**TITLE PAGE**

**EVALUATION OF THE EFFECTIVENES OF INTERNAL CONTROL SYSTEM IN NIGERIAN BANKS.**

**(A STUDY OF DIAMOND BANK)**

**BY**

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**U14/MSS/ACC/029**

**BEING A PROJECT SUBMITTED TO**

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**FACULTY OF MANAGEMENT AND SOCIAL SCIENCES,**

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**FOR THE AWARD OF BACHELOR OF SCIENCE (B.Sc) DEGREE IN ACCOUNTING**

**SUPERVISOR**

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**JUNE, 2018.**

**DECLARATION**

I, Chukwudire Arinze with the registration number U14/MSS/ACC/029 is a student in the Department of Accounting and Finance under the Faculty of Management and Social Sciences in Godfrey Okoye University. I declare that the research work titled “Evaluating The Effectiveness Of Internal Control System In Nigerian Banks – A Study Of Diamond Bank plc” submitted in partial fulfillment of the requirement for the award of Bachelor of Science (B.Sc) in Accounting is my original work and has not been submitted either in part or full for any other degree or diploma either in this or other tertiary institution.

**Chukwudire Arinze Date**

# **APPROVAL PAGE**

# The project has been approved for the Department of Accounting and Finance Godfrey Okoye University Ugwuomu-Nike Enugu.

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Dean of faculty

**EXTERNAL EXAMINER Date**

**DEDICATION**

I dedicate this project to God almighty for His mercy, having made the journey successful.

**ACKNOWLEDGEMENTS**

I hereby use this medium to acknowledge with profound gratitude, to all the people God almighty have instrumentally used in the successful pursuit of my academics.

My profound gratitude goes to my supervisor and Dr. J. Ugwu, for his fatherly advice and encouragements. I wish to appreciate myable Head of Department, Dr. S.N. Udeh, for hiscounsel and words of encouragements, may God continue to bless him. Amen.

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**ABSTRACT**

*This study aimed at evaluating the effectiveness of internal control system in Nigerian banks. To ascertain control activities in banks, to ascertain the monitoring process in banks in Nigeria and to determine risk assessment in banks in Nigeria served as the objective in evaluating the effectiveness of internal control system in Nigerian banks.The study also ask how effective are control activities in banks in Nigeria? How effective is the monitoring process in banks in Nigeria? To what extent is risk assessment process in banks in Nigeria effective? The research also made of three hypotheses to test if significant or not the effectiveness of internal control activities and determine risk assessment process in Nigerian banks (Diamond Bank). The researcher adopt a questionnaire survey method of data collection. The researcher also found out thatthere are effective internal control activities, diamond bank has internal control monitoring processes which ensures the smooth monitoring of the business transactions, there is an effective risk assessment process in Diamond Banks which detects and prevents errors and potential fraud and deletes fraud. It tried to determine the effect or influence of these variables on Nigerian. It tried to evaluate the effectiveness of internal control activities and determine risk assessment process in Nigerian banks (Diamond Bank). In pursuance of this the chi-square model was used. Internal control environment in banks are effectively managed, the implication of this results in risk assessment and fraud prevention and control, thereby resulting low tendency of fraud.Finally, this study also made the following recommendations; management of banks should ensure proper management of internal control environment to enable effective control activities take place, the management must ensure that they review customer’s and supplier’s complains, the completeness, accuracy and validity of Proper records, books of accounts and financial statements of the bank should be secured and kept out of reach of unauthorized persons.*

**CHAPTER ONE**

**INTRODUCTION**

**1.1 Background to the study**

Banking industry is the live-wire or the equivalent to the central nervous system of the human in all capitalist economics. The institution provides the vital link between the surplus unit and the deficit unit of the economy. Banks promote investment by providing facilities for mobilizing savings and appropriate instruments without which either economic growth or development can take place smoothly and efficiently. In the process of performing these functions, banks come to hold the single largest proportion of the economy's financial resources and correspondingly account for a similar lion share of the credit that propels the engine of growth and development. In the light of this, the subject of internal control in the industry is of interest to all western type economies of the world.

The process of financial account and data production should be based on a recognized, well-defined and well-organized system of procedures. If the business transactions are to be properly and correctly observed, documented, recorded and collated, then there must be a system which is designed to cope with these activities. For this reason, management of the organization has in general, over a period of many years, placed a great deal of emphasis on having strong system of internal control, where possible. This system is intended to maintain adequate process of accounting data production and safeguarding the organization against possible financial loss due to fraud or error.

Internal control, in its broadest sense, includes all controls, checks and procedures, formally instituted by the management, to maintain the maximum administrative and operational efficiency possible within the accounting and non-accounting function of the business organization. However, in terms of financial accounting, the system is mainly concerned with those controls which exist to aid the processing of reliable accounting data and to safeguard companies' asset.

An important feature of the impact of Internal control is the director review of company financial operations and position at regular and frequent internals by means of interior account and report, operating summaries and other appropriate financial and statistical. In addition to regular view, management may from time to time call for special reviews of particular items e.g. wages, stock, salary access etc. Managerial review and supervision are essential element in an efficient and effective internal control system.

Banks like other business organization achieve their objective through the use of human and economic resources. In most cases, the economic resources are provided by various interest groups that do not participate in the day today normal running of the operation of the business. The onus is therefore, on the management to make sure these resources are effectively and efficiently managed to achieve the set goal and to build up public confidence, the desired control achieved through the setting up of a good and valid internal control system.

