**AN APPARIASAL OF INTERNAL CONTROL SYSTEM IN A MEDIUM SCALE BUSINESS**

**BY**

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**ENUGU STATE**

**JULY, 2018.**

**TITLE PAGE**

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**A PROJECT PRESENTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE FACULTY OF MANGEMENT AND SOCIAL SCIENCES GODFREY OKOYE UNIVERSITY UGWUOMU-NIKE, ENUGU STATE, IN PARTIAL FULFILLMENT OF THE THE AWARD OF BACHELOR OF SCIENCE (B.Sc)DEGREE IN ACCOUNTING.**

**SUPERVISOR: DR.S.N UDEH**

**DECLARATION**

I, OKOLIE NNEAMAKA S,with the registration number U14/MSS/ACC/043 is a student in the department of Accounting and Finance of the Faculty of Management and Social Sciences in Godfrey Okoye University. Ihereby declare that the research work titled “An Appraisal of Internal Control System in a Medium Scale Business” submitted by me in a partial requirement for award of Bachelor of Science (B.S.c) in Accounting is my original work and has not been submitted either in a part or full for any other degree or diploma either in this or any other tertiary institution.

Okolie Nneamaka Date

**CERTIFICATION**

This is to certify that this research work entitled the Appraisal of Internal Control System of a Medium Scale Business (innoson company limited) is written by Okolie, Nneamaka S. with the Registration number U14/MSS/ACC/043 and being presented to the Department of Accounting and Finance of Godfrey Okoye University, Enugu has assessed and approved for oral examination/defense by the department of Accounting and Finance, Godfrey Okoye University Enugu.

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PROJECT SUPERVISOR

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EXTERNAL EXAMINER DATE

**DEDICATION**

This project is dedicated to Almighty God for his love, provision, grace, faithfulness, and mercies in my life.

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**ABSTRACT**

*The aim of the study was to appraise internal control system in a medium scale business focusing on Innoson Company, Enugu. The objectives of the study were to determine the contribution of internal control in the detection of fraud in medium scale businesses, to ascertain the contribution of internal control system to prevent fraud in medium scale businesses and to find out the contribution of internal control system in investigating of fraud in medium scale businesses. The study used survey research design. The population consists of 152 staff while the sample size was 110. The study used tables and percentage for analysis while chi square was used to test the hypotheses. The study found out that internal control significantly contribute in detection of fraud in medium scale businesses among others. The study recommends that the internal control of government enterprises should be effectively implemented as it aids in detecting fraud in organizations. This is due to the fact that internal control helps in detecting voucher padding.*

**CHAPTER ONE**

**INTRODUCTION**

**1.1 Background to the Study**

Every firm, be it profit or non-profit making organization, will have some objectives which it deem attainable. For profit seeking organizations, their key goal is to maximize shareholder value while the non-profit making organization goal is to satisfy the citizenry’s social need. In order to achieve these purposes, supervision usually plays an important role in the organization (Lannoye,2013). Sometimes it is hard for the management of these organizations to provide first hand and personal supervision of operations due to the size, nature and scope of the organization. The basic components of organizational governance are risk management and financial performance. Therefore, for an organization to achieve this it needs to ensure effective and efficient operations, reliable information (both financial and non-financial) and compliance of rules and regulations. It is based on this fact that internal control systems are introduced in diverse organizations. Kabir (2012) states that internal controls are measures instituted by an organization so as to ensure attainment of the entity’s objectives, goals and missions. In some instances, internal controls are check mechanisms to avoiding wastages, theft and mismanagement of the organization’s assets. In pursuit of organizational objectives regarding reliable financial reporting, effective and efficient operations, managers and boards of organizations resort to establishing internal control systems in ensuring effective outcomes.

Internal control systems involves the control environment and control procedure, all the policy and procedure adopted by the directors and management of an entity to assist in achieving their objectives, including adherence to internal policies, the safe-guarding of assets, the prevention and detection of fraud and error as well as the completeness and accuracy of records, with the timely preparation of reliable financial information (Achibong, 2013).

It is necessary that every organization must have an internal audit department to ensure that accounting systems provide an efficient means of recording and reporting financial transactions, providing management information and protecting the company’s asset from fraud and misappropriation. One of the most effective systems for detecting fraud is internal control, which is a system by definition, operating in the same environment as the fraud itself and serving as an effective, formidable adversary to the fraud scheme and that the definition of internal control, described as a process, framework, or function, do not touch upon systematic concepts.

Internal control according to Achibong (2013), is the accounting tool that can be used to monitor the finances and its disbursement in a public sector organization in attempt to bring eliminate or bring to the barest minimum the issues of fraud in such enterprises. It is believed that properly designed and enforced internal control systems will normally lead to better financial reporting procedures as well as giving rise to a reliable report that improves management accountability function of an institution (Astin&Panos, 2011). However, the prospect of achievement is determined by limitations inherent in all internal control systems. In this respect, --Amudo (2008), explains that internal control systems can only ensure reasonable rather than complete guarantee to the achievement of the organization’s objectives which are instituted by an institution’s management and board of directors. It is based on this premise that this study is been designed to appraise internal control in a medium scale business.

