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INTERNAL CONTROL AS THE BASIS FOR PREVENTION, DETECTION AND ERADICATION OF FRAUDS IN BANKS IN NIGERIA

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Abstract

The focus of this study was to examine the impact of internal control quality on financial fraud detection in Nigerian banks. The objectives were to investigate the effect of internal control size, internal control quality and internal control independence on financial fraud detection. The survey design was employed by the researcher. The population of the study consists of corporate managers and directors of quoted Nigerian banks. The sampling was done using both the purposive and simple random sampling technique. The Cronbach's alpha was used to test the reliability of the research instrument in this study. The study made use of Ordinary Least Squares (OLS) regression analysis as the data analysis method. The study found that all three core internal audit features; internal audit size, internal audit quality and internal audit independence have a significant positive impact of financial fraud detection. Based on the empirical findings, the study recommends there is the need for banks to increase the size of their internal audit departments, improve the quality of their internal audit units through constant training of the personnel and enhance internal audit independence.

Keywords: Fraud, Internal Control Size, Quality, Independence, Banking

INTRODUCTION

There is currently considerable interest in the topic of internal control systems and its contribution to exact management of any business economic resources (Kantzos & Chondraki, 2006; Rittenberg, 2006). This developing role of the internal controls is also reflected in its current definition as posited by Cahill (2006) which states that internal control is the system of internal administrative and financial checks and balances designed by management, and supported by corrective actions, to ensure that the goals and responsibilities of the organization are achieved". Meanwhile, the growth in international financial markets, the emergence of the universal banking policy amongst others has given banks the opportunity to design new products and to provide a wide range of services which has come with increases in associated risks (Palfi & Muresan, 2009). Consequently, there is growing management recognition of the importance of implementing a good internal control system as the activities of internal controls are now seen as critical elements in the assurance process. Internal control system is at present a very crucial area of interest for organizations globally.

With particular emphasis on banks, strong internal control systems have long been identified as really important due to the nature of financial business and also because of their susceptibility to fraud (Cahill, 2006). Therefore, a system of effective internal controls can be seen as a very vital part of a company's management structure intended to ensure proper workings of the organizations. Effective internal controls can create the needed environment that can facilitate the achievement of organizational goals and objectives. In addition, the presence of effective internal controls will also ensure that companies deliver reliable financial and non-financial reporting to stakeholders, compliance with relevant laws, regulations and policies. According to Basle Committee on Banking Supervision (1998), an evaluation of the problems and challenges that resulted in the collapse several reputable organizations reveals that the losses acquired by these organizations could have been prevented if there were effective internal control systems in place. Such systems would have prevented or enabled earlier detection of the problems that led to the losses, thereby limiting damage to the organization. The committee report emphasized that the internal control systems must be structured so that it can deliver reasonable assurance to management and stakeholders that to all revenues accrue to its benefit, all expenditure is duly authorized and properly disbursed, all assets are adequately safeguarded, all liabilities are recorded, all statutory requirements relating to the provision of accounts are complied with and all financial reporting provisions followed.

In addition, in recent times there has been emphasis on not just the presence of internal control but also on the effectiveness of internal controls. It is possible for internal control unit to be present but they are not be effective. In the Nigerian banking industry, there is the perception by stakeholders that the quality of internal control appears to be inadequate. The persistence of financial fraud and fragility in the system resulting to several bail out attempts by the apex financial institution strengthens the suspicion of a deep-rooted internal control challenge. Though studies in this regards have been largely anecdotal, the Basle Committee on Banking Supervision (1998), report provides a comprehensive framework that provides insight into what could determine the internal control weakness. The focus of the study therefore is to examine and provide empirical findings on the relationship between internal control effectiveness and financial fraud in Nigerian banks.

Statement of the Research Problem

In recent years instances of fraudulent financial reporting have increased with such frequency and in such dramatic ways that stakeholders at all levels have been astounded (Myers, & Ziegenfuss, 2006). Globalization of business, technological advancements, increasing business failures, and widely publicized fraud demand that entities place more emphasis on their internal control systems functions (Zabihollah & Rezaee,1995). The trend analysis of fraud in the banking sector as indicated in the NDIC (2009) report reveals that in 2003, the total number of attempted fraud was 850, in 2004 it increased to 1175, in 2005 it further increased to 1229. The total number of attempted frauds declined to 1193 in 2006 and increased again to 1553 in 2007. The experience in 2008 -2010 showed above 30% increment in the number of fraudulent attempts. The total expected losses to the banking sector from 2003- 2005 were 857.46million, 2610.00million, 5602.05million respectively. In 2006, it stood at 2768.67million while in 2007, it stood at 2970.85million. The amounts seem to have increased progressively from 2011-2014 with an average increment rate of above 25% (NDIC, 2016). This trend calls for concern and hence the need for this study to investigate the effect of internal control on financial fraud for the Nigerian banking industry and this defines the contribution and relevance of this study.

In addition, in recent times there has been emphasis on not just the presence of internal control but also on the effectiveness of internal controls. It is possible for internal control unit to be present but they are not be effective. Previous studies have used different approaches to investigate the internal audit effectiveness. Some adopted International Standards for Professional Practice of Internal Auditing (ISPPIA) as a guideline to investigate and determine internal control effectiveness while (Mihret & Yismaw,2007; Arena & Azzone, 2009) developed their own models to determine internal control effectiveness. Moreover, in the literature, factors and the measurement of effectiveness have been used differently among the researchers (Arena & Azzone, 2009); and until today, there is no consensus on the best framework for effectiveness. In this study, we introduce a set of measures for internal control effectiveness in the banking industry such as internal control quality, internal control size, internal control Quality, internal control independence and internal control diligence. These measures have not been extensively utilized in addressing internal control effectiveness for banks in Nigeria.