The impact of having internal control department in all organizations and banking institution in this era of stiff competition and financial regulation cannot be over emphasized. The process of financial account and data production should be based on a recognized, well-defined and well-organized system of procedures. If the business transaction is to be properly and correctly observed, documented, recorded and collated, then there must be a system which is designed to cope with these activities.

The Institute of Charter Accountants defines the concept internal control system as “The whole system of control financial and otherwise established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as fast as possible the completeness and accuracy check and internal audit” It cannot be over emphasized here that an effective internal control system does not only ensure financial accuracy of transactions, but it reduces trade to the barest minimum. A good internal control system can only operate in a fairly large organization that employs a good number of staff.

It is also important to note that there is high rate of fraudulent practices in Nigerian ministries and parastatals today and the commercial banks are not an exception. That is why the internal control system must not only be put in place, but is also having to be effective in removing such irregularities.

Fraud is a threat common to most organizations. It is a threat to the effective utilization of resources and as such, it will always remain an important concern to management. Fraud needs to be deleted and potential fraud needs to be prevented. Effective internal control system is vital for the survival of any organization it serves as a check on fraudulent activities of the management and employees of organization and it brings about solutions to likely fraudulent acts in an organization. Management is totally responsible for establishing the internal control system in an organization.Auditing today is based on internal control.

Internal control system is a necessity in large organizations especially where management is removed from day to day routine operations of the organization. An effective internal control system and its fraud preventive measures in an organization will help to prevent fraud and errors in an organization thereby reducing fraud to its minimum than when internal control is not in existence or when there is weakness in the system.Internal audit which is an integral aspect of internal control. As a part of management team of the control function, it is clearly described in the statement of responsibilities of the internal auditor as an independent appraisal of activity within an organization for the review of accounting, financial and other operation are basis for service to management. For instance, Cadbury Nigeria sacked its Managing Director, Mr. Bunmi Oni and Mr. Ayo Akadiri, the company's Finance Director recently, which is a fallout of the financial book padding scandal and corruption that recently rocked the company, and that is the way it should be commended. The Board recently commissioned the firm of PricewaterCoopers to review and investigate the company's financials. The outcome of the investigation “has confirmed a deliberate overstatement of the company's financial position over a number of years to the tune of between N13 and N15 billion”! This is Nigeria's version of the Enron Corporation scandal in the United State.

In case of ENRON which brings to mind the collapse of the seventh largest company in the United States of America and the largest bankruptcy seen by the country till date. There are many issues that were raised with the collapse of Enron as described in the CRS Report for the Congress in 2002.

**1.2 Statement of Problem**

One of major challenges facing Nigerian Banks is low ethical standard and transparency. These are manifesting in the rising cases of unwholesome practices being recorded. A number of banks engage in some sharp and unorthodox practices to achieve compliance with some regulatory requirements "on paper" Many banks' returns provide inaccurate/misleading financial report thereby preventing timely detection of emerging problems by the supervisors.

The managerial incompetence of the top management of some banks as evident in weak internal control system of the banks. Substantial losses incurred by many banks on their credit portfolio, frauds and forgeries and outright negligence have brought to the fore, the importance of sound internal control system. Appraisals of fraud-related losses by Bank Examiners revealed that such losses could have been prevented had the affected banks maintained effective internal control systems.

The trend in deficiencies in banks' earning assets especially loans and advances, arising from either poor loan administration or unethical lending (such as insiders' abuse). This is an indication of managerial problems in this regard.

The importance of internal control system cannot be overemphasized where a variety of requirements, processes that are both manual and information communication technology-based (ICT)are used. Organizations have recognized internal audit function as a tool for ensuring effective workings of the internal control system. However, in Nigeria, the internal control function in the banking sub-sector has not been fully tapped; consequently, cases of errors and intent to defraud and other fraud cases exist in the banking industry. The distress in the banking sub-sector in the nineties reflected lack of effective control mechanism of the audit function in the banking industry. The experiences of failed bank in Nigeria have therefore called for the reinforcement and the strengthening of the controls system in the Nigerian banks.

Okolo (2001) describes the internal control function as an aspect of control mechanism, within a business, manned by specially assigned staff. However, in Nigeria, the internal control function in the banking sub-sector has not been fully tapped; consequently, cases of errors and intent to defraud and other fraud cases exist in the banking industry. The distress in the banking sub-sector in the nineties reflected lack of effective control mechanism of the audit function in the banking industry. The experiences of failed bank in Nigeria have therefore called for the reinforcement and the strengthening of the controls system in the Nigerian banks.

**1.3 Objectives of the Study**

The main objective of the study is to evaluate the effectiveness of internal control as management tool in banking industry in Nigeria. The specific objectives of the study are:

1. To ascertain control activities in banks.
2. To ascertain the monitoring process in banks in Nigeria.
3. To determine risk assessment in banks in Nigeria.

**1.4 Research Questions**

In pursuance of the objectives of the study, the researcher was guided by the following questions:

1. How effective are control activities in banks kin Nigeria?
2. How effective is the monitoring process in banks in Nigeria?
3. To what extent is risk assessment process in banks in Nigeria effective?

**1.5 Research Hypotheses**

To achieve the above objectives, the following hypotheses are postulated and will be tested for their validity.

Ho1: Control activities in banks in Nigeria are not effective.

Hi:  Control activities in banks are effective.