**1.2 Statement of the Problem**

Internal control system is considered to be essential in accounting system as this will enhance the effectiveness and efficiency of the management of an enterprise.

An effective and efficient internal control system ensures that all recorded transactions are real, properly valued, recorded timely, correctly classified, correctly summarized and correctly posted.

However, whether or not the internal control system has helped the management in having a sound accounting system is the issue of debate. Therefore, the question being asked is whether the controls in internal control system are sure that errors and fraud can be discovered with reasonable promptness, and whether the control procedures as prescribed and applied in practice are successful in preventing and detecting material errors and fraud in the accounting system.

An adequate system of internal control reduces but does not eliminate the possibility of fraud or irregularities and error. An internal control system therefore, can only provide reasonable assurance that the management objectives in establishing the system are achieved. This is propelled by certain problems and limitations inherent in the internal control system. An efficient internal control system involves a clear definition and separation of duties for various employers of groups within a company. The intention of separating the duties is to protect against fraud, waste abuse and mismanagement of resource. It is quite unfortunate some organizations have failed to achieve this goal due to the prevalence of fraud especially as committed by employees in the organization.

**1.3 Objectives of the Study**

The broad objective of this study is to appraise internal control system in a medium scale business focusing on Innoson Company, Enugu.

The specific objectives include the following:

1. To determine the contribution of internal control in detection of fraud in medium scale businesses.
2. To ascertain the contribution of internal control system to prevention of fraud in medium scale businesses.
3. To find out the contribution of internal control system in investigation of fraud in medium scale businesses.

**1.4 Research Questions**

The following research questions are stated for this study:

1. What are the contribution of internal control in detection of fraud in medium scale businesses?
2. What are the contributions of internal control system to prevention of fraud in medium scale businesses?
3. What are the contributions of internal control system in investigation of fraud in medium scale businesses?

**1.5 Research Hypotheses**

The following hypotheses are formulated for this study:

HO1: Internal control does not have significant contribution in detection of fraud in medium scale businesses.

HO2: Internal control system does not have significant contribution to prevention of fraud in medium scale businesses.

HO3: Internal control system does not have significant contribution in investigation of fraud in medium scale businesses

**1.6 Significance of the Study**

This study will be of immense significance to the management and staff Innoson Company, Enugu in that it will go to a great extent in suggesting ways to ensure the effectiveness and efficiency of internal control system as well as how to prevent fraud in these firms with the aid of internal control system.

It will also enlighten scholars on the concepts of internal control system as well as other related terms associated with internal control system.

The general public will not just understand the concept of internal control system but may go to a great length in adopting its principles in their private businesses to curtail or eliminate fraud in their businesses.

The employees of diverse organizations will also get to understand the concepts of internal control system as well as how to apply its concept in fraud prevention and elimination.

**1.7 Scope of the Study**

This study focuses on internal control in Innoson Company, Enugu.

**1.8 Limitations of the Study**

The researcher encountered diverse constraints in the process of carrying out this study:

**1. Difficulty in Gathering Research Material:**

There was difficulty in gathering the necessary information or materials necessary for the successful completion of this research study. This is due to the fact that most of the respondents were either not on sit or were uncooperative in providing the necessary information as regards to the study.

**2. Time Constraints**

Time also posed as a constraint to the successful completion of this research study. The researcher had to combine the time for lectures and work to carrying out this research study. Though it was not easy but he was still able to carry out the research work.

**3. Finance:**

There was not enough finance on the part of the researcher to complete this research study.

Irrespective of these constraints, the researcher was still able to successfully carry out this research study.

**1.9 Definition of Terms**

Internal Control System: This is defined as thewholesystem of control, financial and otherwiseestablishedbymanagement in ordertocarryonthebusiness of theenterprises in anorderly and efficientmanner.

Fraud: Fraud is defined as the intentional misrepresentation, concealment, or omission of the truth for the purpose of deception/manipulation to the financial detriment of an individual or an organization.

Misappropriation: To take (something, such as money) dishonestly for your own use.

Management Information System: A management information system (MIS) is a computerized database of financial information organized and programmed in such a way that it produces regular reports on operations for every level of management in a company.

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

This chapter is designed to review related literature pertaining to application of internal control system in fraud management in government enterprises.

**2.1 Conceptual Framework**

The structure of modern banking system and the high expectation from the investors and society at large has called for a more tightened internal control system.

Internal control has been variously defined. According to Abbott, Parker, and Peters (2013), internal control is a process affected by an organization structure, work and authority flows people and management information system, designed to help the organization accomplish specific goal or objective from the definition, the objective of any internal control should be directed towards the attainment of the organization objective.

An efficient internal control system involves a clear definition and separation of duties for various employers of groups within a company. The intent separating the duties is to protect against fraud, waste abuse and mismanagement of resource. Effective internal control helps to assure the accuracy of reports to management and the various supervising bodies (in the case of banks).

