Audit Quality as a Shield Against Financial Malfeasance: Empirical Evidence on Fraud Prevention and Detection from Nigeria's Deposit Money Banks

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ABSTRACT

This study provided novel empirical evidence on the comparative effects of two core Audit-quality dimensions—Audit Independence and Audit Competency—on fraud prevention and detection (FPD) in Nigeria's Deposit Money Banks (DMBs), an under-explored existing-market context. Anchored in Agency Theory and Human Capital Theory, we interrogated the assumption that structural safeguards (Independence) are equally or more effective than professional expertise (Competency) in curbing financial malfeasance. Using an ex-post facto design, we integrate primary survey data from 350 Audit and risk professionals across 20 systemically important DMBs with secondary data (2014–2023). Reliability was high (Cronbach's $\alpha > 0.85$); validity was supported via exploratory factor analysis. Hypotheses were tested using bootstrapped regression (5,000 resamples) and covariance-based Structural Equation Modelling (SEM) in AMOS. Findings showed that Audit Competency had a significant positive effect on FPD ($\beta = 0.377$, $p < 0.001$), while Audit Independence is statistically insignificant ($\beta = 0.072$, $p = 0.111$). SEM exhibits excellent fit (CFI = 0.928; RMSEA = 0.042; SRMR = 0.036) and confirms no indirect effect of Independence via Competency ($\beta = 0.021$, $p = 0.156$). We challenged conventional theory by demonstrating that, in high-fraud, weak-enforcement environments, human-capital attributes—technical proficiency, forensic expertise, and continuous training—outperform structural Independence in achieving fraud resilience. Originality lies in dual-method validation, sector-specific focus on systemically important banks, and reframing Audit-quality debates toward competence-centric regulation. Policy recommendations include integrating forensic Auditing into training, Competency-based licensing, and updating corporate governance codes to elevate technical capacity as a fraud-control lever.

Keywords: Audit quality, Audit Independence, Audit Competency, fraud prevention, fraud detection, Nigeria, Deposit Money Banks, Structural Equation Modeling, forensic Audit, agency theory, human capital theory.

INTRODUCTION

In Nigeria's financial ecosystem, Deposit Money Banks serve as the principal intermediaries—transforming deposits into productive assets, executing monetary directives, and underpinning sustainable economic growth. These banks grant loans, transmit monetary policies, develop industries, and so forth. Nevertheless, these banks are now exposed to increased fraud risks, including insider collusion, cybercrime, and illegal loan disbursements, among others. This increased fraud risk places the public's deposits at a higher risk level. The National Financial Institutions Training Centre. (FITC) in 2024 reported that Nigerian Banks lost ₦42.6bn and more in the second quarter of 2024 alone, highlighting systemic weakness in internal control and Audit oversight. Such a scenario brings forth the question of the effectiveness of Audit quality in fighting financial wrongdoing and irregularities in the banking sector.

Audit quality—widely regarded as a cornerstone of corporate governance—traditionally emphasizes Audit Independence, defined as the Auditor's ability to remain objective and free from client influence (DeAngelo,

1981). Opposing views, however, start to arise from emerging empirical literature contending that Audit skills, including technical expertise, industry knowledge, and investigative expertise, may in fact have a greater impact on the detection and prevention of fraud (Odum & Kelechi, 2023; Knechel et al., 2013).

Despite the importance of these Audit quality dimensions, few empirical studies in Nigeria have comparatively analysed the influence of Audit Independence and Audit Competency on fraud outcomes in DMBs. Given the systemic importance of banks and the persistence of fraud, understanding these relationships is vital for improving regulatory oversight and institutional integrity.

This study addressed this empirical gap by analyzing the effects of Audit Independence and Audit Competency on fraud prevention, and detection within Nigeria's DMBs using a multi-method approach.

Research objectives and questions

We examined whether Audit Independence (AI) and Audit Competency (AC) differentially influence FPD among Nigerian DMBs. We asked: (i) Do AI and AC significantly affect FPD? (ii) Which dimension has the stronger association with FPD?

Hypotheses

H1: Audit Independence has a significant positive effect on FPD in Nigeria’s DMBs.

H2: Audit Competency has a significant positive effect on FPD in Nigeria’s DMBs.

