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EFFECTIVE INTERNAL CONTROLS SYSTEM AS ANTIDOTE FOR DISTRESS IN THE BANKING INDUSTRY IN NIGERIA.

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ABSTRACT

This study, effective internal controls system as an antidote for distress in banking industry in Nigeria, was carried out to ascertain the role of effective internal controls system can play in the reduction or total elimination of distress in the banking sector in Nigeria. A survey research design was adopted in which fifty six workers of selected deposit money banks were used and data were collected using questionnaire. Four research hypotheses were raised and tested; while the demographic information of the respondents were analysed using simple percentage, the hypotheses were tested using t-test statistic at a significant level of 5%. The testing of the hypotheses revealed that: existence of effective internal controls system has positive effect on fraud elimination in banks; effectiveness of internal controls system can be accurately ascertained; effective internal controls system has great impact on accuracy and reliability of records of banks and distresses in banks were traced to non-adherence to established internal controls system. Based on the findings, it was recommended that banks should employ competent professional accountants to take charge of their internal controls functions, as it is only the existence of functional/effective internal controls system that can serve as means of thoroughly checking and preventing mismanagements, which usually lead to distress, in banking industry.

KEYWORDS: Distress, deposit money bank, internal control, mismanagement.

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INTRODUCTION

Internal controls have existed from the ancient times. In Hellenistic Egypt, there was a dual administration, with one set of bureaucrats charged with collecting taxes and another with supervising them. Also in the Republic of China, the Control Yuan (Pinyin: Jiancha Yuan), one of the five branches of government, is an investigatory agency that monitors the other branches of government.

The banking industry in Nigeria has witnessed distress severally due to mismanagement resulting from either non-observance of laid down principles and policies (internal control systems) that were established by the management and regulatory authorities or non-existence of such internal controls system. Whatever the case is, every organisation, not only the bank, must install efficient and effective internal controls system in order to protect its assets from possible losses resulting from funds misapplication, misuse and vandalisation of company's property, expropriation and errors made by inefficient and inexperienced personnel. According to [18]**,** internal controls can be likened to the central nervous system of human being, the breakdown of which medical doctors state would result to death of the culprit. In this wise, collapse of internal controls system in any organisation leads to the extinction or distress of that organisation. Therefore, reasonable and proactive organisations spend a great proportion of their resources to ensure the existence of adequate and effective internal controls system.

The Instititute of Chartered Accountants of England and Wales defined internal control as the whole system of control established by management in order to carry on the business of the organisation in an efficient and orderly manner, to safeguard its assets and secure as far as possible, the accuracy and reliability of its records. This definition points to the fact that internal controls create a basis of amount of work to be carried out by the professionals charged with the function, as they are expected to ensure the safeguard of the organisation's funds, ensure that there is efficient and effective management of assets and that financial statements are accurate at all time. Though internal controls system cannot eliminate all errors and irregularities, it is expected that they can alert management to potential problems, which can be controlled before they escalate to big problems. Nevertheless, the established internal controls system must be evaluated from time to time so as to provide management with some assurance regarding its effectiveness. Internal controls system can only be adjudged to be effective if its components are present and function effectively for operations, financial reporting and compliance. The board of directors and its audit committee has responsibility for making sure that the internal controls system within the organisation is adequate. This responsibility includes determining the extent to which internal controls are evaluated and the parties involved in the evaluations are the internal and external auditors.

In the United State of America, many organisations have adopted the internal control concepts presented in the report of the Committee of Sponsoring Organisations of the Trade way Commission (COSO) published in 1992. COSO report has expanded the definition of internal control system beyond mere mechanism for reducing instances of frauds, misappropriation and errors. It is now considered to be an integrated framework, with direct involvement of the board of director, management and other key personnel to provide assurance that would pursue the achievement of the company's objective. By COSO's definition internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- effectiveness and efficiency of operations;
- reliability of financial reporting and
- compliance with applicable laws and regulations

With this report, it is now recognised that a sound internal control process is critical to an entity's ability to meet its established goals and maintain its financial viability. The report identified five interrelated elements of internal controls system and the problems observed in recent large losses in banks can be attributed to mis-management of the stated five elements of:

- management oversight and control;
- risk recognition and assessment;
- control activities and segregation of duties;
- information and communication and
- monitoring activities and correcting deficiencies.

