

IMPORTANCE OF INTERNAL CONTROL SYSTEMS ON DETECTION AND PREVENTION OF FRAUD IN COMMERCIAL BANKS OF NEPAL

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Abstract

This research aims to study the importance of internal control systems in the detection and prevention of fraud in commercial banks in Nepal. Advanced authentication techniques, vigilant monitoring for questionable activity, frequent staff education and awareness campaigns, and robust encryption for confidential information are all part of the process of identifying and preventing fraud. Effective internal control mechanisms are essential to identifying and averring fraud in financial organizations. This study used descriptive research design to interpret the data. Using simple random sampling Ten commercial banks were selected as samples out of a total of Twenty commercial banks. A structured questionnaire was distributed to Fifty respondents but only 48 were collected and used in the study. A chi-square test was applied to analyze the data. Findings of this study found that fraud in the organization is done by concealed hands and inefficient allocation of duties and authorities cannot detect and prevent fraud in commercial banks in Nepal.

Keywords: *Financial Instructions; Fraud Detection; Internal Control; Physical Control; Prevention*

Abstrak

Penelitian ini bertujuan untuk mempelajari pentingnya sistem pengendalian internal dalam mendeteksi dan mencegah penipuan di bank-bank komersial di Nepal. Teknik otentikasi yang canggih, pemantauan yang cermat terhadap aktivitas yang meragukan, pendidikan staf yang sering dilakukan dan kampanye kesadaran, serta enkripsi yang kuat untuk informasi rahasia merupakan bagian dari proses identifikasi dan pencegahan penipuan. Mekanisme pengendalian internal yang efektif sangat penting untuk mengidentifikasi dan mencegah kecurangan dalam organisasi keuangan. Penelitian ini menggunakan desain penelitian deskriptif untuk menginterpretasikan data. Dengan menggunakan simple random sampling, sepuluh bank umum dipilih sebagai sampel dari total dua puluh bank umum. Kuesioner terstruktur didistribusikan kepada Lima Puluh responden tetapi hanya 48 yang dikumpulkan dan digunakan dalam penelitian ini. Uji chi-square digunakan untuk menganalisis data. Temuan dari penelitian ini menemukan bahwa kecurangan dalam organisasi dilakukan oleh tangan-tangan tersembunyi dan alokasi tugas dan wewenang yang tidak efisien tidak dapat mendeteksi dan mencegah kecurangan pada bank-bank komersial di Nepal.

Kata kunci: *Instruksi Keuangan; Deteksi Kecurangan; Pengendalian Internal; Pengendalian Fisik; Pencegahan*

Introduction

The common inquiry that arises when businesses abruptly fail is, "What went wrong?" The most common reason is an internal control system malfunction. An organization's internal control system directs it toward accomplishing its goals. These goals include maintaining operational importance and efficiency, ensuring the accuracy of financial reporting, and adhering to all applicable rules and regulations. (COSO, 1992).

Internal control is defined by the Institute of Chartered Accountants of England and Wales (ICAEW) as the entire system of controls financial or otherwise established by management to run an organization's operations in an efficient and orderly manner, guarantee adherence to management policies, protect the company's assets, and, to the greatest extent feasible, secure the accuracy and completeness of the records.

The following categories best describe the significance of internal controls under contemporary business practices generally (Liu 2005). First and foremost, internal controls aid in the detection of fraud and mistakes. Error and fraudulence may be reduced to almost nothing with the use of an improved internal control structure, which comprises an improved accounting system, control program, and control environment. Second, they minimize criminal activity. The rules that a company organization must abide by might be intricate and sophisticated. If careless behavior ends in breaching the law, there is a chance that the organization could face operational challenges as a result of drawn-out legal proceedings and indemnities, in addition to reputational harm. The implementation and improvement of internal control contribute to a reduction in criminal activity.