Study contributions and visual roadmap

This study contributes by: (i) isolating the relative effects of AI and AC on FPD in a high-fraud, weak-enforcement setting; (ii) employing bootstrapped OLS (5,000 resamples) and covariance-based SEM to corroborate effects and model fit; and (iii) translating findings into competence-centric regulatory actions for systemically important banks. To aid policy interpretation, we included Figure 1 (Competence-Centric Model of Fraud Resilience) and Figure 2 (SEM path diagram with standardized coefficients and fit indices) in this work.

LITERATURE REVIEW

Audit quality: Independence versus Competency

Whenever there is a credible financial report, investor confidence, and organizational accountability, Audit quality draws scholarly attention. The extant literature accepted two key dimensions of Audit quality: Independence and Competency.

Audit Independence implies that an Auditor can be on their own and not succumb to heavy client pressure. Independence is of the utmost importance in regulatory frameworks to preserve the reliability of an Audit (DeAngelo, 1981; Tepalagul & Lin, 2015).

However, in developing economies such as Nigeria, Auditor Independence is undermined by fee dependence, regulatory laxity, and prolonged Auditor-client relationships (Otusanya & Lauwo, 2010).

Knechel et al. (2013) and Bhasin (2013) opined that competent Auditors are well-equipped to identify red flags indicating complex financial structures and take the initiative in detecting fraud. According to Modugu and Anyaduba (2013) and Odum and Kelechi (2023), Audit competence remains fundamental in alleviating vulnerabilities to fraud in Nigerian banks.

Although both dimensions are essential, the growing consensus suggests that in complex, high-fraud environments like Nigeria, Audit Competency may be a more effective fraud deterrent than Independence alone. However, as at the time of this work, few comparative studies have empirically validated this proposition in the DMB context—an important gap this research addresses.

Contextual moderators of Independence in emerging markets

In settings like Nigeria, Audit market concentration, prolonged Auditor–client relationships, capacity-constrained oversight, and political-economy pressures can dilute the practical impact of formal Independence. These frictions reconcile the theoretical primacy of Independence with empirically weak AI→FPD pathways and motivate emphasis on human-capital capabilities that Auditors can directly strengthen.

Empirical evidence and gap

Studies highlight mixed results for Independence and positive roles for competence in fraud contexts, but comparative evidence within Nigeria's banking sector remains scarce. We address this gap with a sector-specific design and dual-method testing, enhancing inference and policy relevance.

Conceptual framework

This study viewed Audit Independence (AI) and Audit Competency (AC) as two different factors that influence fraud prevention and detection (FPD) in Nigeria's Deposit Money Banks (DMBs). The framework combines structural and human capital aspects of Audit quality. It suggests that fraud resilience depended on the relationship between institutional safeguards and professional skills.

Audit Independence (AI) refers to the Auditor's ability to make informed decisions without bias or pressure from management or other parties. The idea is that objectivity improves the credibility of financial reports and discourages unethical actions. The Nigerian banking sector, however, faces challenges such as long Auditor-client relationships (With contracts ranging from 1-10 years), heavy reliance on fees, including gaps in regulatory enforcement, which weakens the Independence of the Auditor. These issues, therefore, require a closer examination of AI's ability to prevent fraud by itself, especially in areas with a high risk of fraud and weak governance.

On the other hand, Audit Competency (AC) is about the knowledge and skills Auditors gather and use, including forensic investigation techniques and experience in specific sectors. This helps Auditors spot and deal with complicated fraud cases. The model suggests that while AI offers a framework for objective Auditing, AC gives Auditors the practical tools they need to detect and prevent fraud effectively. Thus, the framework proposes that in situations where institutional safeguards fail, AC may have a more direct impact on FPD than AI. This viewpoint pushes the conversation on Audit quality by shifting from traditional models focused on Independence to one that emphasizes Competency, particularly in emerging markets where governance issues affect the enforcement of Independence rules. Audit Competency involves the Auditor's technical knowledge and experience in assessing financial risks. It allows Auditors to recognize warning signs and maintain professional skepticism. In emerging markets like Nigeria, where fraud tactics are becoming increasingly sophisticated, AC may be more important than Independence. Fraud detection and prevention is the result of the combined effects of Audit Independence and Competency. These, therefore, explain how Auditing efforts help reduce the occurrence and even the seriousness of fraud. It measures how well Auditors can identify and manage fraud risk, making it a solid indicator of Audit performance.