Proper co-ordination and effectiveness of the five elements would ensure achievement of a bank's objective which is liquidity and profitability. Once there is a breakdown or failure of any of the elements, it must be reported promptly to senior management and the board of directors for them to take immediate corrective action, as delay can lead to final extinction (distress). To ensure coverage of all deficiency areas of the internal controls system, the management should establish a basis for tracking possible breakdown in internal controls system and actions taken to rectify them.

LITERATURE REVIEW

By nature businesses, including banking, are owned by shareholders, who entrust the day to day running of the operations in the hand of appointed independent managers. These independent managers are in return, expected to fulfill their stewardship obligations in line with the directives laid down by the owners (shareholders). Normally, the shareholders expect to have detailed accurate reports on the managers stewardship, but this is not always the case as pointed out by [13], that problems often exist when managers' reports to owners contain errors, inadvertently misleading, deliberately misleading or fail to disclose relevant information or fail to conform to regulations. The only solution to resolve this problem is by appointing an independent person, called internal controller or internal auditor, to investigate the report and bring out his findings. To help the independent auditor to be able to carry out his work in an orderly and efficient manner, he must be guided by some rules and regulations, which serve as the benchmark of practice in the company. These rules, which shall be established by the management, are to ensure that records are kept properly and can be relied upon so as to prevent or detect frauds and other anomalies that can derail operation or even bring an end to the business. These rules are what can be regarded as internal controls systems and the independent internal auditor is to act as the eye and ear of the management towards ensuring that the internal controls systems are efficient and effective at all time. Therefore the internal controller or auditor is the master controller that controls other controls in the business.

THEORETICAL FRAMEWORK

Above background information has provided us with the reason for establishing good and quality internal controls system in an organisation, we would now consider the various definitions of internal controls system to further explain the concept in a comprehensive perspective.

Restating the age long definition of internal controls system, [17] and Auditing Practices Committee defined internal control system as the whole system of controls, financial or otherwise, established by the management in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records. The definition was also adopted by International Standards on Auditing [5] which states that internal control system means all the policies and procedures adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records and the timely preparation of reliable financial information. This was also emphasised by [16] when he regarded internal control systems as all measures employed by an organisation to safeguard assets from waste, fraud and inefficient use. Maxwell and [12] however expanded the definition, when they opined that the concept, internal controls, are all policies and procedures laid down by the management of an entity to ensure, as far as practicable, the orderly and efficient conduct of its business, including adherence to internal policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records and the timely preparation of reliable financial information. [10] expressed that the internal controls systems are established to ensure that assets are secured and management policies are being followed to the letter with a view to attaining the set goals for the organisation. Fadeyi was emphatic on the fact that the internal control systems are the responsibility of the management when he stated that the managers or the administrators have the duties of designing an appropriate system of internal control for the organisation. [9] viewed internal control system as it relates to protection of information assets: He was of the view that internal controls play an important role in information systems security in an organisation as many security breaches have occurred due to lack of proper internal control structure in organisations. He cited the fact that Sarbanes-Oxley Act was enacted in response to public outcry about ineffective internal control assessment procedures in organisation leading to major lapses of security and governance. It is noteworthy at this juncture to restate that all the afore-listed definitions are all concerned about the controls operative in every sphere of an organisation to avoid or minimize the existence of errors and frauds with a view to eradicating total extinction or distress in the economy within which an industry operates.

CONCEPTUAL FRAMEWORK

We would like to approach this framework by restating the COSO's definition of "internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- effectiveness and efficiency of operations;
- reliability of financial reporting and
- compliance with applicable laws and regulations

This definition, which considers the risk assessment of an organisation activities, was designed to achieve control objectives in three categories mentioned above, i.e. operation category (like good business reputation, return on investment, market share, new product introduction, business strategy and tactics); financial reporting category (like publishing reliable annual financial statements, interim financial reporting, safeguarding assets from unauthorised use to avoid embezzlement, theft, damage, unauthorised purchase or unauthorised disposal and preparation of financial statement in line with GAAP) and compliance category (compliance with laws and regulations that affect the entity, which is the broad control objective) [11]. They also explained that internal controls only provide reasonable assurance, not absolute assurance, that control objectives will be achieved. This is because controls are operated by human being and human errors, deliberate circumvention, management override and improper collusion among people who are supposed to act independently can cause failure to achieve control objectives. They posit that internal control can help to prevent and detect these people-caused failures, but it cannot guarantee that they will never happen.

