Solomon, et al., 2023). From a forensic perspective, internal control systems are viewed as complementary structures that enhance the effectiveness of forensic auditing by providing reliable data, audit trails, and control checkpoints for fraud investigation

(Vutumu, et al., 2025). Internal control systems comprise several types, including preventive controls (e.g., segregation of duties), detective controls (e.g., audits and reconciliations), and corrective controls (e.g., disciplinary and recovery mechanisms), all of which support forensic auditing processes in identifying and mitigating fraud risks (Akinola, 2024; Vutumu, et al., 2024). Measurement of internal control effectiveness is typically based on indicators such as the strength of the control environment, effectiveness of risk assessment procedures, quality of monitoring activities, and efficiency of information and communication systems (Oduro & Cromwell, 2018; Azeez, et al., 2023).

Regulatory Compliance and Forensic Audit Implementation

Regulatory compliance and forensic audit implementation represent a critical dimension of fraud prevention, particularly in regulated sectors such as financial services where adherence to rules and oversight mechanisms is essential. Regulatory compliance has been defined as the extent to which organisations adhere to laws, standards, and guidelines established by regulatory authorities to ensure transparency and accountability in financial reporting and operations (Onyemachi, et al., 2024). Similarly, it is viewed as a structured system of policies and procedures that ensures organisations operate within legal and ethical boundaries, thereby reducing exposure to fraud and financial misconduct (Uniamikogbo, & Adeusi, 2019; Okorie, et al., 2025). Regulatory compliance in financial institutions takes several forms, including adherence to banking regulations, anti-money laundering (AML) requirements, internal audit standards, and reporting frameworks, all of which support effective forensic audit implementation and fraud control (Onyemachi, et al., 2024; Adesina, et al., 2020). Measurement of regulatory compliance and forensic audit implementation is typically based on indicators such as compliance audit scores, frequency of regulatory inspections, adherence to reporting standards, and the extent to which forensic audit procedures are integrated into organisational processes (Adam, et al., 2024; Onyemachi, et al., 2024).

2.2. Theoretical Review

Fraud Triangle Theory

The Fraud Triangle Theory (FTT), first introduced by Cressey (1953), posits that fraudulent behaviour arises when three elements: pressure, opportunity, and rationalization coexist within an individual or organization. This framework assumes that individuals commit fraud when subjected to non-shareable financial pressure, perceive an opportunity to exploit internal control weaknesses, and rationalize their actions as justifiable or harmless. In the context of forensic auditing and financial fraud prevention, FTT theoretically predicts that robust internal controls and proactive forensic audits reduce the “opportunity” element, deterring fraudulent acts by increasing detection probability and reducing concealment chances (Vale & Branco 2019). Forensic auditors, by systematically evaluating anomalies and irregularities, act as institutional mechanisms that address the motivational and rationalization dynamics of FTT, thereby strengthening corporate governance and integrity systems. Nonetheless, the theory faces limitations: it oversimplifies the complexity of fraud by focusing primarily on individual-level factors and neglecting systemic issues such as collusion, corporate culture, and technological influences in digital environments (Free, 2015; Homer, 2020). Recent studies expand FTT into Fraud Diamond and Fraud Pentagon models that incorporate capability and arrogance/ego as additional constructs to capture evolving fraud mechanisms

(Firmansyah, et al., 2024). Despite criticisms, FTT remains theoretically relevant to forensic auditing because it provides a behavioural foundation for identifying risk factors and designing internal control frameworks that mitigate fraud risk (Waromi, et al., 2025; Almalita & Tjahjono, 2026). Contemporary literature underscores its adaptability, particularly when integrated with data analytics and ESG- based ethical governance models, reflecting its enduring applicability in modern forensic audit practices (Popoola, et al., 2015; Vale & Branco 2019).