According to Agrawal and Chadha (2011), internal control is made up of internal checks, internal audit, accounting controls and other forms of controls such as budgetary and physical control. Amudo (2008) defines internal control as a process, affected by an entity’s board of directors, management and other personnel designed to provide reasonable assurance regarding the achievement of objective in the following categories; effectiveness and efficiency of operation, reliability of financial reporting and compliance with applicable laws and regulations.

From these definitions, it can be deduced that internal control comprises the plan of an organization and all of the coordinated methods and measures adopted by an organization to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies. Internal control objectives are channeled towards ensuring adherence to managerial policies and achieving organizational goals in general.

**2.1.1 Elements of Internal Control**

Internal financial controls systems comprise of five interrelated components (Achibong, 2013). These components are used to develop an internal control system and are also the means for evaluating it. These components work together to form a strong set of methods and procedures that organizations follow in its operations.

**Control Environment**

The control environmentisthecomponent of internalcontrols (Astin &Panos 2011). Itincludesfactorssuch as integrity, ethicalvalues, competence of theworkers and themanagement'sphilosophy in theorganization. It is the component that provides the foundation needed for the other components to build on in internal financial control systems.

**Risk Assessment**

Risk assessment is that component which is used for identifying risks in the system. For risk assessment to be effective, preventive measures are put into place by establishing clear objectives. This component identifies and analyzes possible risks internally and externally. This component manages risk by developing precise procedures to achieve consistent objectives within the organization (Lannoye, 2013).

**Control Activities**

Organizations develop control activities to assist in monitoring. Control activities include policies, procedures and practices developed to increase risk management strategies. Specific control activities include separation of duties, verifications, reconciliations and physical security of assets. These policies are designed to ensure that management directives are fulfilled.

**Information and Communications**

Information must be identified, captured and communicated timely and effectively and is achieved through this internal control component (Ogneva &Subramanyam, 2014). This component is designed to allow employees the ability to carry out their responsibilities in the best manner possible. Information must be communicated externally as well to all parties involved in the company. Information that is communicated in this fashion allows control activities and employee responsibilities to be more effective.

**Monitoring**

Monitoring includes assessing the performance of internal control components, ensuring they are operating effectively. This component includes allowing managers clear responsibility guidelines so that they are able to effectively do their jobs. It also includes performing evaluations through audits and other independent parties, ensuring that the company is handling the operations of the business correctly (Omane, 2012).

**2.1.2 Benefits of Internal Controls**

Under the current operations of business in general, the importance of the internal control can be divided into the following (Pridgen & Wang, 2007).

1. Detecting error and fraudulence. Through the enhanced structure of internal control, which includes the establishment and improvement of control environment, according system and control program, the possibility of error and fraudulence can be diminished to the minimum level.

2. Decreasing illegal conduct. The regulations a business entity needs to comply with can be subtle and complicated. If a reckless conduct leads to results of law breaking, it might not only damage the public image of the entity (reputation risk) but also carries the risk of difficulties of operation due to time consuming law suits and indemnities. The establishment and enhancement of internal control helps in decreasing illegal conducts.

3. Improving the competitiveness of the business entity. A well built –in and efficient internal control system contributes to the success of a business entity. In the highly competitive market, a well-managed internal control system guards the business entity from failure. The small scale of internal control inside the business entity improves employee‘s understanding of company goals and objectives and builds up the concepts of internal control; employees tend to carry out more exactly on the company policies and programs thus the operating efficiency can be improved as a whole. Good control means that risks are identified and dealt with effectively.

4. Improving the quality of data. Strong internal control processes should lead to more efficient operation and improve the quality of data management, directors and shareholders can rely on to make decisions.

5. Helping to create the business infrastructure. Many new businesses fail because they do not build a control infrastructure to match the business visions of their founders.

6. Decreasing auditors’ fees. Effective internal control system allows auditors to rely on it and by reducing the auditing time and effort, the fee can be decreased.

**2.1.3 Limitations of Internal Control System**

A foundation concept underlying the definition of financial control is that a financial control structure provides only reasonable assurance that agency objectives will be achieved. Limitations are inherent in all financial control systems. These results from poor judgment in decision-making, human error, management‘s ability to override controls, collusion to circumvent control, and consideration of costs and benefits relative to financial control. No matter how financial control operates, some events and conditions are beyond management‘s control (Achibong, 2013).

No system of controls can be an absolute guarantee against the risk of wrongdoing or honest error. Any system that attempted to reach that goal, especially in a complex organization, would impose costs far out of proportion to the risks and create rigidities for the organization. Thus the proper goal of the control system should be to provide ―reasonable assurance that improprieties will not occur or that if they occur, they will be revealed and will be reported to the appropriate authorities. With this in mind, managers should be aware of certain risks involved in building and maintaining management control systems (Benjamin, 2011).