Research Objectives

(i) Examine the effect of internal control quality on financial fraud detection in Nigerian banks.
(ii) Identify the effect of internal control size on financial fraud detection in Nigerian banks.
(iii) Determine the impact of internal control independence on financial fraud elimination in Nigerian banks.

Research Hypotheses

(i) H0: Internal control quality has no significant impact on financial fraud detection in Nigerian banks?
(ii) H0: Internal control size has no significant impact on financial fraud detection in Nigerian banks?
(iii) H0: Internal control independence has no significant effect on financial fraud detection in Nigerian banks?

Scope of the Study

The scope of the study may be defined with respect to the subject matter, the sample, study area and the time period. Consequently, this study is focused on the effect of internal control on financial fraud in Nigerian banks. The study will cover six of the quoted commercial banks with branches in Benin City, Edo state. The scope of variables for the study includes financial fraud, internal control quality, independence, board size, quality and diligence.

Significance of the Study

A study of this nature holds numerous benefits across an eclectic range of stakeholders. Firstly the study will be useful to management in evaluating the like determinants of internal control quality. The research objectives clearly delineate critical factors that may be perceived as basis for the tendencies for weakness of internal control system and findings about these factors will be useful. Secondly, the study will be a significant contribution to the literature especially as it provides evidence from a developing economy like Nigeria. Thirdly, the study will be of immense benefits to policy institutions as well as other key regulatory bodies. The study and the subsequent findings could provide the necessary theoretical framework needed for effective policy formulation, simulation and implementation. Fourthly, other researchers interested in similar issues as those highlighted in the study, may also find this study very useful. Other stakeholders such as shareholders will find the study insightful and providing a broad view of internal control quality and related challenges.

LITERATURE REVIEW

Conceptual Framework

This section discuses the major concepts of fraud, concept of internal control, internal control quality, internal control size and internal control independence. The dependent variable is financial fraud which is an act of deception which is deliberately practiced by some members of an organization to gain something. Dependent variable is one that responds to the independent variable. It is called dependent variable because we are looking for the possible effect on the dependent variable that might be caused by changing the independent variable.

Financial Fraud

Fraud is a universal phenomenon that has been in existence for so long. Its magnitude cannot be known for sure, because much of it is undetected and not all that is detected is published. Fraud however has been defined by many scholars; Olufidipe (1994) defined fraud as „deceit or trick deliberately practiced in order to gain some advantages dishonestly‟. According to Boniface (1991), fraud is described as „any premeditated act of criminal deceit, trickery or falsification by a person or group of persons with the intention of altering facts in order to obtain undue personal monetary advantage‟. Another scholar Idowu (2009) also sees fraud as a deliberate falsification, camouflage, or exclusion of the truth for the purpose of dishonesty/stage management to the financial damage of an individual or an organization. Fraud literally means a conscious and deliberate action by a person or group of persons with the intention of altering the truth or fact for selfish personal gain (Ajayi, 2010). According to Webster (1972) the word fraud means deceit, a trick, dishonest practice or a breach of confidence. The Oxford Advanced Learner's English Dictionary defines fraud as a criminal deception. That is to say, a fraud is any act of deception which is deliberately practiced in order to gain something dishonestly. Therefore, for any action to constitute a fraud, there must be a proof of dishonest intention to benefit one major person at the expense of the other.

According to Robertson (1996) fraud "consists of knowing or making material misrepresentation to a fact with an intention to inducing someone to believe to suffer a loss or damage. Fraud, involves the use of deception to obtain an unjust or illegal financial advantage (Okezie 1995). Agbadua (1980 as cited in Ogidefa, 2008) also opined that fraud is an anti economic process and must properly be dealt with. Ade (1982) sees fraud as a virus which spreads from the banking sector to other economic activities and organization even the government. EFCC Act (2004) defines fraud as illegal act that violates existing legislation and these include any form of frauds, narcotic drug, trafficking, money laundering, embezzlement, bribery, looting and any form of corrupt malpractices and child labour, illegal oil bunkering and illegal mining, tax evasion, foreign exchange malpractice including counterfeiting, currency, theft of intellectual property and piracy, open market abuse, dumping of toxic waste and prohibited good (Aduwo, 2016). This definition is all-embracing and conceivably includes financial crimes in corporate organization and those discussed by various authors (Khan, 2005; William, 2005). The Institute of Professional Practises Framework (Sommer, 2014) defines fraud as any illegal act characterized by deceit or concealment or violation of trust which do not directly depend on the use of violence, perpetrated in firms to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

Williams (2005) describe fraud to include bribes, cronyism, nepotism, political donation, kickbacks, artificial pricing and frauds of all kinds. According to Agwu (2013), fraud is any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage. It has also been viewed as an illegal act involving the obtaining of something of value through willful misrepresentation. According to another definition, fraud is to create a misjudgment or maintain an existing misjudgment to induce somebody to make a contract (Arzova 2003).