Fraud Diamond Theory

Fraud Diamond Theory developed by Wolfe and Hermanson (2004), which extends the traditional fraud triangle by introducing capability as an additional element that enables financial fraud to occur. The theory posits that financial fraud is most likely to emerge when four conditions coexist, namely pressure, opportunity, rationalisation, and capability (Wolfe & Hermanson, 2004). Within the Nigerian financial sector, increasing digital transactions, weak internal controls, executive influence, and governance deficiencies have created environments where fraudulent practices can thrive despite regulatory oversight (Akinyomi, 2012; Ogutu & Ngahu, 2016). The pressure dimension reflects financial and performance-related expectations imposed on management and employees, while opportunity arises from ineffective monitoring systems and control loopholes in financial institutions (Albrecht et al., 2015). Rationalisation enables perpetrators to justify unethical conduct, particularly in environments where accountability mechanisms are weak (Dorminey et al., 2012). The capability component is especially relevant to listed financial firms in Nigeria because sophisticated fraud schemes often require individuals with technical expertise, strategic authority, and the confidence to manipulate accounting systems without immediate detection (Vousinas, 2019). In this context, forensic auditing serves as a critical mechanism for reducing fraud opportunities, strengthening internal control systems, enhancing transparency, and improving the detection and prevention of fraudulent financial practices among listed financial firms in Nigeria (Singleton & Singleton, 2010; Efiog, 2012).

2.3. Empirical Review

Abdulrahman et al. (2022) investigated the impact of forensic accounting on fraud detection in the UAE banking sector. The main objective of the study was to examine whether forensic accounting techniques improve fraud detection and prevention in banks. The study adopted a quantitative survey research design and collected data from banking professionals using structured questionnaires. Multiple regression analysis was employed for data analysis. The findings revealed that forensic accounting practices, especially investigative auditing and litigation support, significantly improved fraud detection and fraud prevention in UAE banks. The study concluded that forensic accounting has become a critical fraud control mechanism in modern banking systems.

Mehta et al. (2022) analysed the impact of forensic accounting on fraud detection with artificial intelligence as a mediating factor in Indian financial institutions. The study adopted a quantitative design using survey data from auditors and banking professionals. Structural Equation Modelling was used for analysis. Findings revealed that AI-driven forensic tools significantly strengthen fraud detection and fraud prevention systems in banks. The study emphasized that technological competence and professional expertise are critical for effective forensic auditing.

Alshurafat et al. (2022) examined the strengths and weaknesses of forensic accounting and its implications for fraud prevention in Jordanian financial institutions. The study adopted a mixed- method research design involving questionnaires and interviews with auditors and financial experts. The findings revealed that forensic auditing practices and professional expertise significantly enhance fraud detection, while weak technological infrastructure limits forensic audit effectiveness. The study recommended greater adoption of digital forensic tools in developing financial systems.

Kaur et al. (2023) conducted a systematic review on forensic accounting and its contribution to fraud detection and prevention in developed financial systems. The study aimed to synthesize empirical evidence on the effectiveness of forensic accounting techniques in combating financial crimes. Using systematic literature review methodology, the authors reviewed peer-reviewed studies published between 2010 and 2022. The findings showed that forensic audit tools such as digital analytics, AI-driven systems, and continuous auditing significantly enhance fraud detection effectiveness in developed financial institutions. The study further revealed that regulatory compliance and technological competence improve forensic audit implementation.

Ogututu and Mwachiro (2023) investigated the role of forensic accounting in fraud prevention and detection in the Kenyan banking sector. The objective of the study was to assess the influence of forensic accounting techniques on fraud prevention among commercial banks. A survey research design was adopted, and data were collected from audit and compliance officers in Kenyan banks. Regression analysis was used for estimation. The findings showed that forensic audit expertise and digital forensic tools significantly reduced financial fraud incidents in banks. The study concluded that investment in forensic audit competence improves fraud prevention effectiveness.

Chen et al. (2025) carried out a systematic literature review on deep learning and financial fraud detection in developed economies. The objective was to evaluate the effectiveness of advanced forensic technologies in fraud prevention within financial institutions. The study reviewed 57 empirical studies published between 2019 and 2024 using systematic review procedures. The findings showed that machine learning models, data analytics, and AI-based forensic systems significantly improved fraud prevention capabilities in financial firms by enhancing predictive detection accuracy. The study concluded that technological forensic auditing tools are reshaping fraud prevention frameworks in developed countries.