The above three control objectives are also expected to be supported by five components related to each of them, which COSO report expects the management of each organisation to establish. Such five inter-related components of internal control expected are:

- control environment;

- risk assessment;
- control procedures;
- monitoring and
- information and communication systems that link all components.

CONTROL ENVIRONMENT

This is the conducive operating environment provided by the management, which set the tones and influences the control consciousness of its people. Control environment factors include the integrity, ethical values and competence of the entity's people and it is the foundation for all other components of internal control as it provides the discipline and structure within which the organisations function. Its elements, according to [11], include but not limited to the following:

- corporate's philosophy and operating styles;
- employees and management integrity and ethical values;
- existence and implementation of code of conduct;
- financial reporting attitudes;
- degree of emphasis on meeting performance targets;
- entity's organisational structure;
- methods of assigning authority and responsibility;
- human resource policies and practices;
- entity's commitment to competence, through training and retraining;
- formal and informal job descriptions;
- employees' reward and sanctions procedures;
- membership and operation of the board's audit committee
- presence and responsibilities of an internal audit function.

Part of the key elements of the control environment is the existence of good corporate governance code in a company, as this code gives birth to audit committee, which is a subcommittee of the board of directors that is composed of three to six non-executive board members. Each member of the committee is expected to be financially literate and compulsorily one of them must be a financial expert. The reason for including non-executive board member is to provide an independent check on the audit team and the management. This check allows the internal audit team to report any controversial findings to members of the board of directors without fear and intimidation from top management.

RISK ASSESSMENT

Risk is part of business and every business concern is faced with both financial and business risks. Every business is expected to take steps to identify risks, estimate their significance and likelihood and consider how to manage them. A pre-condition to risk assessment is the establishment of objectives, then identify the critical success factors and institute policies and procedures to ensure they are met. The process of identifying and analysing risks is a continuous process and is a critical component of an effective internal control system. The management should pay serious attention to risks at all levels and take necessary actions to manage them. Risks can be due to both internal and external factors. Internal risks can be promptly resolved unlike the external risks that require specialised skills that may not be readily available. The management should be ever ready to resolve any risk that can derail its operations by addressing the following questions amongst others as suggested by [11]:

- how does management develop strategies and control objective?
- is the board of directors involved?
- is the process formal and subject to review?
- is the process updated periodically?
- is the process realistic?
- how does management assess risks?
- is sufficient information gathered?
- are risks viewed in isolation or are they linked?
- are assumptions and forecasts realistic?
- is the risk assessment updated periodically?
- is risk assessment performed at all levels of the entity?
- how does management respond to prospects of risks that are significant and likely?
- what processes are in place?
- what key indicators are monitored?
- if other entities are involved in sharing the risk, are they evaluated for soundness?

Like we had stated above, every organisation must be able to establish its risk assessment process, though large organisation may have a formalised model in place while the model for a small organisation could be informal. Nevertheless, since all the banks in Nigeria are of the same status, according to the objective of the Banking Consolidation resolution of 2004, it is expected that all banks in Nigeria are big and should therefore, establish quality risk assessment models, that can stand the test of time and provide catalysts for sound operation that guarantee continuity.

CONTROL PROCEDURES

The establishment of risk assessment cannot stand alone unless the management put in place control procedures to eliminate the risk that would bring about the expected continuity of business. Therefore banks and other organisations are expected to impose reasonable control procedures, manually and computerised, on accounting system to ensure prevention, early detection and correction of errors and frauds. Available control procedures that a bank can institute include the following:

- performance reviews through budgeting and budgetary control by way of preparing the budget variances with follow up actions. Management that performs frequent and timely performance review are likely to promptly detect errors and take corrective actions than management that did not. Frequent and periodic comparison and action to correct errors lowers the risk that material misstatement would remain in the account. Such comparison is mostly handled by internal auditors or internal control staff and banks that have active internal control officers are likely to remain in business than those that do not have active and qualified internal control officers;
- segregation of duties: four functional responsibilities (authorisation, recording, custody and reconciliation) should be performed by different departments. The principle of internal check states that the function of an officer should serve as a check on that of another officer; hence duties should be divided so that no one person can control two or more of the four independent responsibilities, to check abuses that can derail an organisation.
- physical control: physical access to assets and important records, documents, blank cheques, vouchers, inventory and securities should be restricted to only those who handle them. Physical security of computer equipment and limited access to computer program files and other pheripheral computer details should be enforced. The banks should establish information processing controls, manual information processing control procedures as well as computerised information processing

control procedures in form of usage of passwords and access logs, all in a bid to eradicate malpractices that can lead to total extinction of the bank;