Akinyomi (2010) view fraud as the act of depriving a person underhandedly of something, which such a person would or might be entitled to but for the perpetration of fraud in its lexical meaning, fraud is an act of trickery which is intentionally practiced in order to gain illegitimate advantage. Therefore, for any action to constitute a fraud there must be deceitful objective to benefit (on the part of the perpetrator) at the disadvantage of another person or group. Fraud typically requires stealing and manipulation of accounts, frequently accompanied by cover up of the theft. Chakrabarty (2013) defines fraud as any behavior by which one person intends to obtain a dishonest advantage over another where the person makes an illicit gain while the other party incurs a loss.

Curtis (2008) argues that fraud encompasses the acquisition of property or economic advantages bymeans of deception, through either a misrepresentation or concealment. Fraud is the act of intentionally deceiving someone in order to gain an unfair or illegal advantage (financial, political or other). The primary responsibility for the prevention of fraud rests with both those charged with governance of the entity and management. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence.

Fraud can also be defined as the use of deception to obtain an unjust or illegal financial advantage. The internal control auditing guidelines (number 11, Aeufa, Kola and Oluwookere, 2001) describe fraud as; misappropriation of fund; Misapplication of assess; Recording of transaction with substance (source documents); Misapplication of accounting management policies; and Suppression and omission of the effect of transaction from records and documents. Other forms of fraud include, bribery, carryover fraud, electronic media fraud, alteration of invoice, double payment involve, false declaration, teaming and lodging, actual theft cash balance, forgery. Because fraud negatively impacts organizations in many ways financial, reputational, and through psychological and social implications it is important for organizations to have a strong fraud prevention program. It should include awareness, prevention, and detection programs, as well as a process to identify risks within the organization. To prevent fraud, it is necessary to build controls in all the five areas of resources namely; man power, machinery and time factor (Akpoyomare, 1996).

Internal Control Quality

The most effective way of reducing frauds is to establish an effective internal control system. Effectiveness is a word that has been defined by different researchers, for instance Arena and Azzone (2009) defined internal control quality as the capacity to obtain results that are consistent with targets objective, while, Dittenhofer (2001) view internal control quality as the ability toward the achievement of the objectives and goals. Internal control systems operate at different levels of effectiveness. Internal control can be judged effective in each of the three categories, respectively, if the board of directors and management have reasonable assurance that: They understand the extent to which the entity's operations objectives are being achieved, published financial statements are being prepared reliably, applicable laws and regulations are being complied with. Also effective internal control requires; appropriate accounting procedure and system, division of duties i.e. separation of responsibilities, especially those of authorization, regular verification of supervision of each person's work by their superior officers (Badara, 2012).

The effectiveness of an internal control system is dependent on how fluid the system interact with itself and how embedded it is into the organizations business processes. Again for an internal control system to be effective and provide that needed assurance to the board, there should be some agents of effectiveness (Ayagre et al, 2014).

Measures of Internal Control Quality

Certain factors can affect the quality of the internal control and how effective the internal control can be in its quest of reducing financial fraud. These factors includes; size of the internal control unit and the independence of the internal control unit.

(i). Internal Control Size

The magnitude of the internal control is the sum of memberships of the group chosen by the governing bodies. This figure of memberships is taken as a sign of means accessible to the group. Where a large audit committee member exist, it is likely that possible challenges emanating from financial reporting task has the likelihood of being exposed and settled (Mohammed-Nor et al 2010).Lipton and Lorsch (2011) remarked that the ability of the internal control unit oversight function rises when the figure of its memberships increases. Yermack (1996) posits that, a lesser audit committee magnitude improves on firms‟ worth. This stand corresponds with Jensen (1993) assertion that a small sized internal control unit enhances the efficiency with which the internal control unit engages in oversight and control. However, Mansi and Reeb (2004) noted that an internal control unit size that is large spends a considerable period and means to check the financial reporting process and internal control mechanism. These inputs suggest that size constitutes a significant factor for the effective performance

(ii). Internal Control Independence

As per the SOX (2002), an audit committee is to be constituted entirely of independent directors. Such increased requirements of having an independent internal control unit not only act as an internal control mechanism to mitigate unwanted interventions and conflicting pressures of powerful groups in the firm, but also to improve oversight and monitoring of executives. Therefore, it is expected that with the relatively high proportion of independent directors in the boards and internal control unit as internal control tool, would enhance the objectivity, reliability and transparency of the financial reporting and disclosures; which in turn would strengthen investors' confidence, (Duchin et al., 2010).

The internal control unit plays an important role in monitoring and overseeing the financial matters of a company. Thus, any effort made or steps taken by management to engage in manipulation of earnings or misappropriation of assets should be detected and stopped by the audit committee. At least three members of the internal control unit in a company should be independent and non-executive directors (Kamarudin & Ismail, 2014). An independent internal control unit has a negative association with fraudulent financial reporting.

Theoretical Framework

Theoretical framework is the structure that supports or backs the work of the study. The agency theory and institutional theory is discussed below as they relates to internal control.