**Design flaws**

It has been stressed that management control systems must be designed for the specific organization, operations, and environment in which they will function, after careful consideration of the risks involved in that particular situation. Managers are sometimes tempted to short cut the design process, such as by adopting the control systems designed for another organization. This can be dangerous. A flawed design may leave the impression of safety but may overlook important risks in one part of an operation while creating unnecessary inefficiencies in another.

**Poor implementation**

The best-designed system will achieve its goal only if it is implemented properly. Managers and supervisors at all levels must be vigilant to assure that everyone complies with applicable control procedures. Even more importantly, the required procedures must be ones that workers will be comfortable using at all times, and which they will not be tempted to ignore when the procedures become inconvenient or in times of pressure and stress. Meeting this criterion is one of the key considerations in the design of effective control systems. Managers should also plan ahead for alternative arrangements that might need to be put in place in the event an emergency requires bypassing the regular procedures.

**Poor response to reported anomalies**

Control systems are designed to call attention to events that depart from normal expectations. For the systems to remain effective, it is essential that supervisors and managers respond properly to such alerts. The triggering event should be investigated promptly to determine if an irregularity was involved. If so, corrective action should be initiated. Failure to respond effectively to reports of anomalies will quickly undermine the effectiveness of the control system. This should also be a factor in the design of control systems.

**Collusion**

Any system of controls can be defeated if a sufficient number of dishonest key individuals conspire to subvert them and are able to falsify the relevant documents. A sufficiently complex set of controls can make it difficult to assemble the needed number of conspirators, but at a potentially great cost in organizational inefficiency. Conspiracies of this sort usually come to light when they are observed (and reported) by someone who is not a party to the conspiracy, or when there is a falling out among the conspirators. They may also be detected during a routine audit if substantial amounts of funds are involved or if the conspirators are not sufficiently careful in falsifying the documents.

**Wrongdoing by top managers**

Management controls are designedtohelp control the organization on behalf of its management, not to control the top managers themselves. The managers can easily circumvent the control systems, by passing the controls directly or instructing or authorizing others to do so. There are many examples of dishonest top managers evading the control systems to commit various forms of fraud and abuse. In a large organization, however, such activities are usually noticed by subordinates. Thus, the best protection against wrong doing by top managers may be anenvironment of openness, in which workers are encouraged to report evidence of irregularities, confident that they will not be punished for being disloyal to their superiors. Such openness in an organization becomes part of the control environment.

Management controls are an essential part of the structure and operations of any organization. The larger and more complex the organization and its activities, the more care must be given to the design of the control systems. But control systems are effective only if they are installed, maintained, and used by competent, dedicated managers. Systems can support such managers, but they cannot substitute for them.

**Personnel Errors or Mistakes**

The financial control system is only as effective as personnel who implement and perform the control. For example, employee may misunderstand instructions and make error of judgment. Employees may also make mistakes because of personal carelessness, distraction or fatigue. The auditor should carefully consider the quality of the entity‘s personnel when evaluating financial control (Williams 2000).

**Judgment**

Effective financial 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 financial control. Financial control may become ineffective when management fails to minimize the occurrence of errors for example misunderstanding instructions, carelessness, distraction, fatigue or mistakes (Jat, 2012).

**2.2 Theoretical Framework**

The theoretical framework of this study is centered on the Fraud Triangle Theory.

The American criminologist Donald Cressey developed a theory – known as the Fraud Triangle – that explains the factors that lead to fraud and other unethical behavior. When businesses and organizations understand the Fraud Triangle, they can more effectively combat criminal behavior that negatively impacts their operations.

The three factors that make up the fraud triangle are:

1. **Pressure.** Most individuals require some form of pressure to commit a criminal act. This pressure does not need to necessarily make sense to outside observers, but it does need to be present. Pressures can include money problems, gambling debts, alcohol or drug addiction, overwhelming medical bills. Greed can also become a pressure, but it usually needs to be associated with injustice.
2. **Opportunity.** An opportunity to commit the act must be present. In the case of fraud, usually a temporary situation arises where there is a chance to commit the act without a high chance of being caught. Companies that are not actively working to prevent fraud can present repeated opportunities to individuals who meet all three criteria of the fraud triangle.
3. **Rationalization.** The mindset of a person about to commit an unethical act is one of rationalization. The individual manages to justify what he or she is about to do. Some may think they are just going to borrow the stolen goods, or that they need the money more than the “big” company they are stealing from.

The fraud triangle provides a useful framework for organizations to analyze their vulnerability to fraud and unethical behavior, and it provides a way to avoid being victimized. Almost universally, all three elements of the triangle must exist for an individual to act unethically. If a company can focus on preventing each factor, it can avoid creating fertile ground for bad behavior.