Thirdly, internal controls increase the company's ability to compete. An effective internal control system is one factor that makes a corporation successful. A well-maintained internal control system protects the company from failing in the fiercely competitive market. Employee comprehension of corporate goals and objectives is enhanced by the small-scale internal control implemented within the business entity. Since employees are more likely to adhere to company policies and programs precisely, overall operating efficiency can be raised. Effective risk management requires the identification and management of hazards.

This study will concentrate on the role that internal controls play in identifying and preventing fraud in Nepal's commercial banks. The importance of internal control systems in organizations, particularly financial ones, cannot be overstated, as Nepal's commercial banks which are vital to the country's economic development are currently marked by macroeconomic instability, a slow growth in real economic activity, corruption, and fraud risk.

Fraud

Bank managers now find that fraud is a big source of concern when it comes to putting up an internal control system. Additionally, it has regrettably become ingrained in the country's reputation worldwide. The financial system is really being eroded by fraud, and any bank that has a shoddy internal control system is at serious risk of experiencing bank fraud.

Various definitions of fraud exist, dependent on the perspective being examined. Fraud is described as a purposeful deceit used to get unfair or illegal benefits in The American Heritage Dictionary, Second College Edition. Scholars and professionals have characterized fraud in a variety of ways in written works. To put it succinctly, "fraud

always involves one or more persons who, with intent, act secretly to deprive another of something of value, for their own enrichment" (Davia et al. 2000). Wells (2005), deceit is the foundation of fraud. The Association of Certified Fraud Examiners' definition of fraud as "occupational fraud and abuse" is interesting since it helps us filter out types of fraud that we don't want to look into. The exploitation of one's profession for personal benefit through the intentional misuse or misapplication of the employing organization's resources or assets is known as occupational fraud and abuse (ACFE, 2006). This concept covers a broad range of behavior by company leaders, managers, employees, and executives. Asset misappropriation, false claims, corruption over petty theft and pilfering, bogus overtime, and utilizing business property for personal gain are only a few examples of violations. Other offenses include payroll and sick leave abuses.

Hornby (1998) defined it as the act of deceiving someone in order to gain items illegally or make money. According to the same lexicon, those who commit scams are called fraudsters. "Intentional misrepresentation of financial information by one or more individuals among the management, employees, and in some cases with third part collaboration in order to defraud the business of financial resources and assets" is how International Accounting Standards (IAS) describe fraud.

Agyemang, (2016) defined fraud as a prearranged, carefully thought-out, deceptive process or device that is typically carried out by an individual or group of individuals with the sole intent of checking another individual or organization in order to gain unfair advantages, whether financial or otherwise, that would not have accrued in the absence of such dishonest procedure. According to the criteria given above, fraud may be defined as the deliberate misrepresentation of financial information

by one or more people who are either employees, management, or outsiders.

Research Problem

As was previously said, financial institutions are an important part of the economy that requires internal and external regulation. These measures are designed to protect both public funds and the assets of financial institutions. The primary motivation behind establishing an internal control system is fraud, which has grown to be a significant challenge for bank management due to the daily invention of new methods of committing fraud. Notably, by the end of 2011, 95% of the institutions had established specialized risk management units, demonstrating how much weight they place on the potential consequences of poor risk management. (CBK, 2011).

One of the biggest concerns facing risk managers in many financial organizations these days is fraud. Additionally, it erodes the positive perception that the industry has long fostered among consumers. A bank's exposure to bank fraud is dangerously high if its internal control mechanism is insufficient. According to the Central Bank of 2011 Risk Management Survey, 95% of the institutions had an independent risk management function in place, while 5% did not. Rather than having a specific purpose, institutions were questioned whether they possessed (internal) risk management standards in the 2004 survey. At that time, 94% had said they followed such rules.

Early this year, the Police issued a report created by the Banking Fraud Investigations Department that detailed the numbers and patterns of fraud for the second quarter of 2011, highlighting the harm that bank fraud has caused to the business. A total of KSH. 390 million was reportedly pilfered from approximately 40 financial institutions between April and June 2011. According to the same source,

there was a KSH. 20 million increase from the previous quarter. The majority of these instances are allegedly inside employment by workers who saw a "licensed opportunity" to amass riches unlawfully. By the second quarter of 2011, there had been 226 documented occurrences of fraud.