Agency Theory

Agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals such as shareholders and agents of the principals for example, company executives. The two problems that agency theory addresses are: the problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify what the agent is actually doing and the problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances, the principal and agent may each be inclined to take different actions. Adams (1994) in his article stated that agency theory can provide for richer and more meaningful research in the internal audit discipline. Agency theory contends that internal auditing, in common with other intervention mechanisms like financial reporting and external audit, helps to maintain cost-efficient contracting between owners and managers. Agency theory may not only help to explain the existence of internal controls and internal audit in firms but can also help explain some of the characteristics of the internal audit department, for example, its size, and the scope of its activities, such as financial versus operational auditing. Agency theory can be employed to test empirically whether cross-sectional variations between internal auditing practices reflect the different contracting relationships emanating from differences in organizational form.

Review of Related Studies

Adetiloye, Olokoyo and Taiwo (2016) examined the issues of internal control *viz.,* fraud prevention in the banking industry, adopting both primary and secondary data. Primary data was used to test internal control while secondary data were employed to test fraud prevention. The main primary variables were separation of duties, monitoring, and staff qualifications while the main secondary variables are bank profit, regulation, technology and *Money supply*. In both cases regression techniques were adopted. The results show that internal control on its own is effective against fraud, but not all staff are committed to it, while the secondary data is quite supportive of the primary data but more exemplifying in that *money supply*, staff qualifications and technology were significant throughout the various dependent variables. It is also clear from the regressions that technological based fraud is significant.

Ozigbo (2015) carried out a study to examine internal control and fraud prevention in Nigerian business organizations. A survey was undertaken in some selected firms in Warri metropolis. It was discovered that internal control has a significant relationship with fraud prevention. They therefore concluded that internal control was a necessary safeguard which assures absentee owners of business that their fund is being utilized efficiently. It was recommended among others that proper accounting record should be kept at all times and authorization and approval limits of jobs and funds should be setup and communicated to all concerned interest groups.

Oguda, Odhiambo and Byaruhanga (2015) in a paper ascertained the effect of internal controls on fraud prevention and detection in district treasuries of Kakamega County. Purposive sampling method was used to select Treasury Staffs while simple random sampling method was used to select Heads of Departments to respond to the data collection instruments. The study used closed ended questionnaires designed for treasury staff and their clients and was administered by the researcher though drop and pick method. Key respondents were Senior Treasury Staffs and Heads of Departments in Kakamega County.

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Wei-Huang (2015) in a study examined the relationship between audit committee characteristics (the number of audit committee meetings, the number of audit committee members and the number of audit committee financial experts) and fraud, a proxy for potential fraudulent financial reporting. Using a final sample of 218 firms from S&P SmallCap600 with a December 31, 2003 fiscal year-end and audit committee characteristics data collected from the

SEC database. We find that the (1) Meeting frequency of the internal control is not associated with fraud prevention; (2) Number of internal control members does not significantly affect fraud prevention and (3) Financial expert is significantly associated with fraud prevention

Ayagre, Appiah-Gyamerah and Nartey (2014) in a study evaluated the control environment and monitoring activities components of Internal Control Systems of Ghanaian Banks using COSO‟s principles and attributes of assessing the effectiveness of internal control systems in helping to prevent fraud. A five point Likert scale was used to measure respondent‟s knowledge and perception of internal controls and the bank‟s internal control system effectiveness. Responses ranged from strongly disagree to strongly agree, where 1 represented strongly disagree (SD) and 5 represented strongly agree (SA). Statistical Package for Social Sciences (SPSS) was used to analyze data and presented in the form of means and standard deviations for each question and each section of the questionnaire. The study found out that, strong controls exist in the control environment and monitoring activities components of the internal control systems of banks in Ghana and this invariably assists in the deterrence of fraud.

Mukoro, Faboyede and Eziamaka (2014) in a study examined the effectiveness of forensic accountants in strengthening internal control of business organizations in Nigeria. The study aimed at investigating how fraud can be managed and handled in business organizations. The study employed survey research and the sampling technique employed was the purposive sampling with a sample of five companies that was selected. A total of 100 copies of questionnaire were distributed to the staff of the selected business organizations. The data collected were analyzed using Statistical Packages for Social Sciences (SPSS). All the hypotheses were tested using Regression Analysis. The results of the empirical findings showed that internal control and its components play a significant role in controlling fraud in business organizations.

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Ong'ang'a Nyakundi, Nyamita and Tinega (2014) examined the effect of internal control systems on financial performance among Small and Medium scale Enterprises in Kisumu city, Kenya; specifically assessing the relationship between internal control systems and return on investment; and establishing the level of business knowledge of an entrepreneur in internal control systems and its effect on financial performance. The sample was selected from the study population through stratified and simple random sampling techniques. The research was conducted using both quantitative and qualitative approaches; adapting cross-sectional survey research design. The study used both primary and secondary data. Primary data was collected using structured questionnaire and interview, while secondary data was obtained from financial statements of the sampled enterprises. Data was analyzed using descriptive statistics as well as inferential statistics. The study specifically revealed that a significant change in financial performance is linked to internal controls systems. Based on the findings of the study, it is concluded that internal control systems as supported by the study findings significantly influence the financial performance of Small and Medium scale Enterprises. The investigation recommends training on the significance of internal controls among proprietors of Small and Medium scale Enterprises.