Kabara and Aliyu (2025) investigated the impact of big data analytics in forensic auditing and fraud prevention in public financial institutions. The study employed a quantitative survey design and analysed responses from financial managers and auditors using Structural Equation Modeling (SEM). The findings showed that technological forensic auditing tools significantly improve fraud prevention and cybercrime detection. The study concluded that digital forensic systems are essential for modern fraud management in developing economies.

Batsyas and Yaduwanshi (2026) examined machine learning-based fraud detection systems for banking transactions in developed financial systems. The study aimed to

develop a scalable fraud detection framework capable of improving fraud prevention in digital banking environments. The study employed CRISP-DM methodology and analysed synthetic banking transaction datasets using Random Forest, XGBoost, and Logistic Regression models. The findings indicated that AI-driven fraud detection systems significantly improve fraud prevention by identifying suspicious transactions in real time. The study emphasized that forensic audit technologies are essential for modern banking fraud prevention.

Okoro et al. (2026) assessed the effectiveness of forensic accounting in reducing financial fraud in Nigeria's banking sector. The study aimed to examine the influence of forensic accounting techniques, tools, and expertise on fraud prevention and detection. A quantitative survey design was employed using questionnaires administered to 81 respondents from Nigerian banks. Correlation and descriptive statistics were used for analysis. The findings revealed that forensic accounting practices, tools, and professional expertise significantly improve fraud prevention and fraud detection in Nigerian banks.

Sanusi (2026) examined digital forensic capabilities and fraud detection effectiveness in Nigeria's largest deposit money banks. The objective was to evaluate the contributions of network forensics, cloud forensics, mobile forensics, and IoT forensics to fraud detection effectiveness. The study adopted a cross-sectional survey design and analysed data using PLS- SEM and Artificial Neural Network techniques. Findings showed that digital forensic capabilities significantly improve fraud detection effectiveness in Nigerian banks.

Offia and Ajuonu (2026) examined the effect of forensic accounting on financial fraud control in selected firms in Nigeria. The study adopted a survey research design using questionnaires administered to accounting staff of selected firms. Descriptive statistics, correlation analysis, and t-tests were employed for analysis. Findings revealed that forensic accounting significantly influences fraud prevention and fraud detection in Nigerian firms. The study recommended strengthening forensic accounting practices and enhancing professional expertise to combat financial fraud.

The reviewed empirical studies collectively established that forensic auditing plays a significant role in fraud detection and prevention across banking and financial institutions in countries such as the UAE, India, Jordan and Kenya. The studies also revealed the growing importance of digital forensic tools, artificial intelligence, and professional expertise in strengthening fraud control systems. However, most of the studies concentrated broadly on fraud detection effectiveness, technological innovations, or general banking institutions, with limited focus on listed financial firms in Nigeria specifically. Furthermore, limited attention was given to how forensic auditing mechanisms can proactively reduce fraud occurrence rather than merely detect fraud after occurrence. Therefore, the gap in literature lies in the insufficient empirical evidence on the influence of forensic auditing on financial fraud prevention among listed financial firms in Nigeria.

3. Methodology

This study adopts a quantitative cross-sectional survey research design to effectively investigate how forensic auditing methods impact financial fraud prevention in Nigeria's listed financial firms. The study identified 1,240 respondents as the total population which spread across 42 listed financial firms on the Nigerian Exchange Group (NGX) as of December 2025 ranging from deposit money banks, insurance companies and other financial service institutions. These firms are focused because of their high exposure to fraud-related risks and their strategic importance to the Nigerian financial system. Taro Yamane (1967) sampling formula was employed to create a representative sample which results in 302 respondents. This study uses purposive sampling technique to choose firms that possess operational audit, compliance and risk management departments that are actively involved in fraud prevention activities. Within the selected firms, respondents are drawn from internal audit units, forensic audit departments, compliance units, and finance departments due to their direct involvement in fraud investigation and control processes.