**2.3 Empirical Review**

Dragomir (2014) studied the role of a company’s internal control system in fraud prevention. He used sample survey for this study and found out that dynamic market growth has contributed to increasing competition, forcing companies to adapt to changing demands. While responding to complex market needs, companies are exposed to numerous internal and external influences, some of which may cause significant damage. In order to avoid this, companies tend to establish an effective internal control system. The primary task of internal control is not finding the cause of fraud, but rather detecting and stopping further fraud expansion. An internal control system, if well designed and functioning, ensures that it will be successful in all segments. However, even then it happens that internal control is not able to find the solution to fraud. The study therefore recommends that to overcome such problems internal control should cooperate with other controls (external auditing and forensic accounting) and, as far as it is capable, implement new methods and techniques for fraud prevention. Preventive techniques used by internal control ease the job of detecting frauds. These techniques are a necessary part of the overall process, because if used correctly, the chances of fraud detection increase. Preventive methods are not new, they have always been present inside the company, but in different form. They should be treated with much attention, because their adequate implementation increases the quality of business performance and control. Internal control should gradually implement new methods for fraud prevention. Nevertheless, internal control should at least consult other controls while handling fraud in order to increase the quality of a company’s defense mechanisms.

Kabir (2012) looked at internal control systems and corporate survival in the Nigerian banking industry. The study use sample survey and found out that there is direct positive relationship between ineffective internal control system and fraud/forgeries of banks in Nigeria. It has also been found that there is an almost perfect positive relationship between performing loans/advances and grosses earnings/profitability of banks in Nigeria. Evidence from the NDIC report regarding fraud in the banking industry reveals that the phenomenon has been on the upward trend despite the control measures put in place by the individual banks. The study therefore recommends that all banking business should be conducted in compliance with applicable laws and regulations, supervisory requirements and internal policies and procedures, so as to protect the bank’s franchise and reputation, which are necessary for its survival. Detection and prevention of fraud should be a collaborative effort between the bank, its shareholders, the public and the government.

Osigbo (2013) examined internal control and fraud prevention in Nigerian business organizations: a survey of some selected companies in Warri metropolis. He used regression for this study and found out that the need for internal control in modern business organizations cannot be over emphasized. It is one of the safe guards which assure the companies shareholders that their funds are utilized efficiently. The study recommends that authorization and approval limits should be kept. An internal appraisal of budget with actual results and causes of variance should be investigated. Duties and functions of each department and section should be defined. Good and strong reliable internal control in authorization; recording and processing of transaction should be put in place.

Ndege (2013) studied the effect of Internal Control on Fraud Detection and Prevention in Brewery sector in Nigeria. He used simple survey for this study and found out that; Fraud detection is based on the premise that fraud is not a random occurrence but occurs where the conditions are right for it to occur. Fraud detection attacks the root causes and enablers of fraud. Improving organizational procedures to reduce or eliminate the causal factors of fraud is the single best defence against fraud. Therefore there is need for treasury staffs to maintain effective, efficient and transparent governance. The study recommended that there is need for treasury staffs to maintain effective, efficient and transparent governance and financial systems to minimize or eliminate fraud. This will address the weakness within the organisation structure that normally exposes resources to risk of loss due to fraud. It is recommended that Management should always ensure that, risks are effectively assessed and managed, laws and regulations strictly complied with, and that, there is effective communication and monitoring within the district treasuries.

Ehumadu (2017) investigated the effectiveness of internal audit as an instrument of internal control in an organization. A Study of manufacturing firms in Enugu State. She used co-integration and unit root test for the study. Her major finding was that management in organizations face a number of risks, categorized by various criteria. In order to deal with these risks, the management develops an internal control system that consists of all control activities implemented in the company. When one or more of the risks identified (or not) produce effects, suggests that control activity was overwhelmed or did not work. Therefore, control or inspection will be triggered having as purpose the instrumentation of irregularities/malfunctions. Subsequent the department of internal audit will analyze the risks and control activities that were implemented with the scope of avoiding repetition of such situations in future. Internal audit has an important role in assisting the reorganization of the internal control system and in advising general management.

**2.4 Summary of Literature Review**

Internal control system monitors the finances and its disbursement in an organization in attempt to eliminate or bring to the barest minimum the issues of fraud or irregularities in such enterprises. It is believed that properly designed and enforced internal control systems will normally lead to better financial reporting procedures as well as giving rise to a reliable report that improves management accountability function of an institution. However, the prospect of achievement is determined by limitations inherent in all internal control systems.

Internal control systems can only ensure reasonable rather than complete guarantee to the achievement of the organization’s objectives which are instituted by an institution’s management and board of directors.

Internal control system is needed to ensure effective and efficient operations, reliable information (both financial and non-financial) and compliance of rules and regulations. It is based on this fact that internal control systems are introduced in diverse organizations.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

**3.1 Research Design**

A research design specifies the methods and procedures for conducting a particular study. Thus, the research design adopted in this research is survey design which includes the use of questionnaires to collect views of workers in Innoson Company, Enugu about internal control in the company.

**3.2 Source of Data**

The data used for this study were obtained from primary sources of data. This is an original way of gathering information. It is made up questionnaire.

**3.3 Population of Study**

The population of study covers senior staff and management of Innoson Company, Enugu. The total population of the management and senior staff of the company is152.