Kamau (2013) sought to determine the effect of internal control system on financial performance of manufacturing firms in Kenya. To achieve the objective of this study, the study used hypothesis testing research design. The study tested the following hypotheses: H1: Internal Controls and Financial Performance are positively related; H2: Internal Controls have a significant impact on Financial Performance. The population chosen for this study was 65 manufacturing firms registered by ministry of industrialization in Kenya. The study selected a sample of 20 manufacturing firms from a target population of 65 manufacturing firm. The sample was drawn using stratified random sampling technique. The study relied on both primary and secondary data. Primary data was collected using structured questionnaires while the secondary data was gathered from financial statements based on availability and accessibility of data. The findings revealed that most manufacturing firms had a control environment as one of the functionality of internal controls of the organization that greatly impacts on the financial performance of the firms. It was also established that the management had put in place mechanisms for mitigation of critical risks that may result from fraud.

Josiah, Adediran and Akpeti (2012) focused on the role of auditors in the use of internal control system in fraud detection: a survey of selected firms in Nigeria. The data collection technique used for this study is questionnaire and oral interview was also supportive. The data was analyzed through the use of chi-square, the findings of this work are that the firm's produced and published financial statement as well as engaging the services of auditors and that detection of fraud and errors is inevitable. And also, the case of fraud in these organizations is due to poor management, lack of internal auditors, poor internal control system and corruption.

Chukwu (2012) carried out a study to examine the relationship between internal measures to proper accounting records. A survey research design was adopted for this research study and a sample size was selected using Yaro Yamane sampling technique as data used were obtained from both primary and secondary sources. Four research questions were formulated out of which three hypothesis were formulated using regression co-efficient analysis method at 5% level of significance and the Z table was also used for comparison between calculated value of significance B and table value. The finding from the analysis indicates that internal control measure management performance. The study also found that fraud perpetration and losses of revenue in an organisation are not a result of internal control system.

Badara (2012) in a paper assessed the role of internal auditors in ensuring effective internal control and preventing financial crime/ detecting fraud at local government level, a case of Alkaleri L.G.A Bauchi State. The methodology employed for data collection is only primary source, which involved the use of questionnaires, in which 50 questionnaire were administered to the staff of Accounting and Internal audit department of Alkaleri L.G.A, out of which only 35 questionnaires were completed and returned. The data generated for the study were interpreted using simple percentage. The main finding of the study include among other; lack of proper independent exercise by the internal auditor, understaffing in the side of internal audit unit, the internal control system is very weak toward financial and other controls. The paper recommends that the internal control system should be efficient in such a way that it will prevent any act of financial crime and detection of fraud.

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Dineshkumar and Kogulacumar (2012) tries to study to what extent internal control systems influence on the performance of the Sri Lankan Telecom limited. Primary data and secondary data were used for this study, but study solely depends on primary data collection technique. The primary data collection techniques were used in this research they were Questionnaire, Interview & Observation. The samples were selected from staff of the Sri Lanka Telecom limited. Thus sixty (60) employees of the company were selected. Percentage, Correlation and SWOT analysis were the main tools used in the analysis. The findings of the study showed there is a strong relationship between internal control system and organizational performance of the Sri Lanka Tele com limited. And also internal control of the Sri Lanka Tele com limited will lead to high organizational performance in the future.

Olumbe (2012) conducted a study to establish the relationship between internal controls and corporate performance in commercial banks in Kenya. The researcher conducted a survey of all the 45 commercial banks in Kenya. It was concluded that most of the banks had incorporated the various parameters which are used for gauging internal controls and corporate governance. This was indicated by the means which were obtained enquiring on the same and this showed that the respondents agreed that their banks had instituted good corporate governance with a strong system of internal controls and that there is a relationship between internal control and corporate performance.

Barra (2010) investigated the effect of penalties and other internal controls on employees‟ propensity to be fraudulent. Data was collected from both managerial and non-managerial employees. The results showed that the presence of the control activities, separation of duties, increases the cost of committing fraud. Thus, the benefit from committing fraud has to outweigh the cost in an environment of segregated duties for an employee to commit fraud. Further, it was established that segregation of duties is a "least-cost" fraud deterrent for non-managerial employees, but for managerial employees, maximum penalties are the "least-cost" fraud disincentives. The results suggest the effectiveness of preventive controls control activities such as segregation of duties is dependent on detective controls.

Kakucha (2009) evaluated the level of effectiveness of internal controls of enterprises operating in Nairobi. The study was quantitative and was conducted between September 2007 and June 2009 using a sample of 30 small businesses as listed in the National Social Security Fund (NSSF) Register of Kenya. Primary data was collected from the managers of the small business using interviews and examination of documents pertaining to internal controls. The study established that there are deficiencies in the systems of internal controls, with the degree of deficiencies varying from one enterprise to another. The components of internal control that were missing in most businesses surveyed were: firstly, risk analysis, and secondly lack of proper flow of information. In addition, the study established that the sample population had limited awareness of what constituted an effective system of internal control. The study also found that there is a negative relationship between the age of an enterprise and the effectiveness of its system of internal control while a negative correlation between the resources held by an enterprise and its internal control system weaknesses exists.

Amudo and Inanga (2009) also carried out a study in Uganda to evaluate the internal control systems that the regional member countries of the African Development Bank Group institute for the management of the Public Sector Projects that the Bank finances. There are 14 projects of the bank‟s public sector portfolio in Uganda. The 27 data received and analyzed is for eleven projects. Three projects were omitted because they were not fully operational to install effective internal control systems. The study identified the following six essential components of an effective internal control system: control environment, risk assessment, control activities, information and communications, monitoring and information technology. The outcome of the evaluation process was that some control components of effective internal control systems were lacking in those projects. These rendered the control structures ineffective.