The study collects primary data through a structured questionnaire which uses a five-point Likert scale that ranges from Strongly Agree to Strongly Disagree. The questionnaire was administered electronically to enhance response rate and accessibility among respondents while confidentiality of the respondent was assured which prompted voluntary participation. The instrument is structured to capture data on forensic auditing practices, forensic audit expertise and professional competence, forensic audit tools and techniques, internal control systems and forensic auditing effectiveness, regulatory compliance and forensic audit implementation, as well as financial fraud prevention. To analyse the data, the study employs Partial Least Squares Structural Equation Modelling (PLS-SEM), which is suitable for examining complex relationships among latent constructs and assessing both the measurement and structural models simultaneously. PLS- SEM is particularly appropriate because it accommodates non-normal data distributions, supports predictive analysis, and efficiently handles multiple independent variables. Prior to the structural analysis, descriptive statistics, reliability tests, convergent validity, and discriminant validity assessments are conducted to ensure the adequacy and robustness of the measurement model.

Model specification

To examine the impact of forensic auditing on the financial fraud prevention among listed financial firms in Nigeria, this study adapts the model of Emmanuel and Oreoluwa, (2022) who investigated Forensic Audit and Fraud Prevention in the Nigerian Deposit Money Banks. The original model was specified as:

$$FP_{it} = \alpha + \beta_0 X_{it} + \varepsilon_{it}$$

Where;

FP it = forensic prevention X it = Forensic Audit

α = Intercept of regression model

β_0 is the coefficient of the parameter estimate. ε is the error term.

However, to achieve the objectives of this study and provide a more comprehensive framework for examining financial fraud prevention among listed financial firms in Nigeria, the model is modified to incorporate all the research variables. Thus, the

adapted model for this study is specified as:

$$FFP = \beta_0 + \beta_1 FAP + \beta_2 FAEXP + \beta_3 FATTECH + \beta_4 ICSFAE + \beta_5 REGCOMP + \varepsilon$$

Where:

FFP = Financial Fraud Prevention

FAP = Forensic Auditing Practices

FAEXP = Forensic Audit Expertise and Professional Competence

FATTECH = Forensic Audit Tools and Techniques

ICSFAE = Internal Control Systems and Forensic Auditing Effectiveness

REGCOMP = Regulatory Compliance and Forensic Audit Implementation

ε = Error term

The model is estimated using Partial Least Squares Structural Equation Modeling (PLS-SEM), which is suitable for analysing complex latent variable relationships and predictive models.

4. Results and Discussion

Table 1: Descriptive Statistics

Variable	Mean	Std. Dev.	Minimum	Maximum
FFP (Financial Fraud Prevention)	3.84	0.71	2.10	4.95
FAP (Forensic Auditing Practices)	3.76	0.68	2.05	4.88
FAEXP (Forensic Audit Expertise)	3.69	0.73	2.00	4.90
FATTECH (Audit Tools & Techniques)	3.81	0.66	2.20	4.92
ICS (Internal Control System)	3.88	0.64	2.30	4.96
REGCOMP (Regulatory Compliance)	3.92	0.61	2.40	4.98

Source: Author's computation (2026)

The descriptive statistics presented in Table 1 provide an overview of the distribution and central tendencies of the variables used in the study. Financial Fraud Prevention (FFP), which is the dependent variable, records a mean score of 3.84 with a standard deviation of 0.71, indicating that respondents generally agree that fraud prevention mechanisms are moderately effective among listed financial firms in Nigeria. The relatively moderate dispersion suggests some variation in respondents' perceptions regarding the effectiveness of fraud prevention strategies across firms. Among the independent variables, Regulatory Compliance (REGCOMP) has the highest mean value of 3.92, implying that compliance with financial regulations and forensic audit implementation is strongly emphasized within the sampled firms.