- top-level reviews: this is carrying out of detailed analysis of actual results and organisational goals and plans and other key performance indicators to check how efficient the top managers are. This can also be called the management control as it focuses on the role played by the management team in planning, organising, coordinating, controlling and directing the various financial and non-financial activities of an organisation;
- organisational control: each bank is expected to have an organisational chart in place. This chart is to establish functional areas as well as responsibilities of each executive and staff. The guiding principle is that the principle of span of control and authority limit should be enforced to ensure that there is no overload that can lead to inefficiency on the part of a particular manager;
- personnel control: each bank is to institute procedures for ensuring quality recruitment, selection and placement of competent and honest personnel that would discharge various duties and tasks effectively, with minimum supervision. It is when this control is in place that we can be sure of existence of trustworthy employees that would not collude with customers to defraud the bank and cause its imminent death;
- supervisory control: the whole activities in the bank rest on the effectiveness of supervisors, hence this control is necessary for the efficient management of banks in Nigeria. Supervisory control can be internal and external, whereas the internal is in term of the relationship between the mentor and mentee or the officers and their coach(es), the external supervision comes from the role both Central Bank of Nigeria and Nigerian Deposit Insurance Corporation play in regulating the industry in Nigeria. It is therefore pertinent to state that if this control is not effective, there is likely to be systemic distress in the industry.
- Arithmetical and accounting control: this seeks to establish a workable bookkeeping and accounting system that ensure that all transactions are recorded and accurately processed in the appropriate books of account. To ensure this, bank managers should be prudent, transparent, accountable and be of high integrity in the way they handle the affairs of their banks.

MONITORING

How effective the internal controls system put in place by the management is can only be ascertained through the result of adequate monitoring, hence monitoring is a process that assesses the quality of the internal control system's performance over time. Monitoring is done when there is an evaluation of control not when one carries out regular management and supervisory controls and other routine statutory duties. As a guide, [11] listed the followings as some of the examples of monitoring controls:

- operating managers' comparison of internal reports and published financial statements with their knowledge of the business;
- analysis of customer complaints of amount billed;
- analysis of vendor complaints of amount paid;
- regulator's reports on compliance with laws and regulations (e.g., bank examiners' reports, IRS audits);
- accounting managers' supervision of the accuracy and completeness of transaction processing;
- periodic comparison of recorded amounts to actual assets and liabilities (e.g., internal auditors' inventory counts, receivables and payables confirmations, bank reconciliations);
- internal auditors' reports on control effectiveness and recommendations for improvement;
- training sessions for management and employees to heighten awareness of the importance of

controls.

It must be noted that the existence of quality monitoring control is part of the oversight function of the audit committee, which provides the highest level of monitoring in a corporate body. This was why the Treadway Commission declared that to be effective, audit committee should exercise vigilant and informed oversight of the financial reporting process, including the entity's internal controls.

INFORMATION AND COMMUNICATION

Effective dissemination of information has a pivotal role to play in internal controls system as all personnel must receive a clear message from top management that control responsibilities must be taken seriously. Every staff must understand the role expected of him in the internal control system as well as how individual activities relate to the work of others. Adequate information should be devised to identify data from sources within and outside the bank. Evaluation of the quality of the contents of such information can be done by determining their appropriateness, timeliness, currency and accessibility. The auditor is also expected to communicate his findings on his examination of the internal controls system to the management for corrective actions. As usual, information systems in small and medium sized organisation are likely to be less formal than in a larger organisations as banks in Nigeria, hence it is paramount to conclude that the information systems that aid effective internal controls system in banks should be formalised so that everybody concerned would be carried along at all time.