We posit that AI (structural safeguard), and AC (human-capital capability) jointly shape FPD. In weak-enforcement environments, AC should exhibit the stronger direct link to FPD, while AI may require credible enforcement to translate into measurable outcomes (see Figure 1).

Figure 1. Conceptual Framework: Audit Quality and Fraud Outcomes

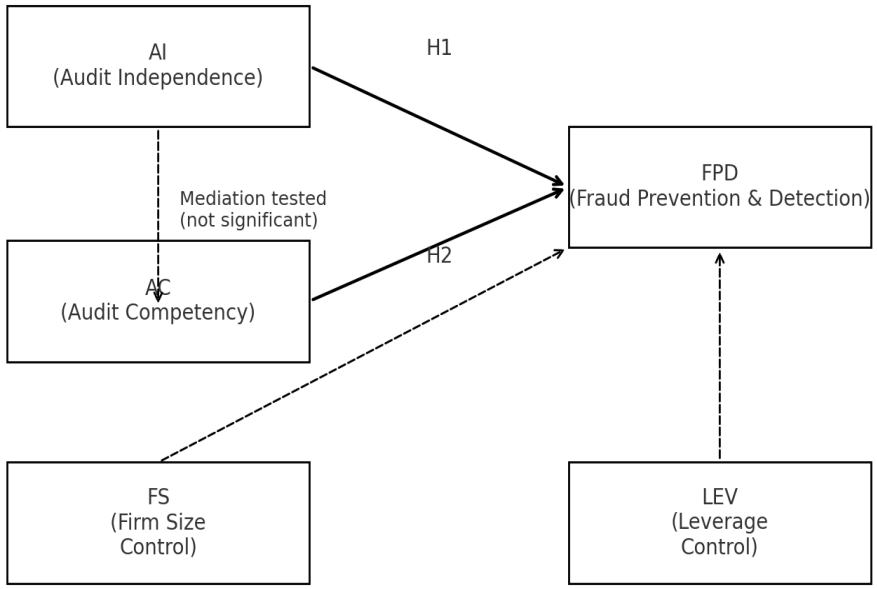

Figure 1. Competence-Centric Model of Fraud, Resilience and credibility. Contextual dampeners include fee dependence, tenure length, political pressure.

Theoretical Framework and Hypotheses Development

This study is underpinned by two important accounting theories, which are the agency and the Human Capital Theories.

Agency Theory: Jensen & Meckling, 1976) holds that Independence reduces information asymmetry and managerial opportunism. Without credible sanctioning, Independence's practical effect may be muted. Auditors serve as external monitors to reduce agency conflicts and detect fraud. The general theory validates the ruling of Audit Independence as a control tool for transparent reporting and to curb opportunism, irregularities and fruad.

Human Capital Theory Human Capital Theory (Becker, 1964) emphasizes the significance of knowledge, skills, and expertise relating to the performance enhancement of an organization. AC should therefore directly improve fraud risk assessment, detection, and prevention. In the Audit context, this theory supported the role of Audit Competency—technical expertise, industry experience, and ongoing professional development—in improving Audit effectiveness and fraud resilience.

Integrating the two theories into one implies that the study acknowledges that Audit effectiveness depends on the structural safeguards of Independence and the human factor of competence, especially in uncertain institutional settings such as the Nigerian financial sector.

Hypotheses (stated in section 1.2)

It can be said that H1 (AI→FPD) and H2 (AC→FPD), with an a priori expectation that AC dominates AI under weak enforcement. Constructs: Independent Variable: Audit Independence and Audit Competency Dependent Variable: Fraud Prevention and Detection.

Hypothesized Relationships:

The reason for this framework is to show that, by way of objectivity and competence, Audit quality may affect financial integrity in banking institution.

METHODOLOGY

Research design and context

The ex-post-facto and survey research design was used in this study to examine the effect of Audit quality, which is Audit Independence and Audit Competency, on fraud prevention and detection (FPD) in Nigeria's Deposit Money Banks (DMBs). Both primary and secondary data were used for the sake of methodological application and the empirical validity of the study.