Ho2: Internal control monitoring process are not effective in banks in Nigeria.

Hi: internal control monitoring process are effective in banks in Nigeria.

Ho3: Risk assessment process in banks in Nigeria are not effective.

Hi: Risk assessment process in banks in Nigeria are effective.

**1.6 SIGNIFICANCE OF THE STUDY**

The study will assist the government/policy makers, banks, scholars and the public in the following ways.

1.  It enables managers of services, organizations and government owned public utility establishments to bring the accounting and the internal control procedures inherent in them in conformity with internal accounting standards and practices.

2.  It helps government owned establishments to assess their internal control measures and make amends where necessary.

3. The study could arouse further research into some other further research into some other functional areas in the company by students and accountants, which will help scholars to broaden the scholar’s knowledge.

4.     The research work helps in widening the scholar's knowledge of practical application of internal control system in banking organization.

5.     The study also enhances the appreciation of internal control as a necessary tool used by the policy makers in the smooth and efficient running of an organization.

6.     The study also enables the public to appreciate the operation of internal control system in a business organization vis-a-vis its theoretical frame work.

**1.7 Scope of the Study**

The study focused attention in the evaluation of the effectiveness of internal control system adapted in Diamond Bank, avenue, Enugu State.

**1.8 Limitation of the study**

In carrying a research work, certain problems were encountered which limits the precision of the research and the extent of generalization of the research work.

The problems include a time constraint which renders one from delving into areas other than accounting and administrative control in the organization, geographical location of the case study in relation to researcher’s institution, and limitations to the amount of information's obtainable from the respondents to the oaths of secrecy of the organization.

However, through persuasion and hard work we were able to obtain data such that the quality of the research was not affected.

**1.9      Definition of Terms**

**Internal Audit:** This can be define as the independent appraisal of activities within the organization for the review of accounting, financial and other operations as basis for service to management.

**Internal Check:** These are day to day administrative control within the internal control system which aims at detecting and minimizing the risk of fraud and error.

**Accounting Control:** This comprises of the plan of the organization and all methods and procedures that are concerned mainly with and directly to reliability of the financial records.

**Test Checking:** This is a method of verifying the operations of a computer program by tracking likely transactions through a print-out of the program.

**CHAPTER TWO**

**LITERATURE REVIEW**

**2.1 CONCEPTUAL FRAMEWORK**

Internal control is the type of control designed and installed by the management of an organization for the growth and survival of the organization. It is the responsibility of the management to ensure and maintain this system of control to enhance profitability. Sequel to this, adequate attention has been given to the study of internal control in business enterprises by experts.

As a concept, Internal Control is distinguished by its scope and its high level of the services offered. The Internal Control System refers to an organized amalgamation of functions and procedures, within a complete system of controls established by the management and whose purpose is the successful function of the business (Cheung, 1997). The Internal Control System is all the methods and procedures followed by the management in order to ensure, to a great extent, as much successful cooperation as possible with the director of the company, the insurance of the capital, the prevention and the detection of fraud, as well as the early preparation of all the useful financial information (Meigs, 1984 ; Papadatou, 2005). According to Cook and Wincle (1976), the Internal Control System resembles the human nervous system which is spread throughout the business carrying orders and reactions to and from the management. It is directly linked to the organizational structure and the general rules of the business (Cai, 1997).

Glance (2006) provided that internal control system refers to “the Institution process and procedure that is been established with the aim of objective achievement. The internal control system also serves as a process that guides an organization towards achieving its established objectives. According to International Organization of Supreme Audit Institution (2004), internal control system is a process effected by an entity’s board of directors, management and other personnel’s, designed to provide reasonable assurance regarding the achievement of the set objectives and the effectiveness and efficiency of operations, reliability of financial reporting andcompliance with applicable laws and regulations and generally the controls are of two types which are preventive and detective controls. According to Church and Schneider (2008), effective internal controls systemare fundamental drivers toward earnings quality.

**2.2 Purpose of Internal control**

There are four main purposes of internal controls in the accounting industry. The first of those is to safeguard the assets of a company from any form of loss. The loss could be an accidental loss, which occurs from honest mistakes being made by individuals, or it could be an intentional loss, which results from intended fraudulent activities. A second purpose for internal controls is to ensure that financial information is accurate, reliable and timely.

A third and very important purpose of internal controls is to ensure compliance with federal, state and local business laws. To ensure compliance in the counting industry, the Securities and Exchange Commission created a special group called the Financial Accounting Standards Board (FASB). The FASB sets the guidelines that all accounting professionals must follow. The guidelines that the FASB set are called Generally Accepted Accounting Principles (GAAP).

The fourth major purpose of internal controls is to provide a way for companies to monitor goals that it has set for itself.

**2.3 Types of internal control**

**2.3.1. Physical Audits**

Physical audits include hand-counting cash and any physical assets tracked in the accounting system, such as inventory, materials and tools. Physical counting can reveal well-hidden discrepancies in account balances by bypassing electronic records altogether. Counting cash in sales outlets can be done daily or even several times per day. Larger projects, such as hand counting inventory, should be performed less frequently, perhaps on an annual or quarterly basis.

**2.3.2 Standardized Documentation**

Standardizing documents used for financial transactions, such as invoices, internal materials requests, inventory receipts and travel expense reports, can help to maintain consistency in record keeping over time. Using standard document formats can make it easier to review past records when searching for the source of a discrepancy in the system. A lack of standardization can cause items to be overlooked or misinterpreted in such a review.