OBJECTIVE OF INTERNAL CONTROLS SYSTEM

The objective of efficient internal control system is primarily to ensure assurance that things are working according to plan, hence every establishment must institute controls that will capture both the operational and compliance aspects as:

- existence: which demands that only valid and authorised transactions are processed at all time;
- occurrence: there must be cut-off procedure, whereby transactions that occur during a period are the only ones captured;
- completeness: there should not be any omission of transaction of the period under review;
- validation: transactions are to be captured accurately using appropriate method;
- rights and obligations: the company's assets should be appropriately identified and the obligations recognised in the book to ensure complete booking of all transactions at all time. The rights are the assets while the obligations are the liabilities which the company owe outsiders;
- presentation and disclosure: proper classification and presentation of assets and liabilities in the statement of financial position must be done;
- reasonableness: transactions that appear in the book must be reasonable relative to other data.

As of necessity, management is responsible for implementing appropriate internal controls specific to each area of responsibility and the internal auditors or controllers are to evaluate the effectiveness of those controls in term of confirming if they are implemented to address the relevant objectives.

LIMITATION OF INTERNAL CONTROL

There is no control that is instituted by any organisation that cannot be circumvented by operators. Even law established by a country is being circumvented by the citizen, as the law makers are planning to bring out the law, the fraudsters are also busy looking for loopholes they would explore to counter it, hence institutional controls also have inherent limitations some of which are listed by [2] as:

- possibility of circumvention of controls either done or through collusion with parties outside and inside the entity;
- abuse of responsibility;
- fraud;
- management override of controls;
- changes in environment making controls inadequate;
- human cleverness or ingenuity;
- potential human errors caused by stress of work load, alcohol, carelessness, distraction, mistakes of judgement and the misunderstanding of instructions;
- internal controls tend to be directed at routine transactions: the one-off or unusual transactions tend not to be the subject of internal control;
- a requirement that the cost of an internal control is not disproportionate to the potential loss which may result from its absence;
- poor remuneration system and
- poor working condition

INTERNAL AUDITING AND INTERNAL CHECK

Two important tools of internal controls system are internal audit and internal checks. Internal auditing is an independent appraisal activity within an organisation for the review of accounting, financial and other operations, as a basis for service to management. [15]. It is a management service function which primarily involves the periodic review of an enterprise's accounting and internal control procedures by designated officers called "internal auditor" or "internal control officer" as we normally call them in the bank. The overall objectives of internal auditing to management involve such activities as:

- reviewing and appraising the soundness, adequacy and application of accounting, financial and operating controls;
- ascertaining the extent of compliance with established policies, plans and procedures;
- ascertaining the extent to which the organisation assets are accounted for and safeguarded from losses of all kinds;
- ascertaining the reliability of accounting and data developed within the organisation and
- appraising the quality of performance in carrying out assigned responsibility.

Internal check, on the other hand, according to [3], are those routine day to day administrative controls which ensure that the work of one person is complementary to that of another person, thus, the work of one person is independently proved by that of another person in the normal course of work. Therefore, no single person or group of persons would carry out a transaction from origination to completion without the involvement of others. If this is fully observed, problem of malpractices or frauds that can derail an establishment's operation would be a thing of the past, as routine or deliberate mistake would be immediately discovered before it becomes a full blown fraud that create permanent extinction of the bank.

EVALUATION OF INTERNAL CONTROLS SYSTEM

It is necessary, at all time, for the management of a bank to evaluate the effectiveness of the internal controls system they have put in place. These evaluations can come from:

- systems documentation: by deciding how the internal control system work, which can be done through flow charting or other pictorial means;
- identification of potential errors: in form of recognising typical errors that can arise whenever there is breakdown in any of the afore-listed objective on paragraph 1.23 above.
- identification of controls: by way of recognising controls designed to detect and prevent errors or frauds in the system. After the identification of such controls, the auditor can assess whether those controls are good enough to do their job sufficiently well.

Caushin listed the following steps to be followed in the review and evaluation of internal control system by an external auditor, which can also be useful for internal control officers, to some extent:

- establish: the auditor should read all the existing literature of the company pertaining to its accounting system and auditing manuals, flow charts, accounting records and forms to obtain a basic knowledge of the systems as designed and installed by management;
- test: the auditor should carry out the test by walking through limited documents and by inquiry whether the established procedures and controls are being employed. He can also conduct personal interview with responsible officers in the organisation;
- evaluate: he evaluates the effectiveness of procedures and quality of controls employed, for him to determine the degree of reliance which he has to place on the existing controls within the establishment;
- confirm: after satisfying himself with the quality of the control, he still have to examine and confirm his preliminary conclusion that system is functioning effectively and that it is producing clerical accuracy;
- conclude: he should conclude by stating that procedures are effective and controls are reliable and that weaknesses will not result in material errors and thereafter recommend possible improvement in procedures and control to the management.