Data sources and sampling: Primary data: structured, pre-validated questionnaire to 350 Audit/risk professionals across 20 systematically important SIBs in Nigeria. The instrument was divided into three sections: (i) demographic information; (ii) Audit quality variables—Audit Independence (AI) and Audit Competency (AC); and (iii) fraud prevention and detection outcomes. The items collected were using a 5-point Likert scale questionnaire, adapted from Knechel et al. (2013) and Odum & Kelechi (2023).

Secondary data spanning from 2014 to 2023 were retrieved from annual reports of the sampled banks, transparency reports of Audit firms, NDIC annual Report, Central Bank of Nigeria publications, and regulatory reports of banks and other financial institutions.

Measures and operationalization

Fraud Prevention and Detection (FPD): Measured as the natural logarithm of the annual number of fraud cases reported by each Deposit Money Bank (DMB) as disclosed in the NDIC and CBN annual reports.

Audit Independence (AI): Operationalized as a binary (dichotomous) variable based on Auditor tenure. In accordance with the Corporate Governance Guidelines of the Central Bank of Nigeria (2023), a tenure of 1–5 years was coded 1 (implying Independence), whereas an occurrence of a tenure above 5 years was coded 0 (suggesting impairment to Independence)

Audit Competency (AC): Measured as natural logarithm of the total number of hours spent annually on training and development by Audit firms, reflecting investment in technical and professional skill enhancement.

Firm Size (FS): Measured as natural logarithm of total assets of each firm, consistent with prior empirical studies and accounting research conventions.

Leverage (LEV): Measured as a ratio of total debt to total assets, capturing the firm's capital structure and financial risk exposure.

Questionnaire scales show high internal consistency ($\alpha > 0.85$); EFA supports construct validity.

Statistical model specification

The multiple linear regression model below was adopted with the aim of assessing the hypothesized relationships empirically,

$$(FPDi=\beta0+\beta1AIi+\beta2ACi+\beta3FSi+\beta4LEVi+\epsilon i)$$

Where:

FPDi = Fraud Prevention and Detection

AIi = Audit Independence,

ACi = Audit Competency

FSi = Firm Size (control variable)

LEVi = Leverage (control variable)

$\beta 0$ = Intercept

$\beta 1 - \beta 4$ = Regression coefficients

ϵi = Error term

Bootstrapped Ordinary Least Squares (OLS) regression with 5,000 resamples model was estimated using to enhance robustness and mitigate potential violations of classical assumptions.

Additionally, Structural Equation modelling (SEM) was applied using AMOS to validate the model and assess the direct and indirect relationships among the constructs.

Estimation strategy (OLS and SEM)

We estimate bootstrapped OLS for inference stability. **Covariance-based SEM (AMOS)** corroborates direct effects and overall fit (CFI, RMSEA, SRMR). Mediation (AI→AC→FPD) is assessed via bias-corrected bootstrap indirect effects.

Bias diagnostics and mitigation

Common Method Variance: Harman's single-factor test, and a method-factor SEM indicate no single-factor dominance; substantive paths persist.

Social Desirability: Anonymous administration; separated predictor/outcome blocks; neutral wording; short marker items (Appendix A).

Non-response Bias: Early–late wave comparisons show no material differences; wave indicators insignificant in models.

Triangulation: Self-reported patterns contextualized against regulatory totals (2014–2023).

Analytical Strategy: The study used both bootstrapped regression analysis and Structural Equation modelling to evaluate the hypothesized relationships. SEM was conducted through AMOS, while the regression analyses were bootstrapped using 5,000 resamples to provide more reliable inference. Control variables, showing anticipated confounding effects, consisted of size and leverage of the respective firm.

Ethical considerations

Participation was voluntary and anonymous; no personally identifiable data collected; procedures complied with institutional guidelines.

RESULTS

Descriptive statistics: The respondents were professionals with experience. It was gathered that more than 85% of respondents had Audit experience of more than 10 years, and 79% had either ICAN, ACCA, or CIA certification. This profile represents a competent set of respondents who can adequately assess Audit practices and fraudulent outcomes.

Correlations: Correlation relations are shown in Table 1. AC related positively with FPD, with a strong correlation coefficient ($r = 0.412$, $p < 0.01$), while Independence showed a weaker correlation, statistically insignificant ($r = 0.152$, $p > 0.05$). All the variance inflation factors were less than two (2), thus confirming that no multicollinearity existed in the analyses.