**2.3.3 Trial Balances**

Using a double-entry accounting system adds reliability by ensuring that the books are always balanced. Even so, it is still possible for errors to bring a double-entry system out of balance at any given time. Calculating daily or weekly trial balances can provide regular insight into the state of the system, allowing you to discover and investigate discrepancies as early as possible.

**2.3.4 Periodic Reconciliations**

Occasional accounting reconciliations can ensure that balances in your accounting system match up with balances in accounts held by other entities, including banks, suppliers and credit customers. For example, a bank reconciliation involves comparing cash balances and records of deposits and receipts between your accounting system and bank statements. Differences between these types of complementary accounts can reveal errors or discrepancies in your own accounts, or the errors may originate with the other entities.

**2.3.5 Approval Authority**

Requiring specific managers to authorize certain types of transactions can add a layer of responsibility to accounting records by proving that transactions have been seen, analyzed and approved by appropriate authorities. Requiring approval for large payments and expenses can prevent unscrupulous employees from making large fraudulent transactions with company funds.

### 2.4 Advantages

The advantages of internal control are obvious, since they lead to a more efficiently run organization. Strong internal controls will ensure a company's resources are utilized only for their intended purposes, greatly minimizing the risk of resource misuse. Internal control also prevents any financial irregularities by detecting them quickly and thus resolving any issues that arise in a timely manner. In addition, having strong internal controls in place can prevent a company's employees from being accused of any irregularities or misappropriations of funds.

### 2.5 Disadvantages

Internal control also has the potential for disadvantages. If internal controls are badly planned or executed, employee frustration or apathy may result. In addition, an internal control system that is too rigidly designed to allow for adaptation to a particular organization may be difficult to sustain. Perhaps the biggest disadvantage to internal control is that it may cause a company's auditors to become over-dependent on the internal control system, which may lead them to relax other measures of checking for fraud and errors.

**2.6 Theoretical Review**

Through an extended literature review, there will be an attempt to approach theoretically its catalytic contribution to the extremely fluid business environment.

Enofe, Mgbame, Osa-Erhabor and Ehiorobo (2013) contend that the aim of internal auditing is to improve organizational efficiency and effectiveness through constructive criticism. This means that identification of areas of weakness and suggestions for improvement are the main thrust of internal auditing. Little wonder Sawyer (1995) state that internal auditor’s job is not done until defects are corrected and remain corrected.

Messier (1997) noted that control activities are the policies and procedures that help ensurethat necessary actions are taken to address the risks involved in the achievement of the entity’sobjectives. Accordingly the control activities that are relevant to the audit include:

\_ Performance review

\_ Information processing

\_ Physical control

\_ Segregation of duties.

Amudo and Inanga (2009) viewed that authorization, segregation of duties, and verification beforemaking the payments, control over access to resources, reconciliation, review operations andsupervision as the control activities in any organization.

**2.6.1 Banking Approach to Internal Controlsystem**

 Bello (1985) in one of his lectures titled “Fraudulent Activities in Banks” stated that “Banks strengthen and effectively enforce their internal control systemso that it will be impregnable to would be fraudsters. As a result, banks concentrate moreon preventive rather than curative measures to combat frauds in banks. While we maylearn our lessons from a given event that has taken place, it is by and large, better toprevent the event from taking place. Banks should include ways of monitoring theactivities going on in the bank. The rule is that nothing is left to chance”.Banks like any other profit-oriented organization design and install a system ofinternal control specifically to achieve their organizational objectives. Banksmanagement, regardless of the incessant fraudulent activities in the banking system, stillmaintains a tight system of control to restore the confidence of both shareholders andpublic on their potentialities.

There are two categories of internal control system in banks. According to cornsMarsh” a good internal controlprogram consists of two distinct parts; Rules and regulations, and proof andbalances.

**2.6.2 Effectiveness of Internal Control System**

Internal control effectiveness is related to the fluidity of the system‘s internal interaction and how rooted the system is in the company‘s processes. One of the important factors that ensure internal control effectiveness and assurance is the institution of agents of effectiveness (Ayagre, Appiah-Gyamerah, and Nartey, 2014). These agents of effectiveness are vibrant board and autonomous internal audit office. Even though internal control is procedural, its effectiveness is a state of the process. Ayagre, et al (2014) indicated that it is important to continually evaluate the internal control systems intermittently. Internal control effectiveness are assessed on three levels. These are: 1) the degree to which the directors comprehend that the organization's objectives are being realised; 2) the reliability of published financial statements; and 3) compliance with appropriate rules and guidelines

According to COSO (1994), an internal control framework can be judged to be viable on the high level Amudo and Inanga (2009) stated that a deficient internal control system is the one that ignores how internal control components can be measured but emphasized on elaborate control framework. CoSO (2011) indicated that the effectiveness of the individual components determines the effectiveness of the entire control structure. Thus the effectiveness of the five control components determines the control framework‘s effectiveness. Accordingly, evaluating control structure effectiveness must be in tandem with the individual components. However, the effectiveness of control a framework is a subjective decision on the individual components of entire the control system (CoSO, 2011). The internal control evaluator must comprehend the individual workings of the five control elements, the working philosophies of the control elements, and the application of the components throughout the company (Agyare, et al, 2014).

The essence of internal control is to prevent, correct and detect errors and possibly frauds in the business. In view of this, this researcher is of the view that, an effective internal control is the one that is able to: prevent errors from occurring; detect errors if they occurred; and correct detected errors.