Jones (2008) compared internal control, accountability and corporate governance in medieval and modern Britain. He used a modern referential framework (control 28 environment, risk assessment, information and communication, monitoring and control activities) as a lens to investigate medieval internal controls used in the twelfth century royal exchequer and other medieval institutions. He demonstrated that most of the internal controls found today were present in medieval England. Stewardship and personal accountability were found to be the core elements of medieval internal control. The recent recognition of the need for the enhanced personal accountability of individuals is reminiscent of medieval thinking.

Mawanda (2008) conducted a research on effects of internal control systems on financial performance in institution of higher learning Uganda. In his study he investigated and sought to establish the relationship between internal control systems and financial performance in an Institution of higher learning in Uganda. Internal controls were looked at from the perspective of Control Environment, Internal Audit and Control Activities whereas Financial performance focused on Liquidity, Accountability and Reporting as the measures of Financial performance. The Researcher set out to establish the causes of persistent poor financial performance from the perspective of internal controls. The study established a significant relationship between internal control system and financial performance. The investigation recommends competence profiling in the Internal Audit department which should be based on what the University expects the internal audit to do and what appropriate number staff would be required to do this job. The study therefore acknowledged role of internal audit department to establish internal controls which have an effect on the financial performance of organizations.

Rae and Subramaniam (2008) found the quality of internal control procedures has a moderating effect on the relationship between perceptions of organizational justice and fraud. The authors suggest that strategies relating to fraud need to focus on organizational factors such as work environment, internal control activities, and training. The importance of internal control mechanisms in curbing fraud-bent behaviour, specifically employee fraud, has been investigated. Holmes et al (2002) found that whenever top management firmly supports internal control, internal perpetrators and fraud were less likely to occur. Another study found that access to various control mechanism alone does not curb losses due to fraud (Holtfreter, 2004).

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control mechanisms in curbing fraud-bent behaviour, specifically employee fraud, has been investigated.

Louwers, Ramsay, Sinason, and Strawser (2007) documented from their study that independence of the auditor is a mental attitude and physical appearance which portrays the auditor as being uninfluenced by others in judgment and decision. Independence of the audit committee must sustained their integrity by avoiding financial connection that makes it appear that the wealth of the auditor depends on the outcome of the audit and management connections that makes the auditor appear as if he is involved in management decisions. A study conducted by Mc Mullen and Raghunandan (1996) revealed that there is an association between audit committee independence and a higher degree of active oversight function. This would also lead to a lower incidence of reported fraud in the given public company.

Dixon and Woodhead (2006) conducted a study on the investigation of the expectation gap in Egypt. They found out that many financial report users believe that the detection of irregularities is a primary audit objective and that the auditors have a responsibility for detecting fraud and irregularities in order to reduce the incidence in public firms in Egypt.

Sarens and De Beelde (2006) found that certain control environment characteristics like tone-at-the-top, level of risk and control awareness, extent to which responsibilities related to risk management and internal controls are clearly defined and communicated are significantly related to the role of the internal audit function and fraud detection within an organization.

Romar and Moberg (2003) conducted a case study that showed the following could have contributed to WorldCom scandal in 2002: unrealistic growth targets when expectations were low, management philosophy was aggressive; inadequate assessment of internal and external factors, and objectives before setting aggressive targets; poor segregation of duties; access to data entry and manipulation was not properly segregated and there was a lack of stringent monitoring of the internal control system and therefore quality of the controls around the posting of journal entries to the general ledger was not identified as weak.

Kabir (2002), investigates the problem of corporate failures as a result of weak internal controls system, which brings about distressness, collapse and withdrawal of licences of banks by regulatory authorities in Nigeria, thereby bringing untold hardship to all stakeholders. The researcher used a sample of seven banks, systematically selected from a population of twenty-eight banks whose shares were traded on the floor of the Nigerian Stock exchange as at 22nd August 2003. Questionnaires were administered on 420 respondents, 60 from each of the seven banks, made-up of 20 from the management staff, 20 from audit staff and 20 from operation/banking staff. Out of this number, only 303 questionnaires were completed and returned. The primary data collected through the administration of questionnaires was analyzed using simple percentages and chi-square test (x2), while the secondary data collected from the annual report and accounts of some of the sample banks was analyzed using spearman rank order correlation and t statistics. Thus it was found that effectiveness or otherwise of internal control system can make or mar corporate survival of banks in Nigeria. The research work concluded that internal control system is the responsibility of everybody in an organization and as such every staff must be aware of his role in its process and fully engaged in it.

Holmes et al (2002) found that whenever top management firmly supports internal control, internal perpetrators and fraud were less likely to occur. Another study found that access to various control mechanism alone does not curb losses due to fraud (Holtfreter, 2004).

A study conducted by Baglia (2000) revealed that audit evidence decisions are significantly affected by the auditor's assessment of the fraud risk. In other words, the auditors assess the fraud risk as low and is associated to occurrence of fraud indicates a lower possibility of fraud occurring and thus they are less attentive in their work which can then lead to failure to detect fraud.

Beasley, Carcello, Hermanson and Lapides (2000) conducted a study on fraudulent financing reporting in the technology, health care and financial services industries. They found out that firms committing fraud have less independent audit committee and boards than other firms that have independent audit committee. This means that audit committee's independence is a factor used in ensuring financial reporting process. Similarly, a study conducted by Abbott, Park and Parker (2000) on the impact of the audit committee's independence on the quality of financial reporting revealed that companies with independent audit committee are less likely to witness the presence of fraudulent financial reporting process.