Correlation Analysis

Table 1: Correlation Matrix

Variable	FPD	AI	AC	FS	LEV
FPD	1.000	.152	.412*	.098	-.067
AI		1.000	.234	.121	-.089
AC			1.000	.176	-.103
FS				1.000	.245
LEV					1.000
Note: *p < 0.01.					

Audit Competency (AC) showed a significant positive correlation with FPD ($r = 0.412$, $p < 0.01$). Audit Independence (AI), on the other hand, had a weaker, insignificant correlation ($r = 0.152$, $p > 0.05$). Also, a low inter-variable correlation (VIF < 2) confirmed no multicollinearity.

Bootstrapped OLS: Regression results (Table 2) indicated that Audit Competency significantly predicts FPD ($\beta = 0.377$, $p < 0.001$), validating H2. However, Audit Independence was not statistically significant ($\beta = 0.072$, $p = 0.111$), leading to the rejection of H1. The model explained 31.2% of the variance in FPD ($R^2 = 0.312$; Adjusted $R^2 = 0.298$; $F = 12.456$, $p < 0.001$).

Table 2: Bootstrapped Regression Results (n = 312, 5,000 subsamples)

Variable	B	Std. Error	T-value	P-value	Vif
Constant	1.245	0.567	2.196	0.029	-
AI	0.072	0.045	1.600	0.111	1.234
AC	0.377	0.052	7.250	<0.001	1.298
FS	0.045	0.038	1.184	0.238	1.167
LEV	-0.032	0.029	-1.103	0.271	1.189

$R^2 = 0.312$, Adjusted $R^2 = 0.298$, $F = 12.456$, $p < 0.001$. Audit Competency significantly predicted FPD ($\beta = 0.377$, $p < 0.001$), supporting H2. Audit Independence was insignificant ($\beta = 0.072$, $p = 0.111$), rejecting H1. Control variables showed no significant effects.

SEM results: Structural Equation Modeling (SEM) was conducted using AMOS 24.0 to validate the regression outcomes and provide a more understanding of the structural relationships among the latent constructs. The use of SEM was due to its ability to evaluate multiple dependency relationships and account for measurement errors simultaneously.

Model Fit Evaluation

The SEM model was well fitted, satisfying the typical standards of acceptance for confirmatory model fitting in behavioural and financial research:

Comparative Fit Index (CFI): 0.928 (Cut-off point: > 0.90)

Root Mean Square Error of Approximation (RMSEA) of 0.042 as against the cut-off point: < (0.05)

Standardized Root Mean Square Residual (SRMR) of 0.036 as against the cut-off point of < (0.08.)

From these indices, an understanding of the structural relationships between the variables can be formed. All of these showed that the proposed model matches the observed data well.

Reliability and Validity Testing:

The computed Cronbach's alpha values for the constructs exceeded 0.85, indicating a high internal consistency of the data used. Exploratory factor analysis (EFA) confirmed construct validity, while the variance inflation factor (VIF < 2) eliminated concerns about multicollinearity.

Path Analysis and Hypothesis Testing

Standardized path coefficients from SEM result are indicated in Table 3. The results confirmed that Audit Competency exerted a significant and positive force on fraud prevention and detection ($\beta = 0.389$, $p < 0.001$), hence supporting Hypothesis H2. Oppositely, Audit Independence was seen to have a weak influence on FPD and this relationship lacked statistical significance ($\beta = 0.068$, $p = 0.124$), rejecting therefore Hypothesis H1.

Additionally, further mediatory analyses were conducted on the question of whether Audit Competency could really mediate the relationship between Audit Independence and fraud outcomes. It was established that such an indirect relationship (AI → AC → FPD) was not significant ($\beta = 0.021$, $p = 0.156$), showing no mediation effect.

Table 3: SEM Path Coefficients

PATH	B	P-VALUE	SIGNIFICANCE
AC → FPD	0.389	<0.001	Significant
AI → FPD	0.068	0.124	Not Significant
AI → AC → FPD (Mediation)	0.021	0.156	Not Significant

SEM confirms regression findings, with AC as the dominant predictor. No significant mediation effect was found.