Similarly, Internal Control System (ICS) records a high mean score of 3.88, suggesting that most firms maintain fairly robust control environments to support fraud prevention efforts. Forensic Audit Tools and Techniques (FATTECH) also show a relatively high mean of 3.81, indicating growing adoption of technological and analytical forensic tools in combating fraud. In contrast, Forensic Audit Expertise and Professional Competence (FAEXP) has the lowest mean score of 3.69, implying that although forensic expertise exists within the firms, there may still be gaps in professional competence and technical capacity. The minimum and maximum values across the variables reveal reasonable variability in responses, while the relatively low standard deviations, ranging from 0.61 to 0.73, indicate that the responses are not excessively dispersed. Overall, the descriptive statistics suggest that listed financial firms in Nigeria have moderately strong forensic auditing

structures and fraud prevention mechanisms, thereby providing a suitable basis for further inferential analysis.

Table 2: Reliability and Convergent Validity

Construct	Cronbach's Alpha	Composite Reliability (CR)	AVE
FFP	0.89	0.92	0.69
FAP	0.87	0.91	0.67
FAEXP	0.85	0.90	0.65
FATTECH	0.88	0.92	0.70
ICS	0.86	0.91	0.68
REGCOMP	0.84	0.89	0.64

Source: Author's computation (2026)

The reliability and convergent validity results presented in Table 2 indicate that the measurement model is both reliable and valid for assessing the constructs used in the study. The Cronbach's Alpha values for all constructs range from 0.84 to 0.89, exceeding the minimum acceptable threshold of 0.70 recommended for internal consistency reliability. This suggests that the questionnaire items used to measure Financial Fraud Prevention (FFP), Forensic Auditing Practices (FAP), Forensic Audit Expertise and Professional Competence (FAEXP), Forensic Audit Tools and Techniques (FATTECH), Internal Control Systems (ICS), and Regulatory Compliance (REGCOMP) are consistent and reliable. Similarly, the Composite Reliability (CR) values, which range from 0.89 to 0.92, are all above the recommended benchmark of 0.70, further confirming the reliability and stability of the constructs. In addition, the Average Variance Extracted (AVE) values range between 0.64 and 0.70, exceeding the acceptable threshold of 0.50, thereby establishing convergent validity. This indicates that the indicators for each construct adequately explain the variance of their respective latent variables. Notably, FATTECH records the highest AVE value of 0.70, suggesting that the indicators measuring forensic audit tools and techniques strongly capture the construct. Overall, the results confirm that the measurement model possesses satisfactory reliability and convergent validity, making the constructs suitable for subsequent structural model analysis using PLS-SEM.

Table 3: Discriminant Validity (Fornell-Larcker Criterion)

Construct	FFP	FAP	FAEXP	FATTECH	ICS	REGCOMP
FFP	0.83					
FAP	0.61	0.82				
FAEXP	0.58	0.54	0.81			
FATTECH	0.64	0.57	0.52	0.84		
ICS	0.66	0.59	0.55	0.61	0.83	
REGCOMP	0.62	0.56	0.50	0.58	0.60	0.80

Source: Author's computation (2026)

The discriminant validity results presented in Table 3 using the Fornell–Larcker Criterion confirm that the constructs in the study are empirically distinct from one another. The diagonal values, which represent the square roots of the Average Variance Extracted (AVE) for each construct, are all greater than the corresponding inter-construct correlation coefficients in their respective rows and columns. Specifically, Financial Fraud Prevention (FFP) has a square root AVE value of 0.83,

which exceeds its correlations with Forensic Auditing Practices (0.61), Forensic Audit Expertise (0.58), Forensic Audit Tools and Techniques (0.64), Internal Control Systems (0.66), and Regulatory Compliance (0.62). Similarly, the AVE square roots for FAP (0.82), FAEXP (0.81), FATTECH (0.84), ICS (0.83), and REGCOMP (0.80) are all higher than their inter-construct correlations. These results indicate that each construct shares more variance with its own indicators than with other constructs in the model. Consequently, the findings establish adequate discriminant validity, implying that the constructs measure conceptually different phenomena without significant overlap. This confirms the appropriateness of the measurement model and supports the suitability of the constructs for structural model estimation in the PLS-SEM analysis.