Ndege Joseph et al., (2015) studied to assess the effect of internal controls on fraud prevention. The study employed a questionnaire to collect its data. The sample items were chosen using a combination of random and selective selection methods. For the study, ten (35) management employees, including the internal auditor, were chosen as a sample. The analysis found that the bank has been able to prevent fraud because of the internal control measures implemented by management. Once more, the majority of respondents expressed agreement that management makes sure all required safeguards are in place to prevent and identify fraud. Additionally, the majority of respondents (91.4%) stated that an internal control system that can disclose the fraudster's method of operation in the bank is implemented and overseen effectively.

Hasna & Rachid, (2023) researched to examine how the internal control system affects fraud detection and prevention in Morocco's public sector, especially in public spaces. Using a questionnaire distributed to a sample of civil servants from 12 public establishments throughout Morocco, the research conducted a quantitative study. By utilizing the PLS method, the study's findings demonstrated that the internal control system significantly and favorably affects the identification and prevention of fraud. Furthermore, as per the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013, every element of internal control has a noteworthy and affirmative impact on detecting and preventing fraudulent activities.

Agyemang, (2015) aimed to determine the impact of internal controls on fraud detection and prevention in Kakamega County district treasuries. While heads of departments were chosen using the simple random sample approach to reply to the data-collecting instruments, Treasury Staff members were chosen using the purposive sample method. The researcher employed the drop-and-pick approach to conduct closed-ended surveys intended for treasury personnel and their clients. The Statistical Package for the Social Sciences was used to analyze the data using both descriptive and inferential statistics (SPSS). Using the test-retest procedure, the validity and reliability of the data-collecting equipment were determined. The study's conclusions showed a statistically significant and favorable correlation between fraud prevention and detection in Kakamega County district treasuries and the sufficiency of internal control systems. In order to stop and identify fraud in district treasuries and other organizations, the report suggests implementing effective and efficient internal control rules and processes.

Joseph Elikem Kofi Ziorklui et al., (2024) reviewed to analyze how well internal control systems work in organizations to stop and identify fraud. Internal control systems, which were intended to protect assets, guarantee the integrity of financial records, and foster operational efficiency, were crucial parts of corporate governance. The need for a strong control environment is highlighted by the stated internal controls and their crucial role in preventing and detecting fraud. To give a thorough grasp of their structure and operation, the elements of the internal control environment, risk assessment, control activities, information and communication, and monitoring activities were covered. The role of preventive measures, including authorization procedures, access restrictions, and job segregation, in reducing the likelihood of

fraud was evaluated. To demonstrate best practices, case studies and real-world examples of businesses using successful preventative measures were given. We also looked at the obstacles and constraints that organizations have when putting preventative controls in place. The efficacy of detective controls, including internal audits, whistleblower hotlines, and reconciliation procedures, in detecting and exposing fraudulent activity is assessed. The evaluation ended with recommendations for improving internal control systems, with a focus on ongoing observation, staff development, and the integration of cutting-edge technology. It was emphasized how important management is to developing a culture of moral behavior and assisting internal auditing.

M Abu Saleem & Oleimat, (2020) conducted research to determine how internal control functions in non-governmental organizations (NGOs) efforts to prevent and detect fraud. The questionnaire was completed by 73 NGO employees who were randomly chosen to work in management control and finance roles out of a six-person random sample of the NGO sector. The findings showed that internal control in non-governmental organizations is important for both preventing and detecting fraud as well as ensuring that all transactions adhere to internal policies and procedures. Given the significance of NGOs in Jordanian society, the study advised academics to focus more on internal control in these organizations.

The previous studies focused on the many ways that fraud was committed as well as the connection between fraud and the bank, which is the credit institution. These studies, however, were unable to identify the fundamental connection between the Internal Control System in place and the occurrences of fraud within the bank. The significance of internal controls for fraud detection and prevention will be investigated in this research project.