These results reinforce the dominance of human capital attributes (Audit Competency) on managerial opportunism. Audit Independence are only structural safeguards in enhancing fraud resilience in Nigeria's Deposit Money Banks. The lack of mediation suggested that Audit Independence does not indirectly influence fraud detection through Competency. Consequently, Audit reforms should prioritize capacity development and technical proficiency rather than relying solely on structural Independence provisions as provided for in the CBN Code of Corporate Governance of Banks and other Financial Institutions. See Figure 2:

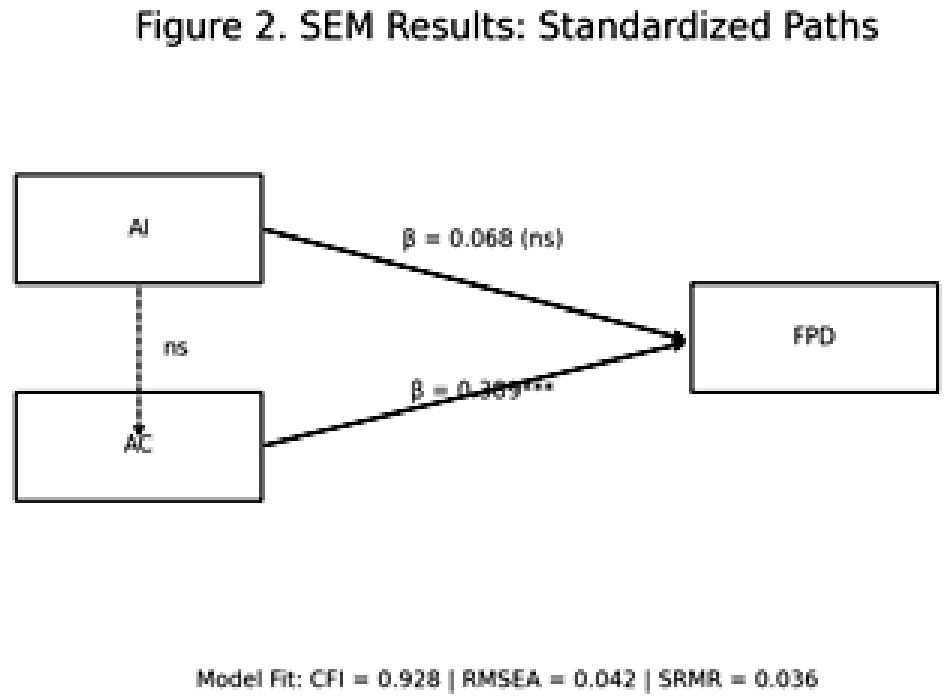

Figure 2. SEM Path Diagram (standardized coefficients)

Notes: Significant AC→FPD path; non-significant AI→FPD; fit indices reported.

RESULTS AND DISCUSSION

Results and core findings

Descriptives. The respondent pool was experienced: 85% reported ≥10 years of Audit-related work; 79% held professional certifications (ICAN/ACCA/ANAN). This profile supports the credibility of primary responses.

Inferential tests. Bootstrapped OLS (5,000 resamples) showed that Audit Competency (AC) is a positive, statistically significant predictor of fraud prevention and detection (FPD) ($\beta = 0.377$, $p < .001$), explaining 31.2% of the variance in FPD ($R^2 = .312$; adj. $R^2 = .298$). Audit Independence (AI) was not significant ($\beta = 0.072$, $p = .111$), leading to rejection of H1 and support for H2. Multicollinearity was not a concern (all VIFs < 2).

Structural validation. SEM yielded excellent fit (CFI = .928; RMSEA = .042; SRMR = .036). Standardized paths mirrored the regression: AC → FPD was significant ($\beta = .389$, $p < .001$); AI → FPD was not ($\beta = .068$, $p = .124$). Mediation via Competency (AI → AC → FPD) was absent ($\beta = .021$, $p = .156$). Collectively, results position Competency—not formal Independence—as the operative channel for fraud resilience in Nigeria's DMBs.

Integration with theory

Agency theory. Independence without credible sanctioning is insufficient to alleviate information asymmetry; competence-driven detection provides the effective monitoring mechanism in weak-enforcement settings (cf. Jensen & Meckling, 1976).