The distribution of the population is shown below:

**Table 1: Population Distribution**

|  |  |
| --- | --- |
| Respondents | No of staff |
| Marketing dept | 23 |
| Productions department | 45 |
| Logistics department | 27 |
| Admin. Department | 14 |
| Account Dept. | 43 |
| Total | 152 |

Source: Field Survey, 2018

**3.4 Determination of Sample Size**

In order to get a representation of the entire population, the Taro Yamani statistical formula was employed. According to Taro Yamene (1964) the formula is stated as follows

n = N

1+N(e)2

Where n = represents the sample size

N = represents the population

e = represents the margin of error

I = constant

For the purpose of this study, N will be equal to 152, e will be assumed to be 5%

Therefore the sample size for this research work will be

n = 152

1+152(0.05)2

= 152

1+ 152(0.0025)

= 152

1 + 0.38

= 152

1.38

n = 110

**3.4 Instruments for Data Collections**

The research instrument that was used by the researcher in collecting useful information on this topic is questionnaire.

In this study, the questionnaire used by the researcher was highly structured and it contains close ended questions to elicit relevant reactions from their respondents.

It was also carefully designed to accommodate two sections. Section A was on personnel data of the respondent characteristics like; sex, age, educational level while section B deals on relevant aspects of the topic under study. Section A contained two (2) questions while Section B contained a total of nine (9) questions.

**3.5 Method of Data Collection**

The researcher distributed the copies of the questionnaire personally by hand. This was because all the staff of the company work in the same environment. Some of the staff who were less busy completed the questionnaire on the spot while others arranged for collection of their own in two days time.

**3.6 Validation of the Instrument**

The researcher used face and content method of validation

To ensure validity of the research questionnaire, the set of drafted questions was sent to the research supervisor, who ensured that the questions were clearly appropriate and covered the research objectives.

**3.7 Reliability of the Instrument**

This researcher adopted the test-retest method which is a measure of reliability obtained by administering the same test twice to the same respondents at 2 weeks interval to 10 of the respondents.  10 of the scores from Time 1 and Time 2 were correlated in order to evaluate the test for stability over time and correlation coefficient 0.87 was obtained. This ensured internal consistency of the questionnaire and affirmed the responses from the selected sample.

**3.8 Method of Data Presentation and Analysis**

In treating and analyzing of data collected extensive use of tables and percentage will be paramount. The data collected were presented in table and analyzed with percentage. The hypotheses were tested by using Chi – Square.

The formular is shown below:

X 2 = Σ (o – e) 2

e

Where: X 2 = Chi – Square

O = Observed frequency

E = Expected frequency

**Decision Rule:** If the calculated chi-square value (X2) is greater than or equal to the table value at 0.05 level of significance, the alternate hypothesis (H1) is accepted, but if the calculated chi-square value is less than the table value, the null hypothesis (H0) is accepted.

Department of Accounting/Finance

Godfrey Okoye University,

Enugu.

12th April, 2018.

Dear Respondent,

I am a final year student of the above named institution, currently conducting a research study on “internal control system in a medium scale business. A Study of Innoson Company Limited, Enugu”.

I implore your frank response and guarantee that the information supplied will be kept confidential.

Your personal identity is not needed as the study is for academic purpose.

Thank you for your anticipated cooperation.

Yours Sincerely,

**Okolie Nneamaka Susan**

**QUESTIONNAIRE**

*Please tick good (*🗸*) against the answer of your choice.* Section B has answer options and weights as shown below: Strongly agree (4), Agree (3), Strongly disagree (2) and Disagree (1).

**Section A**

**Personal Data**

1. What is your gender?

a) Male ( )

b) Female ( )

2. What is your marital status?

a) Married ( )

b) Single ( )

3. What is your age?

a) 20 – 30 years ( )

b) 31 – 40 years ( )

c) 41 – 50 years ( )

d) 51 years and above ( )

**Section B**

**General Questions**

Internal control significantly contributes in detection of fraud in medium scale businesses.

4. Do you agree that segregation of duties helps in detection of fraud in medium scale industries?

a. Strongly agree ( )

b. Agree ( )

c. Strongly disagree ( )

d. Disagree ( )

5. Do you agree that subjecting financial statements to external examinations helps to detect fraud in medium scale industries?

a. Strongly agree ( )

b. Agree ( )

c. Strongly disagree ( )

d. Disagree ( )

6. Do you agree that vouching of transactions helps in detection of fraud in medium scale industries?

a. Strongly agree ( )

b. Agree ( )

c. Strongly disagree ( )

d. Disagree ( )

Internal control system significantly contributes to prevention of fraud in medium scale businesses?