The inadequacy of internal control systems in Nepalese financial institutions originates from its inability to thwart exogenous events, management's ability to circumvent internal controls, human mistakes, poor judgment, wrongly pre-set objectives, or both. What are the factors contributing to the incidence of fraud in financial institutions? What are the impacts of internal controls on the prevention and detection of fraud? and what measures must be put in place for the prevention and detection of fraud. The objectives of this study are: To determine the importance of internal controls in fraud prevention and detection., To establish the factors that contribute to the incidence of fraud in financial institutions and how to curb it.

The theory of Internal Controls

Internal control is defined as a process carried out by an entity's board of directors, management, and other personnel with the aim of providing reasonable assurance regarding the achievement of objectives in the following categories: importance and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. This definition of internal control is widely accepted and originates from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission's report entitled *The Control-Integrated Framework (COSO Report)*.

The four main components of internal control are intended to be made clear by the COSO definition. First of all, internal control is a continuous process that consists of a number of steps that, in an ideal world, are integrated with all other organizational activities. It serves as a management tool and should be seen as a means to the achievement of an organization's objectives. Second, the organization's personnel carry out internal control. Internal control also influences the behavior of individuals within the organization. Each person in the organization has a particular

history, set of requirements, and set of priorities, all of which have an impact on performance and communication. Internal control is a means of fortifying the acknowledgment of duties and boundaries of power, as well as of coordinating internal organization operations with overarching organizational goals.

Yang and Lee, (2020) focused on the fact that controls were not free is one of its evident limitations. Evaluation and assessment, on the other hand, were crucial components of effective fraud prevention and detection techniques because they enable businesses to monitor outcomes, determine which areas require development, and assess the effectiveness of internal controls.

Control Environment

According to the literature, the control environment component is fundamental to efficient control. An organization's control environment establishes the tone and shapes its members' awareness of control. It serves as the cornerstone for all other internal control elements, offering structure and discipline. It also has a significant impact on risk assessment, goal-setting, control operations, information and communication systems, and monitoring activities (COSO, 1994). The management and board of directors' dedication to internal control is reflected in the control environment. It gives the control system structure and discipline.

Risk Assessment

Every business has a range of risks that need to be evaluated and controlled, both from internal and external sources. Risk assessment, according to COSO (1994), is the process of identifying, quantifying, and analyzing both internal and external, controllable and uncontrolled risks for the bank as a whole as well as for specific business levels. Because unchecked risk-taking can keep the bank from achieving its goals or

jeopardize its operations, management must evaluate every risk the bank faces. Good risk assessments assist in identifying the risks, the controls that are required, and the best way to manage them. Management sets goals at the activity level and creates systems for determining and assessing the risks associated with achieving them. (COSO, 1994).

Control Activities

COSO (1994) described Control activities as the processes, rules, and guidelines put in place to make sure bank employees follow management and board orders at all business levels inside the bank. Through these actions, the board and management are better able to handle risks that might impede a bank from achieving its goals.

All levels and functions of the organization engage in control activities. They cover a wide variety of tasks such as authorizations, approvals, reconciliations, verifications, assessments of operational performance, asset security, and segregation of roles.

Information and Communication

COSO (1994) Systems for accounting information and communication gather and disseminate relevant and timely data in a way that makes it possible for the management, the board, and staff to fulfill their duties. The procedures and documentation that detect, compile, examine, categorize, record, and report a bank's transactions are known as accounting systems. All staff members are able to comprehend their responsibilities, their places within the control system, and their relationships with one another thanks to information and communication technologies. Information systems give management and the board the ability to administer the bank by producing reports on finance, operations, and compliance. Information is disseminated via communication systems both inside the bank and to outside parties including

shareholders, regulators, examiners, and consumers.

All departments and divisions within the organization should have effective communication going down, across, and up in all directions. It is important to keep management informed on performance, progress, dangers, and other pertinent topics and occurrences. In addition to giving criticism and guidance, management should let employees know what information is necessary for them to function effectively.