Human capital theory. AC is the binding constraint: technical proficiency, forensic expertise, and continuous training materially strengthen fraud-control outcomes (Becker, 1964).

Synthesis. Independence remains foundational for long-run credibility, but in fragile enforcement environments first-best marginal investments are competence-centric. The value of Independence amplifies as regulatory enforcement strengthens (e.g., protection against undue influence, sanctions for breaches).

Interpretation and theoretical alignment

Findings align more strongly with Human Capital Theory: capability upgrades (forensic Audit skills, analytics literacy, CPD intensity) directly enhance FPD. By contrast, Agency Theory's predicted benefits of Independence are attenuated by contextual frictions—lax enforcement, Auditor–client familiarity, and weak safeguards—previously noted in the literature (Tepalagul & Lin, 2015; Otusanya & Lauwo, 2010). Thus, in high-fraud, weak-enforcement contexts, competence is decisive while Independence is necessary but not sufficient. A dual-track policy—build capability and enforce Independence—is required to translate governance design into measurable fraud resilience.

Table 6.1 – Theory–Findings–Policy Linkage

Theoretical Lens	Core Proposition	Empirical Alignment	Policy Implication
Human Capital Theory (Becker, 1964)	Competence (skills, knowledge, expertise) drives performance outcomes.	Audit Competency emerged as the strongest determinant of fraud detection effectiveness.	Invest in continuous Auditor training, forensic specialization, and technical skill development.
Agency Theory (Jensen & Meckling, 1976)	Audit Independence reduces information asymmetry and managerial opportunism.	Independence impact weakened by lax enforcement, Auditor–client familiarity, and weak safeguards.	Strengthen enforcement credibility and design mechanisms to protect Auditor autonomy.
Integrated Perspective	Competence and Independence interact but their relative weight depends on enforcement strength.	Competence is decisive in weak enforcement environments; Independence gains importance with stronger regulatory credibility.	Apply a dual strategy—enhance technical capacity while reinforcing enforceable Independence frameworks.

Practical and Policy Implications

The study underscores **Auditor competence**—especially in forensic, investigative, and analytical skills—as the primary driver of fraud-control effectiveness in Nigeria's banking sector. Stakeholders should therefore prioritise technical capacity development while strengthening enforceable Independence safeguards.

Regulators (CBN, NDIC, FRCN)

Competency-Based Licensing – Require engagement partners to meet minimum CPD hours in forensic accounting, AML/CFT, and data analytics.

Mandatory Forensic Audits – Conduct targeted forensic Audits for systemically important banks, focusing on high-risk portfolios and model validation.

Audit Analytics Transparency – Introduce a "comply-or-explain" regime on analytics capacity, with thematic inspection reports.

Rotation and Fee Safeguards – Tighten rotation rules and fee-dependence disclosures, triggering inspections when thresholds are breached.

Professional Bodies (ICAN, ANAN)

Forensic Specialization Tracks – Integrate forensic accounting pathways and micro-credentials into qualification and licence renewal requirements.

Boards and Audit Committees

Competence-Based Oversight – Maintain a skills matrix, set competence thresholds, commission independent quality reviews, and implement structured "red flag" escalation procedures.

Audit Firms

Specialist Fraud Units – Establish resolute forensic teams, monitor competence KPIs (e.g., forensic hours, anomaly hit rates, remediation times), and integrate them into performance appraisals.

Summary of Policy Priorities

Policy Dimension	Implication	Rationale
Capacity Building	Mandate forensic, AML/CFT, and data analytics training.	Strengthens fraud detection/prevention in high-risk settings.
Licensing & Standards	Embed Competency-based criteria in Audit licensing.	Aligns entry/renewal with evolving fraud risks.
Governance Reform	Elevate competence alongside Independence in governance codes.	Focuses oversight on key operational fraud deterrents.
Cross-Functional Collaboration	Integrate internal Audit, compliance, and forensic units.	Builds multi-layered, resilient fraud-control systems.

Comparative Perspective and External Validity

We benchmark Nigeria against peer jurisdictions characterized by low sanction certainty, concentrated Audit markets, and long Auditor tenures (10 years). In such settings, competence investments produce near-term FPD gains, while Independence reforms deliver long-run benefits as enforcement credibility rises. Appendix B provides a transferability matrix (market structure; tenure norms; enforcement throughput) to guide application beyond Nigeria.