METHODOLOGY

Research Design

In carrying out the study, the survey research will be employed by the researcher. Survey design is concerned with the collection, presentation, analysis and interpretation of data for the purpose of describing vividly existing conditions. The purpose of the design is to get details and factual information about an issue, event, problems, and describe it as there are.

Population of the study

The population of the study consists of corporate managers and directors of quoted Nigerian banks. Corporate managers from each of banks will form the sample to be used for the study. It is not possible to know the exact number in the population because of absence of reliable statistics of the number of top management in the banking sector.

Sample and Sampling Techniques

The sampling was done using both the purposive and simple random sampling technique. The former is used in selecting the part of the population that is considered useful for the study while the latter is used is selecting the participants from the identified sample. The corporate managers making the sample must satisfy the following characteristics. Firstly, they must have held managerial position for not less than 1 year. A sample of 55 respondents was then selected.

Research Instrument

This study adopts questionnaire as the research instrument. The research instrument will be subjected to a pilot test before it will be used eventually for the study. To ensure validity of the questionnaire that was used for this study, the questionnaire (draft form) was presented to research supervisor for independent review and necessary adjustments were made on the draft questionnaire based on the comments and suggestions.

Method of Data Analysis

The study will make use of Ordinary Least Squares (OLS) regression analysis as the data analysis method. The OLS regression was adopted because it is the appropriate techniques for examining the relationship between variables (Gujarati, 2009). The techniques have been credited with been able to produce the best linear unbiased estimates of the population parameters. The techniques will help us examine how the explanatory variables quality, internal control size and internal control independence) will impact on financial fraud detection. The OLS regression technique was adopted because it is the appropriate techniques for examining the relationship between variables especially when the dependent variable is not limited in nature. In this study we also intend to conduct descriptive statistics and correlation matrix.

Model Specification

The model for the study is specified to examine the effect of internal control quality in financial fraud detection. A schematic presentation of the model is presented in figure 1. Further, the model is specified as;

$$FINFD = \beta_1 + \beta_2 INTCQ + \beta_3 INTCS + \beta_4 INTCIND + \mu$$

Where;

FINFD= Financial fraud Detection=

INTCQ=Internal control quality

INTCS= Internal control size

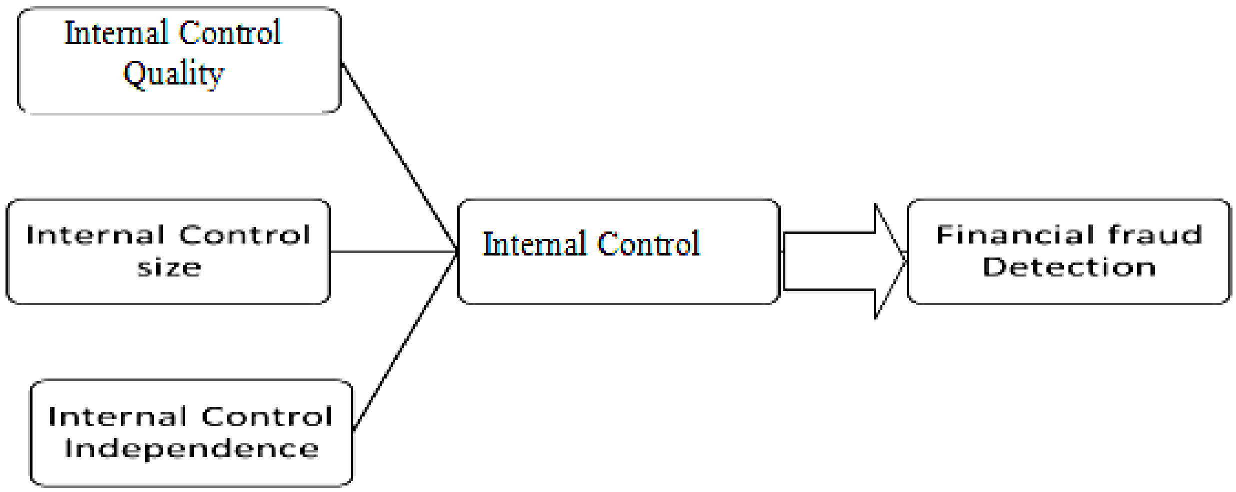
INTCIND= Internal control independence

μ= error term.

$\beta_{1-}\beta_4$= slope coefficients

Aprori expectation; $\beta_{1-}\beta_6 > 0$

Figure 1: Schematic model



ANALYSIS AND RESULTS

Demographic Analysis

Table 1: Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	185	52.3	52.3	52.3
	Female	169	47.7	47.7	100.0
	Total	354	100.0	100.0	

From the analysis of the data, 185 of respondents are male representing about 52.3% of the sample while 169 of the respondents are female and this represents 47.7% of the sample.