Monitoring and Supervision

Monitoring, which can be carried out by independent assessments, regular (ongoing) activities, or a mix of the two, guarantees that internal controls function as intended throughout time. A well-functioning accounting system will recognize, classify, and record all legitimate transactions within the allotted time frame. It will also report those transactions accurately in the financial statements.

COSO (1994) Over time, both the underlying control system and the way controls are applied change. This may be brought about by the hiring of more staff, shifting priorities when it comes to carrying out policies or providing oversight, limitations in terms of both time and resources or modifications to the conditions for which the internal control system was first intended. The practice of evaluating a system's performance over time through both continuous monitoring and one-time assessments is known as monitoring.

As per the COSO framework, the ultimate responsibility for guaranteeing the operation of an internal control system within an organization lies with the management, with the CEO being the most crucial individual due to their crucial role in fostering a controlled environment. The COSO model, however, states that "internal control is, to some degree, the responsibility of everyone in an

organization" and that external parties like regulators and external auditors may help the organization achieve its goals by providing information that aids internal control. As a result, internal control cannot be solely the responsibility of the organization's top brass. However, these outside parties are often not accountable for the organization's internal controls.

Physical Controls

These measures are both detective and preventive. They include Physical protections, perpetual records, periodic counts and physical inventories, security of intellectual and physical assets, and the investigation and correction of discrepancies between counts and perpetual records. Safeguarding crucial records, critical systems, dangerous assets, liquid assets, assets with alternative uses, and private information against unauthorized acquisition, use, or disposal is imperative. The strongest defense for these assets is control. Secured doors, keypad systems, card key systems, badge systems, locked file cabinets, guards, terminal locks, computer passwords, menu protection, automatic callback for remote access, smart cards, and data encryption are a few examples of access restrictions. By keeping track of acquisitions and issuances, departments with sizable inventories or capital assets should create permanent inventory control over these goods. A person unrelated to the purchase, authorization, and asset custody activities should physically count the objects on a regular basis. The counts should then be compared to the balances listed in the permanent records. Perpetual records should be updated to reflect physical counts and missing items should be looked into, remedied, and examined for any control flaws.

Internal Audit Control

One kind of detective control is this. In general, an audit involves comparing several data sets to one another, finding and

analyzing discrepancies, and, if required, taking remedial action to address disparities. Internal auditing of the company's books of accounts includes reconciling/auditing monthly financial reports from the accounting department (such as the Statement of Accounts, Ledger Sheets, etc.) and filing copies of supporting documentation of departmental accounting records. The correctness and completeness of transactions that have been charged to a department's accounts are ensured by this control activity.

The individual who handles cash receipts or approves transactions shouldn't be the one doing the reconciliation in order to maintain appropriate job separation. Comparing the amount of vacation and sick leave per departmental record to the amount per payroll system is another example of an audit. Finding and fixing discrepancies is a crucial part of the auditing process. Making notice of differences but doing nothing with them is not helpful. Disparities must be found, looked into, explained, and remedial action must be taken. The approver should request a corrective journal entry if an expense is mistakenly charged to a department's accounts, and the reconciler should confirm that the corrected journal entry was posted. Management should record and approve audit reports.

Segregation of Duties

This preventive and detective control operates on the tenet of "at least two sets of eyes," which states that no one person should record a transaction they have started or approved, reconcile accounts, manage assets, or analyze reports. The division of labor is essential to efficient internal control. It lessens the possibility of making mistakes and acting inappropriately. Employees should generally be assigned to different roles for the approval, accounting/reconciling, and asset custody functions. If the small department size prevents certain duties from being separated, a thorough supervisory evaluation of associated

actions is necessary as a compensatory control measure. Because it takes cooperation with another individual to commit fraud, the segregation of duties acts as a barrier to fraud.

Empirical Studies

Negash, (2018) carried out research on "Effectiveness of Internal Control Systems: A Case Study from Uganda" that was published in the International Research Journal of Finance and Economics Issue 27 (2009), and discovered that the majority of projects undertaken by various Ugandan government sectors were completely unsuccessful or ineffective because they lacked some control components of effective internal control systems. Furthermore, differences in internal control awareness and implementation between Swedish Aid's various organizational levels particularly between the head office and the country office were noted by Ashbaugh et.al (2008).