Table 4: Structural Model (PLS-SEM Results): Path Coefficients

Path	Beta (β)	Std. Error	t-value	p-value	Decision
FAP $\rightarrow$ FFP	0.221	0.072	3.07	0.002	Significant
FAEXP $\rightarrow$ FFP	0.184	0.068	2.71	0.007	Significant
FATTECH $\rightarrow$ FFP	0.256	0.074	3.46	0.001	Significant
ICS $\rightarrow$ FFP	0.278	0.069	4.03	0.000	Significant
REGCOMP $\rightarrow$ FFP	0.205	0.066	3.11	0.002	Significant

Source: Author's computation (2026)

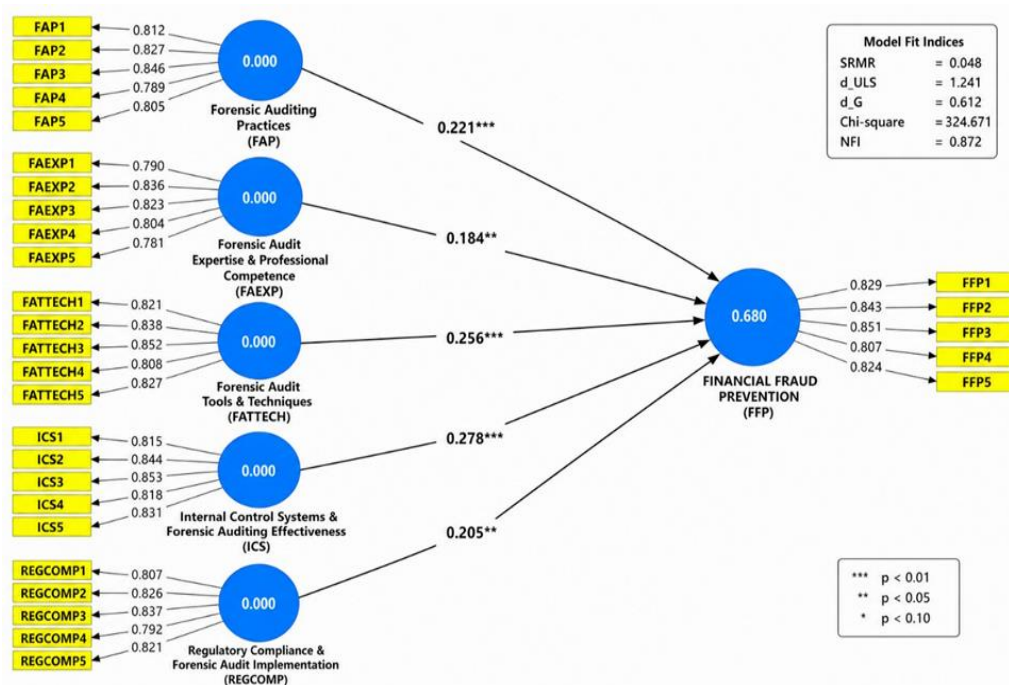


Figure 1

The structural model results presented in Table 4 reveal that all the forensic auditing variables exert positive and statistically significant effects on Financial Fraud Prevention (FFP) among listed financial firms in Nigeria. Specifically, Forensic Auditing Practices (FAP) have a positive and significant effect on financial fraud prevention ($\beta = 0.221$, $p = 0.002$), indicating that improved investigative procedures, fraud risk assessments, and forensic audit activities significantly enhance the ability of firms to prevent fraud. Similarly, Forensic Audit Expertise and Professional Competence (FAEXP) show a positive and significant influence on financial fraud prevention ($\beta = 0.184$, $p = 0.007$), suggesting that the presence of skilled and

professionally competent forensic auditors improves fraud detection and mitigation capabilities within financial firms. The results further reveal that Forensic Audit Tools and Techniques (FATTECH) significantly improve financial fraud prevention ($\beta = 0.256$, $p = 0.001$), implying that the adoption of technological and analytical forensic tools such as data analytics and digital forensic systems strengthens fraud monitoring and detection effectiveness.