7. Do you agree that rotation of staff contributes to prevention of fraud in medium scale businesses?

a. Strongly agree ( )

b. Agree ( )

c. Strongly disagree ( )

d. Disagree ( )

8. Do you agree that more than one person completing a task contributes to prevention of fraud in medium scale businesses?

a. Strongly agree ( )

b. Agree ( )

c. Strongly disagree ( )

d. Disagree ( )

9. Do you agree that reward for honesty contributes to prevention of fraud in medium scale businesses?

a. Strongly agree ( )

b. Agree ( )

c. Strongly disagree ( )

d. Disagree ( )

Internal control system significantly contributes in investigation of fraud and irregularities in medium scale businesses

10. Do you agree that periodic rotation of staff contributes in investigation of fraud and irregularities in medium scale businesses?

a. Strongly agree ( )

b. Agree ( )

c. Strongly disagree ( )

d. Disagree ( )

11. Do you agree that compulsory annual leave for staff contributes in investigation of fraud and irregularities in medium scale businesses?

a. Strongly agree ( )

b. Agree ( )

c. Strongly disagree ( )

d. Disagree ( )

12. Do you agree that utilization of three man promotional plan contributes in investigation of fraud and irregularities in medium scale businesses?

a. Strongly agree ( )

b. Agree ( )

c. Strongly disagree ( )

d. Disagree ( )

**CHAPTER FOUR**

**DATA PRESENTATION AND ANALYSIS**

* 1. **Data Presentation**

This chapter deals with the presentation and analysis of data. The data are presented in tables while simple percentage has been employed in analyzing the research questions. The hypotheses are tested with chi – square statistical tool.

**Table 1: Distribution and return of questionnaire**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Options | Sets of quest. Distributed | Sets of quest. Returned | Sets of quest. not returned | Percentage  (%) |
| Management | 11 | 10 | 1 | 9% |
| Staff | 99 | 96 | 3 | 87% |
| Total | 110 | 106 | 4 | 96% |

**Source:** Field Survey, 2018

Table 1 shows that a total of 11 copies of questionnaire were distributed to management and 1 copy was not returned. Of 99 copies distributed to the non management staff, 96 copies were returned while 3 copies were not returned. Therefore, the total return rate is 96%.

**Presentation of Demographic Characteristics**

Table 2: Distribution of Respondents by Gender.

|  |  |  |
| --- | --- | --- |
| Gender | Number of respondents | Percentage |
| Male | 62 | 58 |
| Female | 44 | 42 |
| Total | 106 | 100 |

Source: Field Survey, 2018.

Table 2 shows that 58% of the respondents are male while 42% of them are females.

Table 3: Distribution of Respondents by Working Experience

|  |  |  |
| --- | --- | --- |
| Working experience (yrs) | Number of respondents | Percentage |
| 1 – 5 | 45 | 42 |
| 6 – 10 | 41 | 39 |
| 11 and above | 20 | 19 |
| Total | 106 | 100 |

Source: Field Survey, 2018.

Table 3 shows that 42% of the respondents are of the opinion that they have worked for a duration of 1 – 5 years, 39% sa6 – 10 years while 19% said from 11 years and above.

Table 4.4: Distribution of Respondents by Ages.

|  |  |  |
| --- | --- | --- |
| Ages | Number of respondents | Percentage |
| 20 – 30 | 30 | 28 |
| 31 – 40 | 41 | 39 |
| 41 – 50 | 20 | 19 |
| 51 and above | 15 | 14 |
| Total | 106 | 100 |

Source: Field Survey, 2018.

Table 4 shows that 28% of the respondents are between the ages of 20 – 30 years, 39% of them are between the ages of 31– 40 years, 19% of them are between the ages of 41 – 50 years while 14% of them are from 51 years and above.

Table 5: Distribution of Respondents According to Marital Status

|  |  |  |
| --- | --- | --- |
| Status | Number of respondents | Percentage |
| Single | 57 | 54 |
| Married | 49 | 46 |
| Total | 106 | 100 |

Source: Field Survey, 2018

Table 5 shows that 54% of the respondents are single while 46% of them are married.

**4.2 Data Analysis**

Table 6: Do you agree that segregation of duties helps in detection of fraud in medium scale industries?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| Strongly agree | 59 | 56 |
| Agree | 22 | 21 |
| Strongly disagree | 16 | 15 |
| Disagree | 9 | 8 |
| Total | 106 | 100 |

**Source:** Field Survey, 2018

Table 6 shows that 56% of the respondents strongly agree that segregation of duties helps in detection of fraud in medium scale industries, 21% agree, 15% strongly disagree while 8% disagree.

Table 7: Do you agree that subjecting financial statements to external examinations helps to detect fraud in medium scale industries?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| Strongly agree | 45 | 43 |
| Agree | 28 | 26 |
| Strongly disagree | 19 | 18 |
| Disagree | 14 | 13 |
| Total | 106 | 100 |

**Source:** Field Survey, 2018

Table 7 shows that 43% of the respondents strongly agree that subjecting financial statements to external examinations helps to detect fraud in medium scale industries, 26% agree, 18% disagree while 13% strongly disagree.