COSO (1994) indicated that the control effectiveness levels across different businesses stem from the diverse ways of implementing, controlling, and monitoring systems adopted. The effectiveness of controls are subjective decisions on whether there is a sound assertion that the aims of internal control are being met.

**2.7 Theoretical Challenges/Limitations of Internal Control System**

No matter how well internal controls are designed, they can only provide reasonable assurance that objectives have been achieved (COSO, 1999). Some limitations are inherent in all internal control systems (Mercer University, 2015). These include:

**2.7.1 Judgment**

The effectiveness of controls will be limited by decisions made with human judgment under pressures to conduct business based on the information at hand. According to Lannoye (1999) Effective internal control may be limited by the realities of human judgment. Decisions are often made within a limited time frame, without the benefit of complete information, and under time pressures of conducting agency business. These judgment decisions may affect achievement of objectives, with or without good internal control. Internal control may become ineffective if management fails to minimize the occurrence of errors, for example misunderstanding instructions, carelessness, distraction, fatigue, or mistakes (Lannoye, 1999).

**2.7.2 Breakdowns**

Even well designed internal controls can break down. Employees sometimes misunderstand instructions or simply make mistakes. Errors may also result from new technology and the complexity of computerized information systems.

**2.7.3Management Override**

High level personnel may be able to override prescribed policies and procedures for personal gain or advantage. This should not be confused with management intervention, which represents management actions to depart from prescribed policies and procedures for legitimate purposes. According to Lannoye (1999), management may override or disregard prescribed policies, procedures, and controls for improper purposes. Override practices include misrepresentations to state officials, staff from the central control agencies, auditors or others. Management override must not be confused with management intervention (i.e. the departure from prescribed policies and procedures for legitimate purposes). Intervention may be required in order to process non-standard transactions that otherwise would be handled inappropriately by the internal control system. A provision for intervention is needed in all internal control systems since no system anticipates every condition (Mercer University, 2015).

**2.7.4 Collusion**

Control systems can be circumvented by employee collusion. Individuals acting collectively can alter financial data or other management information in a manner that cannot be identified by control systems. The effectiveness of segregation of duties lies in individuals performing only their assigned tasks or in the performance of one person being checked by another. There is always a risk that collusion between individuals will destroy the effectiveness of segregation of duties. For example an individual receiving cash receipts from customers can collude with the one who records these receipts in the customers’ records in order to steal cash from the entity (Williams 2009).

**2.8 Empirical Literature**

This is in relation to or based on experience and observation rather than theory or principle. This section of the study therefore will be based on experience and observations of various study carried out by different individual.

Some Banks have well developed internal control system department, while others do not. According to Ejiofor (2007) in a study carried out on compliance of management to policies and procedures in Banks. He based his study on Bank with proper internal control system According to him in the study, two hundred (200) questionnaires were sent out to some banks in Ibadan, Ilorin, Lagos and Benin. The basis for the selection ofthese cities was by obtaining various banks existing in the Urban Centers in order to make sure that they study covers all banks adequately.

Two sets of Hypothesis were postulated in his study which was subjected to test by the aid of correlation analysis.

The result of the findings according to Ejiofor (2007). Shows that most policies and procedures were not strictly complied with by management his result showed that 152 respondents representing 73% of the total responses attest to it.

In yet another study done by Otusumi (2007) in a study carried out to investigate the impact of regular balancing of Account in Nigerian Banks. The methodology adopted in his investigation was the evaluative and expository system. Secondary data contained in books financial statements of Banks, accounting standards, laws and European Journal of Business and Management [www.iiste.org](http://www.iiste.org) ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online) Vol.6, No.9, 2014 151

regulations and various other documents were source of information. Investigations were carried out on Oceanic Bank Plc, it is the belief of the researcher that what is obtain in First Bank of Nigeria plc also applies to many other bank.

The analysis of findings in the study. Completed questionnaires for the study were collected from sixty-five management staff the response rates represent N1.25% of the total sample. The sample size for testing therefore,

were N = 65, N = 65 for the hypothesis N = Number of sample. The study two hypotheses were subjected to test while the chi-square test statistics was employed. The result of the chi-square calculated for hypothesis is 6.538 with as its degree of freedom (DF=5) and Asymp. Significance of 257. The level of significance = 0.5. The tabulated chi-square (X2

t) is 11.07. Since X2 c < X2 t, the alternate hypothesis is hereby accepted that the regular balancing of accounts affects the internal control system and the null rejected. The study hypothesis II the respondents agree that recruiting unqualified staff affect proper balancing of account with a mean score of 4.64 and standard deviation of 1.356. The X2 calculated was 35.892 at degree of freedom (df=5) and Osymp. Significance, since the X2

c > X2 t therefore, the alternative hypothesis is accepted that recruiting unqualified staff affects proper balancing of account.

Some empirical studies have been done on this subject matter in some countries of the world. Mihret and Yismaw (2007) did a study entitled Internal Audit Effectiveness: An Ethiopian Public Sector Case Study. The study which used structured questionnaire, interview and observations as instruments of data collection discovered that certain factors such as internal audit quality, support from management, etc. strongly affect effectiveness of internal audit while organizational structure and internal auditor’s attributes have less impact on the same variable.