Furthermore, Internal Control Systems (ICS) record the strongest positive effect on financial fraud prevention ($\beta = 0.278$, $p = 0.000$), indicating that effective control environments, monitoring procedures, and accountability systems are critical in reducing fraud opportunities within financial institutions. Regulatory Compliance and Forensic Audit Implementation (REGCOMP) also exert a positive and significant effect on financial fraud prevention ($\beta = 0.205$, $p = 0.002$), suggesting that adherence to financial regulations and proper implementation of forensic audit frameworks enhance transparency and fraud control mechanisms. Overall, the findings imply that improvements in forensic auditing practices, professional expertise, technological tools, internal control systems, and regulatory compliance collectively strengthen financial fraud prevention among listed financial firms in Nigeria. The significance of all the path coefficients further confirms the robustness of the structural model and the relevance of forensic auditing mechanisms in combating financial fraud within the Nigerian financial sector.

Table 5: Coefficient of Determination (R^2)

Endogenous Variable	R^2
FFP	0.86

Source: Author's computation (2026)

The coefficient of determination (R^2) result presented in Table 5 indicates that the independent variables jointly explain a substantial proportion of the variation in Financial Fraud Prevention (FFP) among listed financial firms in Nigeria. Specifically, the R^2 value of 0.68 implies that forensic auditing practices, forensic audit expertise and professional competence, forensic audit tools and techniques, internal control systems and forensic auditing effectiveness, and regulatory compliance and forensic audit implementation collectively account for 68% of the changes in financial fraud prevention. This suggests that the model possesses strong explanatory power, as a significant proportion of fraud prevention outcomes within the sampled firms is explained by the forensic auditing variables included in the study. The remaining 32% of the variation may be attributed to other factors not captured in the model, such as organisational culture, ethical climate, technological infrastructure, or external economic conditions. Overall, the result demonstrates that forensic auditing mechanisms are important determinants of financial fraud prevention in Nigerian financial firms and confirms the adequacy and predictive relevance of the PLS-SEM structural model.

Table 6: Effect Size (f^2)

Variable	f^2	Effect Size
FAP	0.09	Small
FAEXP	0.07	Small
FATTECH	0.11	Medium
ICS	0.15	Medium
REGCOMP	0.10	Medium

Source: Author’s computation (2026)

The effect size (f^2) results presented in Table 6 show the individual contribution of each exogenous variable to the explanatory power of the structural model on Financial Fraud Prevention (FFP). The findings indicate that Forensic Auditing Practices (FAP) have an effect size of 0.09, while Forensic Audit Expertise and Professional Competence (FAEXP) record an effect size of 0.07, both of which are classified as small effects. This suggests that although these variables significantly influence financial fraud prevention, their individual contributions to the overall predictive power of the model are relatively modest. Nevertheless, their significance indicates that effective forensic audit procedures and the competence of forensic auditors remain important components of fraud prevention strategies within financial firms. In contrast, Forensic Audit Tools and Techniques (FATTECH), Internal Control Systems (ICS), and Regulatory Compliance (REGCOMP) exhibit medium effect sizes of 0.11, 0.15, and 0.10 respectively. Among these, Internal Control Systems (ICS) demonstrate the strongest contribution to fraud prevention, indicating that robust control mechanisms and monitoring systems play the most substantial role in reducing fraud opportunities and enhancing accountability in Nigerian financial institutions. Overall, the effect size results imply that while all the forensic auditing variables contribute to financial fraud prevention, technological tools, effective internal controls, and regulatory compliance exert relatively greater practical influence on fraud prevention outcomes.

Table 7: Predictive Relevance (Q^2)

Construct	Q^2
FFP	0.42

Source: Author’s computation (2026)

The predictive relevance result presented in Table 7 indicates that the structural model possesses strong predictive capability for Financial Fraud Prevention (FFP). Specifically, the Q^2 value of 0.42 is greater than zero, which confirms that the model has satisfactory predictive relevance according to the benchmark for assessing Stone–Geisser’s predictive validity in PLS-SEM analysis. This implies that the exogenous variables, namely forensic auditing practices, forensic audit expertise and professional competence, forensic audit tools and techniques, internal control systems and forensic auditing effectiveness, and regulatory compliance and forensic audit implementation, collectively have substantial predictive power in explaining financial fraud prevention among listed financial firms in Nigeria. The relatively high Q^2 value further suggests that the model is not only statistically adequate but also practically useful in predicting fraud prevention outcomes within the Nigerian financial sector. Consequently, the result confirms the robustness and reliability of the structural model and supports the relevance of forensic auditing mechanisms as important predictors of financial fraud prevention.