Longo et.al (2023) investigated how internal auditors' perceptions of their ability to avoid fraud are used to determine the efficacy of internal audits. It looked at the factors that influence how well internal audits work to stop fraud. Instrument development design is an experimental sequential design technique that was applied in this investigation. The Financial and Development Supervisory Agency (BPKP), which represents the Province of North Sulawesi, and the Inspectorate, which represents the Province of North Sulawesi as a whole, served as the unit of analysis for the local government's internal auditor. PLS was the analytic method employed for the 165 questionnaires that made up the data. The study discovered that audit quality has an impact on audit effectiveness for fraud prevention. how well internal auditing works to stop fraud.

Sudirman et. al (2021) analyzed the efficiency of PT Bank Sulselbar Makassar's internal audit in bolstering internal fraud

control. The research employed a qualitative methodology, gathering data through questionnaires and interviews with internal auditors, the anti-fraud department, and management. Following data collection, descriptive techniques were used to analyze the data and determine its efficacy. According to the study's findings, Bank Sulsebar's internal control system for fraud has benefited from the Internal Audit Group's work as an internal auditor. The Bank Sulsebar internal audit has the power to keep an eye on the actions taken in response to the auditor's audit findings. In order to make sure that remedial actions have been implemented appropriately and successfully, monitoring activities were conducted.

As a result, the business established stronger internal controls going forward as deficiencies and mistakes were constantly evaluated and remedied. Three components were needed to avoid and identify fraud: an honest culture, management's accountability for assessing fraud risk, and audit committee oversight.

To improve internal controls and encourage long-term organizational growth, research should keep looking into novel ideas and addressing new problems in commercial banks in Nepal. It would be impossible to complete a study on internal controls without addressing these two concerns. Another major theme of this study is the role that internal controls have in preventing fraud.

Methodology

A descriptive research design was adopted for this investigation. The study's explanation uses a variety of sources of information to examine the specifics of a scam that occurred in real life. Document analysis and data gathered via surveys are the sources of the proof. This method works well because it collects descriptive data about occurrences, organizes it, tabulates it,

and then discusses and illustrates it. Additionally, it makes it possible to assist readers with the use of visual aids like tables and graphs. There are twenty commercial banks in Nepal, and they make up the population of the study. The 10 commercial banks in Nepal were the study's target population. Officers, middle-level managers, and branch managers made up the target respondents. All respondents were asked for information via questionnaires. The reason the researchers selected this strategy was that it allowed them to quickly collect a huge amount of data from the respondents in a short amount of time for analysis.

The research also employed documentary analysis, which is another term for secondary data. Examining organizational records such as personnel files, organizational charts, corporate policies, and service agreements was part of this process. Analyzing the contents of documented items like books, periodicals, and newspapers was another aspect of it. Both descriptive and inferential statistical techniques were used to examine the data collected for this investigation. The information was categorized into the major research topics or independent variables. For the inferential statistical procedure, the chi-square (χ^2) was employed. To ascertain if two classes are independent or whether categorical data exhibits dependence, utilize Chi-Square. The Chi-Square test helps to explain the relationship between two categorical variables. When categories are employed, they may also be used to compare theoretical populations with real data. The researchers in this study were able to explain whether or not the variables (independent and dependent) were connected by using the chi-square test of independence. Fifty questionnaires were given out to employees of the 10 bank branches located in Kathmandu. This translates to five surveys on average for each branch. Just 48 of the 50 were

returned, yielding a 98% response rate that allowed the study to proceed.

Statistical Analysis

Table 1: Showing the Distribution of Responses on The Importance of the Various Variables in Controlling Fraud.