In a study carried out by Ahmad, Othman and Jusoff (2009) on effectiveness of internal audit in Malaysian public sector in which simple percentage was used as the tool for date analysis, they found that lack of audit staff was a major impediment to effective internal auditing. One of the major limitations of the study was a narrow scope. Arena and Azzone (2009) in their study entitled ‘identifying organizational drivers of internal audit effectiveness in Italy’ with the use of 153 Italian companies and survey method, found that characteristics of the internal audit team, the audit processes and activities as well as organizational links influenced effectivenss of internal audit.

Furthermore, Cohen and Sayag (2010) studied ‘effectiveness of internal auditing: An Empirical Examination of its Determinants in Israeli organization’. With the use of questionnaire and mail survey of 292 organizations, the study identified management support, especially in relation to provision of proficient internal audit staff, career development and independence of internal auditors as vital to the effectiveness of internal audit. In another study conducted by Theofanis, Drogalas and Giovanis (2011) on the ‘relationship between elements of internal control system and internal audit effectiveness’ with the use of 52 Hotels in Greek through mail survey, the results reveal positive relationship between the variables. However, they suggested that with larger samples the outcome of the study might differ significantly from their own.

**2.9 Summary of Literature Review/Research Gap**

Since many of these studies were done in countries other than Nigeria, with obvious cultural and environmental differences as well as contrasting findings, it becomes necessary for a similar study to be carried out in Nigeria. Furthermore, with reference to the poor rating of Nigeria by the Transparency International in terms of corruption indices, a study on effectiveness of internal audit becomes not just necessary but imperative. As we know, sound internal audit practice is the bedrock for corporate transparency.

**CHAPTER THREE**

 **RESEARCH METHODOLOGY**

**3.1 Research Design**

The research design adopted for this study is the survey research design. The researcher chose this design because

**3.2 Area of the Study**

The geographical area of the study was at Okpara Avenue, in Enugu. The focus of the study in the project is the internal control system used in Diamond Banks.

**3.3 Population of the Study**

The population for this study is made up of thirty (30) working staffs of Diamond Bank Ltd Okpara Avenue Enugu.

**3.4 Sample of the Study**

The researcher applied thejudgmentalsampling method in his study. This means that all the thirty (30) working staffs that represented the population have equal chance of being part of the sample for the study out of this population. From the thirty staffs, the researcher used twenty-eight senior and management staffs of diamond bank because they are in a position to respond to the questions on internal control effectiveness.

**3.5 Instrument for Data Collection**

 The outstanding instrument for data collection in this study wasQuestionnaire Method of Data Collection. Questionnaire is the primary source of data for this study. It will be supplemented by oral interview conducted directly with the respondents.

**3.6 Validation of the Instrument**

The instrument used in the course of this study cannot be proved effective. Unless it’s normal validation process. As a result, the researcher distributed the instrument among some respondentsin the population to assess their degree of comprehension of the questions in the questionnaire. Thereafter the researcher ran an analysis on the responses in a pilot survey, and then some of the mistakes or ambiguities found were clarified and corrected. This pilot test and the clarifications that followed validated the instrument after considering the fact that all the instrument were actually designed to measure what it supposed to measure.So valid results would be obtained in the real survey.

**3.7 Sources of Data**

Sources of this research work were collected using primary sources.

**3.8 Method of Data Analysis**

The method of analyzing the data collected in this study will constitute those of percentage and frequency methods as well as the chi-square statistical tool.The chi-square statistical tool which would be the major tool to be applied in testing the stated hypothesis is used to know where actual or observed frequency has significantly deviated from the expected frequency.

**CHAPTER FOUR**

**PRESENTATION AND ANALYSIS OF DATA**

**4.1 INTRODUCTION**

The purpose of this chapter is to present and analyze the data collected using those to provide answer to the statement of the problems and to test the hypothesis stated in chapter one of this study. This chapter also provides the background upon which discussions, conclusions and recommendations are based. The analysis made include.

1. Tabulation of the responses relating to the research questions.
2. Statistical test of the hypothesis

The findings will go a long way in helping the researcher carry out proper analysis of the variables under this study as proposed in chapter one of this work.

**4.2 Questionnaire Distribution and Collection**

A total of 30 questionnaires were distributed to the working staffs of Diamond Bank plc, Okpara Avenue, Enugu. But from the total number administered by the researcher, he was able to recover twenty eight (28) and this represented about 93% of the total number of the questionnaire that were distributed.

The total number of questionnaires administered and the number used for the analysis now formed the despondent.

The number of questionnaires administered for this research study and the number to be used for the analysis outside the representation and analysis of the primary data that formed the questionnaire that were distributed and mostly, features the responses received from these questions in the questionnaires that could help in this statistically testing of the hypothesis stated in the chapter one of this study as well as for our discussion, conclusion and recommendation.

**Analysis of Responses from the Questionnaire**

**Response from question 1**

Risk assessment is effective within the organization.

TABLE 4.1

|  |  |  |
| --- | --- | --- |
| Option  | Response  | Percentage (%) |
| Strongly disagree | 0 | 0 |
| Disagree  | 4 | 14 |
| Agree  | 6 | 22 |
| Strongly agree | 18 | 64 |
| Total  | 28 | 100 |

Source = Questionnaire distributed and collected from Diamond Bank plc, Okpara Avenue, Enugu.

Table 4.1 shows that 18 or 64 percent of the respondents which are employees of the bank strongly agreed that the bank’s risk assessment is effective, 6 0r 22 percent agreed that the bank’s risk assessment is effective while 4 or 14 percent of the respondents disagreed that the bank’s risk assessment is not effective and no respondent strongly disagreed.