Regression Output

In order to examine the relationship between internal audit and fraud detection, regression analysis is conducted. The results are presented below;

Table 2: Regression Result

Dependent	*Variable = Aprori sign*	*Fraud Detection*
C		4.7467*
		(0.7486)
		{0.0000}
INTAUDS	+	0.01457*
		(0.0042)
		{0.000}
INTAUDQ	+	0.16824*
		(0.0261)
		{0.000}
INTAUDI	+	1.6736*
		(0.7209)
		{0.0241}
R^2		0.837
Adj R^2		0.7724
F-Stat		12.963
P(f-stat)		0.000
D.W		2.077

Table 2 above is the regression result for the estimation of the model specified earlier in the previous chapter. The focus of the study is on the effect of Internal audit on fraud detection. The R^2 for model is very impressive at 0.837 which implies that the model explains about 83.7% of the systematic variations in the dependent variable while the adjusted R^2 is 77.24%.The F-stat is 12.963 (p-value = 0.00) is significant at 5% and suggest that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected. It is also indicative of the joint statistical significance of the model. The D. W statistics of 2.077 indicates the likely absence of stochastic dependence in the model. Focusing on the performance of the coefficients, we observe that the coefficient for INTAUDS is positive (0.01457) and statistically significant at 5% level (p=0.000) and this implies that an increase in the size of internal audit department improve the ability to detect fraud. The nature and frequency of financial frauds in corporations presupposes that stakeholders must incorporate ensure that internal audit units are adequately staffed. INTAUDQ is positive (0.16824) and also statistically significant at 5% level (p=0.000) which implies that the quality of internal audit departments has a very strong positive effect on the fraud detection. In other words, the result suggests that an improvement in the quality of internal audit training and techniques will enhance their role in fraud detection. The effect of INTAUDI is also positive (0.1673) and significant at 5% level (p=0.0241) which suggest that the independence of the internal audit department has a positive effect on fraud detection and as such the more independent internal audit departments become, the less likely the occurrence of fraud and the more likely the detection of fraud.

Hypotheses Testing

Decision Rule: We accept the null hypothesis if the probability value for the coefficient beta is> 0.05 at 5% significance level, otherwise we reject the null and accept the alternative.

Ho1: Internal Audit Size (INTAS) **has no significant effect on financial fraud detection.**

Focusing on the performance of the coefficients, we observe that the coefficient for INTAUDS is positive (0.01457) and statistically significant at 5% level (p=0.000) and this implies that an increase in internal audit size will improve the ability to detect fraud and hence we reject the null hypothesis that **Internal Audit Size** (INTAS) **has no significant effect on financial fraud detection.**

Ho2: Internal Audit Quality (INTAUDQ**) has no significant effect on financial fraud detection.**

INTAUDQ is positive (0.16824) and also statistically significant at 5% level (p=0.000) which implies that the quality of internal audit departments has a very strong positive effect on the fraud detection. Hence we reject the null hypothesis that **Quality of forensic training (QFT) has no significant effect on fraud detection.**

Ho3: Internal Audit Independence (INTAUDI) has no significant effect on financial fraud detection.

The effect of INTAUDI is positive (0.1673) and significant at 5% level (p=0.0241) which suggest that the independence of the internal audit department has a positive effect on fraud detection and as such the more independent internal audit departments become, the less likely the occurrence of fraud and the more likely the detection of fraud. Hence we reject the null hypothesis that **Internal Audit Independence (INTAUDI) has no significant effect on financial fraud detection.**

CONCLUSION

The growing level of crimes, corruption and fraudulent activities has lead to great concerns. In Nigeria, many banks are faced with the challenges of irregularities, illegitimacy and inaccuracies which are as a result of inadequate external audit systems. Thus, the need of a good external audit system cannot be over emphasized. In financial organizations, errors and irregularities are not disclosed to the public because it might terminate their image and goodwill. A new wave of bank fraud that has challenged the recently upgraded internal risk control measures ordered by the Central Bank of Nigeria has become a source of concern for the authorities. The public's expectations of boards and senior management, and those charged with providing an independent review of the company's operations and financial accounts have been raised. In this study, the impact of internal audit on financial fraud detection is examined. Specifically, the study examines three core internal audit features; internal audit size, internal audit quality and internal audit independence. Using a combination of both descriptive and inferential statistics, the study found that all three core internal audit features; internal audit size, internal audit quality and internal audit independence have a significant positive impact of financial fraud detection.

RECOMMENDATIONS

Based on the study findings, the following recommendations are made;

Firstly, Internal Audit Size (INTAS) was found to have a significant effect on financial fraud detection and hence there is the need for banks to increase the size of their internal audit departments.

Secondly, internal audit quality was found to have a significant effect on fraud detection and hence the study recommends that banks improve the quality of their internal audit units through constant training of the personnel.

Thirdly, Internal Audit Independence (INTAUDI) has a significant effect on financial fraud detection. Hence the study recommends on the need to enhance internal audit independence

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APPENDICES

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.375[a]	.837	.772	.98821	2.006

a. Predictors: (Constant), VAR00013, VAR00011, VAR00010, VAR00012

b. Dependent Variable: VAR00002

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.7467	.7486		3.287	.0002
	INTAUDS	.01457	.0042	-.286	-12.066	.000
	INTAUDQ	.16824	.0216	.145	11.032	.000
	INTAUDI	1.6367	.0261	.018	11.019	.000

a. Dependent Variable: VAR00002

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	1.2490	2.7059	2.0545	.38509	55
Residual	-1.34011	2.50310	.00000	.95091	55
Std. Predicted Value	-2.092	1.691	.000	1.000	55
Std. Residual	-1.356	2.533	.000	.962	55

a. Dependent Variable: VAR00002