Methodological Limitations and Potential Selection Biases

Findings are qualified by: (i) self-report measures (mitigated but not eliminated); (ii) sector scope (DMBs only); (iii) observational design limiting causal claims; and (iv) potential self-selection into competence investments and reporting practices. Listing and survivorship may bias averages upward; unobserved traits (ethical climate, ownership, analyst following) and macro shocks (FX volatility, inflation) may confound estimates.

Directions for Future Research

Designs: Longitudinal panels with regulatory shocks (e.g., rotation rules), difference-in-differences; quasi-experimental IVs (exogenous CPD mandates); field experiments (randomized forensic-training rollouts).

Outcomes: Market-based measures (Tobin's Q, cost of equity, bid–ask spreads) and event studies around Audit quality or regulatory announcements.

Comparative scope: Cross-jurisdiction analyses using harmonized AI/AC measures; multi-level models nesting Auditors within firms and regulatory regimes.

CONCLUSION

Using survey and archival data with bootstrapped regression and SEM, this study shows that Audit Competency—not formal Independence—is the decisive predictor of fraud prevention and detection in Nigeria's DMBs; Audit Independence is statistically insignificant, and Competency does not mediate or moderate its effect. In high-fraud, weak-enforcement contexts, competence-centric reforms—mandatory forensic training, analytics capability, and CPD-linked/Competency-based licensing—offer the most immediate policy leverage. Independence remains foundational for credibility, but its value materializes with strong enforcements. Reframed Audit-quality regulation needs to be more oriented toward capability-building, while strengthening the enforcement of Auditor Independence. All of these could enhance fraud/irregularities resilience, equally encouraging financial system integrity and stability.

RECOMMENDATIONS

To improve Audit quality, fraud checks, and detection in the Nigerian Financial Sector, the following recommendations were suggested: Forensic training should be made a requirement for all Auditors working within fraud-sensitive sectors.

Continuous Professional Development (CPD) systems should be adopted, emphasizing course content in the detection of practical fraud, investigative Auditing, and digital forensics topics.

Revise Audit Committee Charters to include evaluation metrics for technical knowledge enhanced through continuous training and retraining of its Auditors.

Deposit Money Banks (DMBs) should develop and encourage the integration of Data Analytics techniques and tools into the Audit functions, with the aim of strengthening predictive fraud detection capacities.

By implementing these measures, Nigeria's Deposit Money Banks can enhance their fraud prevention architecture, rebuild stakeholder trust, and promote long-term Financial System Stability (FSS) of the country.

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APPENDIX

Appendix A.

Questionnaire Instrument (abridged)

Section A: Demographics

Years of professional Audit experience: <5; 5–10; 11–15; >15

Highest qualification: B.Sc./HND; MBA/M.Sc.; Ph.D.; Professional certification

Current role: Internal Auditor; External Auditor; Compliance officer; Risk manager

Section B:

Audit Quality Dimensions

(5-point Likert)

Audit Independence

B1. Our Audit processes are conducted independently without management interference.

B2. Auditors in our organization resist client pressure during Audits.

B3. Audit reports are free from undue external influence.

Audit Competency

B4. Our Auditors possess advanced forensic accounting skills.

B5. Continuous professional training is a priority for our Audit teams.

B6. Audit staff have extensive industry-specific knowledge.

Section C: Fraud Prevention and Detection Outcomes

C1. Audit processes have significantly reduced fraud incidents in our bank

C2. Early detection of fraud has improved due to Auditor interventions.

C3. Our bank's corporate governance has strengthened because of quality Audits.

Appendix B. Comparative Indicators and Transferability

To guide application beyond Nigeria, we profiled peer jurisdictions with high fraud risk and low sanction certainty on: (i) Audit market concentration; (ii) typical Auditor tenure; (iii) fee-dependence thresholds; (iv) enforcement throughput (inspections, sanctions); and (v) mandated CPD/forensic requirements. External validity is strongest where these indicators align with Nigeria's profile.

Research Transparency Statements

Ethics approval and consent to participate. Procedures complied with institutional guidelines; participation was voluntary and anonymous; no personally identifiable data were collected.

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