DOCUMENTATION OF INTERNAL CONTROLS SYSTEM

Internal controls system to be established by an organisation can take several forms, but the popular forms are narrative, flow chart and questionnaire:

- narrative: this is documenting internal control systems by way of notes. This system is easy to carry out, as it explains the controls applicable to each examination. Nevertheless, it may not be detailed enough and control areas may not be apparent;
- flow chart: this is a pictorial representation of the internal controls system. It is very effective but complex if not understood by the user. Auditors use it to completely understand the internal controls system of the clients. It enables the auditor to know who is responsible for what has happened. It also assists in the orderly presentation of the audit programme and forces the auditor to obtain a real understanding of the internal controls system. However, it could be complex to understand and the cost involved may outweigh the benefit;
- questionnaire: this is the case when the auditor generates information about the internal controls system in operation by asking detailed general assessment questions. It is easy to complete and covers all the relevant parts of the audit but it may not adequately evaluate a specific problem.

STATEMENT OF PROBLEM

Distress in the banking sector has been traced to fraud resulting from non-adherence to the laid down principles and policies (internal control systems) as well as non-existence of the principles and policies. The prevention and detection of such frauds are the responsibility of the management, through the establishment of an effective and efficient internal controls system. Since fraud results in distress in the banking industry, management of every bank should create and establish a standard internal controls system, strong enough to stop the menace so as to promote continuity of operations and protect the stakeholders who have invested heavily in the industry.

RESEARCH QUESTIONS

The study was guided by the following research questions:

- Does the existence of internal controls system has any effect on fraud elimination in banks?
- Can the effectiveness of internal control system be ascertained?
- What are the impacts of effective internal controls system on accuracy and reliability of records of a bank?
- Has reported distress in banks traced to non-adherence to established internal controls system?

RESEARCH HYPOTHESIS

For the purpose of analysing the data, the following hypotheses were tested:

- Ho1: Existence of internal controls system has no effect on fraud elimination in banks.
- Ho2: Effectiveness of internal controls system cannot be accurately ascertained
- Ho3: Effective internal controls system has no impact on accuracy and reliability of records of banks.
- Ho4: No reported distress in banks was traced to non-adherence to established internal controls system.

METHODOLOGY

The study employed descriptive research design of the ex-post facto type. The method was chosen because it helped to describe record, analyse and interpret the condition, prevailing practices, belief, attitudes and on-going process that exist in the survey.

POPULATION, SAMPLE AND SAMPLING TECHNIQUE

The population comprised different categories of workers of five deposit money banks in Nigeria. From the population, a sample of 56 workers (26 Senior and 30 Junior members of staff) was obtained through the simple random selection technique.

INSTRUMENT

The instrument used to gather information in this study is a self-designed questionnaire. The questionnaire consists of two sections. Section A elicits demographic information like gender, working experience, while Section B contained structured items relating to the research questions that necessitated this research.

VALIDITY AND RELIABILITY OF THE INSTRUMENT

To ensure the validity of this research, the instrument was subjected to criticism by specialist in the areas of educational management aside from peer review conducted by the researcher. The reliability of the instrument was obtained through test-retest techniques to analyse the data collected.

RESULTS

Table 1: Existence of internal controls system has no effect on fraud elimination in banks.

Subject	No	Expected	Residual	Df	Asy sig.	T-calculated	Table value	Decision
Agreed	44	28.00	16.00					
Disagreed	12	28.00	- 16.00	1	0.02	9.143	3.84	Reject

Level of significance – 0.5

Since t-calculated is greater than the table value (i.e. 9.143 > 3.84), then the null hypothesis is rejected, while the alternative hypothesis is accepted and conclude that existence of effective internal controls system has positive effect on fraud elimination in banks.

Table 2: Effectiveness of internal controls system cannot be accurately ascertained

Subject	No	Expected	Residual	Df	Asy sig.	T-calculated	Table value	Decision
Agreed	46	28.00	18.00					
Disagreed	10	28.00	- 18.00	1	0.01	11.571	3.84	Reject

Level of significance – 0.5

Since t-calculated is greater than the table value (i.e. 11.571 > 3.84), then the null hypothesis is rejected, while the alternative hypothesis is accepted and conclude that effectiveness of internal controls system can be accurately ascertained.