**Response from question 2**

Appropriate monitoring controls enforced by management and supervisors are in place in banks in Nigeria.

Table 4.2

|  |  |  |
| --- | --- | --- |
| Option  | Response  | Percentage (%) |
| Strongly disagree | 2 | 7 |
| Disagree  | 3 | 11 |
| Agree  | 10 | 36 |
| Strongly agree  | 13 | 46 |
| Total  | 28 | 100 |

**Source: Field Survey, 2018**

Source = questionnaire distributed and collected from Diamond Bank plc Okpara Avenue, Enugu.

Table 4.2 shows that 13 or 46 percent of the respondents of the bank which are employees strongly agreed that appropriate monitoring controls enforced by the management and supervisors are in place, 10 or 36 percent of the respondents agreed that the appropriate monitoring controls enforced by the management and supervisors are put in place while 3 or 11 percent and 2 or 7 percent disagreed and strongly disagreed respectively.

**Response from question 3**

Internal audit evaluate the effectiveness of control activities on an ongoing basis.

Table 4.3

|  |  |  |
| --- | --- | --- |
| Option  | Response  | Percentage (%) |
| Strongly disagree | 0 | 0 |
| Disagree  | 0 | 0 |
| Agree  | 8 | 29 |
| Strongly agree | 20 | 71 |
| Total  | 28 | 100 |

**Survey: Field Survey, 2018**

Table 4.3 shows that 20 0r 71 percent and 8 or 29 percent of the respondents which were employees of the bank strongly agreed and agreed respectively that internal audit evaluate the effectiveness of control activities on an ongoing basis.

**Responses from question 4**

External audits are carried out in banks in Nigeria as presumed law.

Table 4.4

|  |  |  |
| --- | --- | --- |
| Option  | Response  | Percentage (%) |
| Strongly disagree | 5 | 18 |
| Disagree  | 6 | 21 |
| Agree  | 7 | 25 |
| Strongly agree | 10 | 36 |
| Total  | 28 | 100 |

**Survey: Field Survey, 2018**

Table 4.4 shows that 10 or 36 percent and 7 or 25 percent of the respondents which were employees of the bank strongly agreed and agreed respectively that external audits are carried out in banks as presumed by law, while 5 or 18 percent and 6 or 21 percent of the respondents strongly disagreed and disagreed respectively that external audits are carried out in banks in Nigeria as presumed by law.

**Responses from question 5**

All bank accounts are reconciled on regular basis

Table 4.5

|  |  |  |
| --- | --- | --- |
| Option  | Response | Percentage (%) |
| Strongly disagree | 1 | 4 |
| Disagree  | 7 | 25 |
| Agree  | 9 | 32 |
| Strongly agree | 11 | 39 |
| Total  | 28 | 100 |

**Survey: Field Survey, 2018**

Table 4.5 shows that 11 or 39 percent or 9 or 32 percent of the respondents which are employees of the bank strongly agreed and agreed respectively that all bank accounts are reconciled on regular basis, while 1 or 4 percent or 7 or 25 percent of the respondents strongly disagreed and disagreed respectively that all bank accounts are reconciled on regular basis.

**TESTING THE RESEARCH HYPOTHESES**

When a researcher collects data for research study. The essence is to examine the relationship that exist between the data collected and the hypothesis that were stated for the research work. As well as the researcher tries to compare. The result to see whether the preconceived notion about the population before the research work would hold or not.

In testing each of the hypotheses that have been stated in this study, we will adopt the chi-square statistical technique at 5% level of significance. This means that if the critical value is lower than 0.05 significant, we accept the null hypotheses but if the critical value is higher than 0.05 significant, we accept the alternative hypotheses.

**TESTING OF HYPOTHESIS ONE**

Ho: Control activities in banks in Nigeria are not positive and significant.

H1: Control activities in banks in Nigeria are positive and significant.

**Table 4.6 Respondents agreement to the effectiveness of internal control activities in Diamond bank are positive and significant.**

|  |
| --- |
| **ANOVA with Friedman's Test** |
|  | Sum of Squares | df | Mean Square | Friedman's Chi-Square | Sig |
| Between People | 459.000 | 27 | 17.000 |  |  |
| Within People | Between Items | 4.571a | 1 | 4.571 | .298 | .585 |
| Residual | 424.429 | 27 | 15.720 |  |  |
| Total | 429.000 | 28 | 15.321 |  |  |
| Total | 888.000 | 55 | 16.145 |  |  |
| Grand Mean = 4.0000 |
| a. Kendall's coefficient of concordance W = .005. |

**Source: field survey, 2018 via SPSS**

Decision: the result showed that the value of calculated X20.298 is greater than thecritical value of X20.05 at a significant of 0.585. We therefore reject the null hypothesis and accept the alternative hypothesis. Thus, we accept that internal control activities are effective in Diamond banks and are positive and significant.

**Hypothesis 2**

Ho: Internal control monitoring processes are not positive and significant in banks in Nigeria.

Hi: internal control monitoring processes are positive and significant in banks in Nigeria.