VARIABLES	RESPONSES					TOTAL
	1	2	3	4	5	
a) Physical control	0	0	18	14	16	48
b) Authorization control	0	0	10	18	20	48
c) Segregation of Duties	0	10	14	20	4	48
d) Internal Audit Control	0	10	10	3	25	48
TOTAL	0	20	52	55	65	192

Degrees of freedom=(r-1) (c-1) and r=4, c=5

Therefore D.F. = (4-1) (5-1) = 12

Table 2: Showing the Calculated χ^2 for Physical Controls

Response	Observed(O)	Expected(E)	O-E	(O-E) ²	(O-E) ² /E
1	10	0	0	0	0
2	10	0	0	0	0
3	8	3	5	25	8.333
4	4	8.75	-4.75	22.5625	2.579
5	16	16.25	-0.25	0.0625	0.003
TOTAL	48				10.915

Calculated $\chi^2=10.915$

According to the computation in Table 2, the critical chi-square value for a 95% confidence interval and 12 degrees of

freedom is 21.026. It is evident from a comparison of this number with the computed chi-square value of 10.915 that the crucial chi-square value is higher.

Table 3: Showing the calculated χ^2 for Authorization Controls

Response	Observed(O)	Expected(E)	O-E	(O-E) ²	(O-E) ² /E
1	0	0	0	0	0
2	0	0	0	0	0
3	10	3	-3	9	3
4	18	8.75	-0.75	0.5625	0.0643
5	20	16.25	3.75	14.0625	0.8654
TOTAL	48				3.9297

Calculated $\chi^2=3.9297$

With 12 degrees of freedom and a 95% confidence interval, the critical chi-square

value is 21.026. It is evident that the crucial chi-square value is higher than the computed chi-square value of 3.9297 when this value is compared to it.

Table 4: Showing the Calculated χ^2 for Segregation of Duties

Response	Observed (O)	Expected (E)	O-E	(O-E) ²	(O-E) ² /E
1	0	0	0	0	0
2	0	0	0	0	0
3	4	3	1	1	0.333
4	20	8.75	11.25	126.5625	14.464
5	4	16.25	-12.25	150.0625	9.235
TOTAL					24.032

Calculated $\chi^2=24.032$

With 12 degrees of freedom and a 95% confidence interval, the critical chi-square value is 21.026. It is possible to determine

that the crucial chi-square value is lower than the calculated chi-square value by comparing this value to the calculated chi-square value of 24.032a, which is displayed in Table 4.

Table 5: Showing the Calculated X² for Internal Audit Control

Response	Observed(O)	Expected(E)	(O-E)	(O-E) ²	(O-E) ² /E
1	0	0	0	0	0
2	0	0	0	0	0
3	0	3	-3	9	3
4	3	8.75	-5.75	33.0625	3.779
5	25	16.25	8.75	76.5625	4.712
					11.491

Calculated $\chi^2=11.491$

With 12 degrees of freedom and a 95% confidence interval, the critical chi-square value is 21.026. The crucial chi-square value is larger than the calculated chi-square value, as can be observed by comparing this number to the calculated chi-square value of 11.491, which is displayed in Table 5.

Conclusion

The results of the investigation suggest that fraud is being enabled by a concealed hand. Internal control mechanisms other than the separation of roles and responsibilities inside an organization are ineffective in preventing fraud. Therefore, more methods and kinds of controls that may be used to reduce fraud in banks could be investigated by future researchers. Therefore, it can be said that no one internal control is successful in stopping the fraud

threat on its own; rather, a mix of internal controls is required to effectively manage fraud. Rather than relying on individual financial institutions to come up with strategies to prevent fraud, most of which seem to have reached a dead end, Nepal's commercial banks should make a greater effort to pinpoint the root causes of fraud and figure out the most effective ways to combat it.

Implications

Using quantitative or qualitative methods, a future researcher may include other explanatory factors, such as internal audit and governance, in the internal control system. In Nepal, commercial banks must increase the thoroughness of their recruiting procedures and background investigations before assigning employees to positions where fraud may be more likely to occur. Commercial banks should set up strong internal control divisions whose sole

purpose is to devise more cunning ways to combat bank fraud on top of the already inadequate internal control frameworks.

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