Table3: Effective internal controls system has no impact on accuracy and reliability of records of banks.

Subject	No	Expected	Residual	Df	Asy sig.	T-calculated	Table value	Decision
Agreed	50	28.00	22.00					
Disagreed	6	28.00	- 22.00	1	0.00	17.286	3.84	Reject

Level of significance – 0.5

Since t-calculated is greater than the table value (i.e. 17.286 > 3.84), then the null hypothesis is rejected, while the alternative hypothesis is accepted and conclude that effective internal control systems have greater impact on accuracy and reliability of records of banks.

Table 4: No reported distress in banks was traced to non-adherence to established internal controls system.

Subject	No	Expected	Residual	Df	Asy sig.	T-calculated	Table value	Decision
Agreed	40	28.00	12.00					
Disagreed	16	28.00	- 12.00	1	0.023	5.143	3.84	Reject

Level of significance – 0.5

Since t-calculated is greater than the table value (i.e. 5.143 > 3.84), then the null hypothesis is rejected, while the alternative hypothesis is accepted and conclude that previous distresses in banks were traced to non-adherence to established internal controls system.

DISCUSSION

Finding of hypothesis one that concludes that the existence of effective internal controls system has positive effect on fraud elimination in banks, though statistically proved to be correct, may not be true at all time, as fraud cannot be fully eliminated but can only be reduced with the aid of an efficient and effective internal control systems.

The testing in hypothesis two which confirms that effectiveness of internal controls system can be accurately ascertained is a statement of fact when one considers the guidelines outlined in ISA 315 which requires the auditors to obtain and understand the internal control sufficient to plan the audit and develop an effective audit approach [12].

The result of the study based on hypothesis three found that effective internal control systems have greater impact on accuracy and reliability of records of banks. It is when the internal controls system is circumvented that the records will not be accurate. This was the case that led to the stress tests that were carried out by CBN in 2009 that led to the take-over of some of the deposit money banks by the regulator. The banks involved are erstwhile Intercontinental Bank Plc, Oceanic Bank Plc, Springbank Plc, Bank PHB and Afribank and their Chief Executive Officers as well as other key management staff were prosecuted for various infractions. While the first two banks have been taken over by Access Bank and Ecobank respectively, the last three were nationalised by Asset Management Corporation of Nigeria (AMCON), who eventually changed their names to Enterprise, Keystone and Mainstreet Bank Limited. Enterprise Bank is already out for sale to prospective buyers, while the sale of Keystone and Mainstreet Bank deferred till 2014.

Result of hypothesis four which revealed that distresses in banks were traced to non-adherence to established internal controls system. This is true as strict adherence to established internal controls system in any establishment especially the banking industry, will definitely prevent attempts of fraudulent practices as well as improving job efficiency which is an antidote to distress of any institution.

CONCLUSIONS

The study revealed existence of internal control systems in most of the banks studied, but this system is being circumvented due to both knowledge gaps by some of the operators on the lower scale and deliberate action of management and key staff.

Studies have shown that strong internal control system should be constrained to control and prevent effect of fraud and mismanagement. For the work of an auditor to be effective in the organisation, there is every need for the management to respect the views of the auditors, in their efforts towards monitoring the effectiveness of the established internal controls systems. A situation where the internal auditors' recommendations are not attended to by those who are to act on them can lead to total elimination of an establishment, not only a bank.

RECOMMENDATIONS

Based on the finding of this study, it is recommended that:

- Banks should employ competent professional accountants to take charge of their internal controls functions;
- Bank management should always review and evaluate, on timely basis, the internal control systems with a view to discovering loopholes and immediately rectify them;
- Bank staffers should not be kept in a particular section for long. Supervisory control should also be seriously invigorated to ensure a continuous check on abuse that can lead to distress in the system;
- The bank should always keep records of past events in case of future purpose; this can be done using the back-up files. The current records should also have dual files, with the duplicate files kept outside the domiciled branch to avoid loss of information in case of accident;
- Employees should be encouraged to develop themselves by becoming professionals in their chosen career, this will affect the bank to grow positively and eliminate the incidence of knowledge gap;
- Access to assets should be limited to authorised personnel only;
- Regular meeting with staff should be organised to disseminate information about the company and also elicit feedback that help to improve the bank.

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