**Table 4.7Respondents agreement to the effectiveness of internal control monitoring processes in Diamond banks.**

|  |
| --- |
| **ANOVA with Friedman's Test** |
|  | Sum of Squares | Df | Mean Square | Friedman's Chi-Square | Sig |
| Between People | 18.357 | 27 | .680 |  |  |
| Within People | Between Items | .643a | 1 | .643 | 6.000 | .014 |
| Residual | 2.357 | 27 | .087 |  |  |
| Total | 3.000 | 28 | .107 |  |  |
| Total | 21.357 | 55 | .388 |  |  |
| Grand Mean = 3.6071 |
| a. Kendall's coefficient of concordance W = .030. |

**Source: field survey, 2018 via SPSS**

Decision: The result showed that the value of calculated X26.00 is greater than thecritical value of X2 0.05 and its significant at 0.14. We therefore reject the null hypothesis and accept the alternative hypothesis. Thus, we accept the fact that internal control monitoring processes are effective in Diamond bank and they have significant and positive impact.

**Hypotheses Three**

Ho: Risk assessment processes are not positive and significant in banks in Nigeria.

Hi: Risk assessment processes are positive and significant in banks in Nigeria.

**Table 4.8 Respondents agreement as to whether risk assessment is effective in banks in Nigeria.**

|  |
| --- |
| **ANOVA with Friedman's Test** |
|  | Sum of Squares | df | Mean Square | Friedman's Chi-Square | Sig |
| Between People | 477.357 | 27 | 17.680 |  |  |
| Within People | Between Items | 8.643a | 1 | 8.643 | .571 | .450 |
| Residual | 415.357 | 27 | 15.384 |  |  |
| Total | 424.000 | 28 | 15.143 |  |  |
| Total | 901.357 | 55 | 16.388 |  |  |
| Grand Mean = 3.8929 |
| a. Kendall's coefficient of concordance W = .010. |

**Source: field survey, 2018 via SPSS**

**Decision:** we can see that the value of the calculated X20.571 is greater than the critical value of X2 0.05 and its significant at 0.450. We therefore reject the null hypothesis and accept the alternative hypothesis. Thus, we accept that risk assessment is effective in Diamond Bank and it is positive and significant.

**CHAPTER FIVE**

**SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

* 1. **SUMMARY OF FINDINGS**

The following findings were made by the study:

1. There are effective internal control activities such as physical control, authorization and approval, performance control, arithmetic and accounting, managerial control, organizational control, supervision, segregation of duties, directing and planning etc. in Diamond bank to ensure that the business of the enterprise is carried out efficiently and in an orderly manner.
2. Diamond bank has internal control monitoring processes which ensures the smooth monitoring of the business transactions, its records, books of account, and financial statement.
3. There is an effective risk assessment process in Diamond which detects and prevents errors and potential fraud and deletes fraud.
	1. **Conclusion**

It is important to note that there is a high rate of fraudulent practices in Nigerian ministries and parastatals today and the commercial banks are not an exception. Fraud is a threat common to most organizations; it is a threat to the effective utilization of resources. Effectiveinternal control system is vital for the survival of any organization it serves as a check on fraudulent activities of the management and employees of the organization and it brings about solutions to likely fraudulent acts in an organization.

* 1. **Recommendations**
1. Management of banks should ensure proper management of internal control environment to enable effective control activities take place.
2. The management must ensure that they review customer’s and supplier’s complains on an ongoing basis and supervisory staffs and authorized persons be alert for fraud opportunities and indicators as proper monitoring processes are taking place.
3. The completeness, accuracy and validity of Proper records, books of accounts and financial statements of the bank should be secured and kept out of reach of unauthorized persons in order not to tempt an employee. And the use of effective risk assessment procedures to detect errors and prevent and delete fraud.

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 Godfrey Okoye University

 Thinker’s corner

 Enugu

Dear respondent,

I am a student of the above mentioned department/institution. I am carrying out a project work which is part of the requirements for the award of Bachelor of Science (B.Sc) degree in Accounting. It is purely an academic exercise. Please kindly respond to the questionnaire as honestly as possible. There is no right or wrong answer. All responses are confidential. Thank you for your involvement.

 Yours faithfully

 Chukwudire arinze

SECTION A. INSTRUCTION: Please tick the appropriate box or fill in the blank spaces as appropriate.

1. Gender: male Female 2. Marital status: single married divorced

SECTION B.INSTRUCTION: The following are statements about the effectiveness of internal control. Read each statement carefully and indicate the extent to which it is a true description of your answer as you see fit yourself by ticking only one of the numbers or in the space provided after each statement. Work rapidly. The number stands for; 1= Disagree strongly, 2= Disagree a little, 3= Agree a little, 4= strongly agree.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 1 | Risk assessment is effective within the organization.  | 1 | 2 | 3 | 4 |
| 2 | Appropriate monitoring controls enforced by management and supervisors are in place in Nigerian banks.  | 1 | 2 | 3 | 4 |
| 3 | Internal audit evaluate the effectiveness of antifraud measures on an ongoing basis. | 1 | 2 | 3 | 4 |
| 4 | External audit are carried out in banks as presumed by law. | 1 | 2 | 3 | 4 |
| 5 | All bank accounts are reconciled on regular basis.  | 1 | 2 | 3 | 4 |
| 6 | Audit committee is appropriately structured to ensure its independence. | 1 | 2 | 3 | 4 |
| 7 | There is audit committee alert to fraud opportunities within the organization. | 1 | 2 | 3 | 4 |
| 8 | There a policy for instant dismissal for commission of fraud | 1 | 2 | 3 | 4 |
| 9 | There is a policy for reporting all frauds to legal authorities and pressing charges. | 1 | 2 | 3 | 4 |