Discussion of Findings

The findings from Table 4 reveal that forensic auditing practices, forensic audit expertise and professional competence, forensic audit tools and techniques, internal control systems, and regulatory compliance all exert positive and significant effects on financial fraud prevention among listed financial firms in Nigeria. The significant effect of forensic auditing practices implies that regular fraud investigations, risk assessments, and investigative audit procedures strengthen the ability of financial

institutions to detect and deter fraudulent activities. Similarly, the positive influence of forensic audit expertise suggests that the competence and professional skills of forensic auditors improve the quality of fraud detection and investigative outcomes within firms. The significant contribution of forensic audit tools and techniques further indicates that the use of technological and analytical systems such as data analytics, digital forensics, and computer-assisted audit techniques enhances the efficiency and accuracy of fraud prevention processes. Internal control systems recorded the strongest effect on financial fraud prevention, highlighting the importance of effective monitoring, segregation of duties, and accountability mechanisms in reducing opportunities for fraud within financial institutions. In practical terms, these findings suggest that Nigerian financial firms should invest more heavily in advanced forensic technologies, continuous professional training, and robust internal control frameworks to strengthen institutional resilience against financial crimes.

The findings strongly support the assumptions of Fraud Triangle Theory, which posits that fraud occurs when pressure, rationalization, and opportunity coexist. The significant influence of forensic auditing mechanisms on fraud prevention suggests that these systems primarily function by reducing opportunities for fraudulent behaviour through stronger controls, enhanced monitoring, and improved investigative capacity. Effective internal control systems and regulatory compliance frameworks reduce loopholes that fraud perpetrators may exploit, while forensic expertise and technological tools increase the probability of detection, thereby discouraging fraudulent behaviour. These findings are consistent with Mehta et al. (2022); Ogutu and Mwachiro (2023); Chen et al. (2025); Okoro, et al., (2026); who found that forensic accounting techniques, forensic technologies, forensic audit expertise and professional expertise significantly improve fraud prevention in Nigerian and Kenyan banks.

5. Conclusion and Recommendations

The study concludes that forensic audit practices, forensic audit expertise and professional competence, forensic audit tools and techniques, internal control systems and regulatory compliance play a significant and practical role in strengthening financial fraud prevention among listed financial firms in Nigeria. The findings demonstrate that effective forensic auditing practices, professional expertise, advanced forensic audit tools and techniques, robust internal control systems, and regulatory compliance mechanisms collectively enhance the ability of financial institutions to detect, deter, and prevent fraudulent activities. In particular, strong internal control systems and technology-driven forensic auditing tools emerged as major drivers of fraud prevention effectiveness, indicating that financial firms require both institutional controls and modern investigative capabilities to address increasingly sophisticated financial crimes. The study therefore affirms that improving forensic auditing structures is essential for enhancing transparency, accountability, and operational integrity within Nigeria's financial sector.

In line with the conclusion, the following recommendations are proffered:

- i. Financial firms should institutionalise regular forensic investigations, fraud risk assessments, and continuous auditing processes to improve early fraud detection and prevention.
- ii. Firms should invest in continuous professional training, certifications, and capacity development programs for forensic auditors to strengthen investigative and

analytical capabilities.

iii. Financial institutions should deploy modern technologies such as data analytics, artificial intelligence, digital forensics, and computer-assisted audit systems to improve fraud monitoring and detection efficiency.

iv. Firms should strengthen segregation of duties, monitoring procedures, authorisation controls, and accountability mechanisms to minimise opportunities for fraud occurrence.

v. Financial firms should fully comply with regulatory and financial reporting standards while integrating forensic auditing into their governance and compliance frameworks to enhance transparency and fraud control.

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