Table 8: Do you agree that vouching of transactions helps in detection of fraud in medium scale industries?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| Strongly agree | 57 | 54 |
| Agree | 23 | 22 |
| Strongly disagree | 16 | 15 |
| Disagree | 10 | 9 |
| Total | 106 | 100 |

Source: Field Survey, 2018

Table 8 shows that 54% of the respondents strongly agree that vouching of transactions helps in detection of fraud in medium scale industries, 22% agree, 15% strongly disagree while 9% disagree.

Table 9: Do you agree that rotation of staff contributes to prevention of fraud in medium scale businesses?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| Strongly agree | 50 | 48 |
| Agree | 31 | 29 |
| Strongly disagree | 15 | 14 |
| Disagree | 10 | 9 |
| Total | 106 | 100 |

**Source:** Field Survey, 2018

Table 9 shows that 48% of the respondents strongly agree that rotation of staff contributes to prevention of fraud in medium scale businesses, 29% agree, 14% strongly disagree while 9% disagree.

Table 10: Do you agree that more than one person completing a task contributes to prevention of fraud in medium scale businesses?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| Strongly agree | 54 | 51 |
| Agree | 30 | 28 |
| Strongly disagree | 14 | 13 |
| Disagree | 8 | 8 |
| Total | 106 | 100 |

Source: Field Survey, 2015

Table 10 shows that 51% of the respondents strongly agree that more than one person completing a task contributes to prevention of fraud in medium scale businesses, 28% agree, 13% strongly disagree while 8% disagree.

Table 11: Do you agree that reward for honesty contributes to prevention of fraud in medium scale businesses?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| Strongly agree | 50 | 47 |
| Agree | 34 | 32 |
| Strongly disagree | 13 | 12 |
| Disagree | 9 | 9 |
| Total | 106 | 100 |

Source: Field Survey, 2018

Table 11 shows that 47% of the respondents strongly agree that reward for honesty contributes to prevention of fraud in medium scale businesses, 32% agree, 12% strongly disagree while 9% disagree.

Table 12: Do you agree that periodic rotation of staff contributes in investigation of fraud in medium scale businesses?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| Strongly agree | 50 | 47 |
| Agree | 25 | 24 |
| Strongly disagree | 14 | 13 |
| Disagree | 17 | 16 |
| Total | 106 | 100 |

Source: Field Survey, 2018

Table 12 shows that 47% of the respondents strongly agree that periodic rotation of staff contributes in investigation of fraud in medium scale businesses, 24% agree, 13% strongly disagree while 16% disagree.

Table 13: Do you agree that compulsory annual leave for staff contributes in investigation of fraud in medium scale businesses?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| Strongly agree | 46 | 44 |
| Agree | 28 | 26 |
| Strongly disagree | 17 | 16 |
| Disagree | 15 | 14 |
| Total | 106 | 100 |

**Source:** Field Survey, 2018

Table 13 shows that 44% of the respondents strongly agree that compulsory annual leave for staff contributes in investigation of fraud in medium scale businesses, 26% agree, 16% strongly disagree while 14% disagree.

Table 14: Do you agree that utilization of three man promotional plan contributes in investigation of fraud in medium scale businesses?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| Strongly agree | 40 | 38 |
| Agree | 32 | 30 |
| Strongly disagree | 21 | 20 |
| Disagree | 13 | 12 |
| Total | 106 | 100 |

**Source:** Field Survey, 2018

Table 14 shows that 38% of the respondents strongly agree that utilization of three man promotional plan contributes in investigation of fraud in medium scale businesses, 30% agree, 20% strongly disagree while 12% disagree.

* 1. **Testing of Hypotheses**

The hypotheses will be tested using the chi-square formula stated below:

X2 = Σ (0 - E) 2

E

Where:

X2 = calculated chi-square

0 = observed frequency

E = expected frequency

Σ = summation

The expected frequency (E) is calculated by adding all the observed frequency (0) and dividing by the number of observations.

**Decision Rule:** If the calculated chi-square value (X2) is greater than or equal to the table value at 0.05 level of significance, the alternative hypothesis (H1) is accepted, but if the calculated chi-square value is less than the table value, the value of hypothesis (H0) is accepted.

**Hypothesis One:**

HO1: Internal control does not have significant contribution in detection of fraud and irregularities in medium scale businesses.

Question one of the questionnaire administered were used to test this hypothesis

**Table 15: Testing of Hypothesis 1**

Data from table 6 was used to test the hypothesis

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Variables** | **O** | **E** | **0 – E** | **(O – E)2** | **(0 – E)2**  **E** |
| Strongly agree | 59 | 26.5 | 32.5 | 1056.25 | 39.86 |
| Agree | 22 | 26.5 | - 4.5 | 20.25 | 0.76 |
| Disagree | 16 | 26.5 | -10.5 | 110.25 | 4.16 |
| Strongly disagree | 9 | 26.5 | - 17.5 | 306.25 | 11.56 |
| ***Total*** | ***106*** | ***106*** |  |  | ***56.34*** |

The calculated chi-square value = 56.34 Df = (K – 1) (4 – 1) = 3

Table value at 0.05 of significance and 4 degree of freedom (Df) = 7.8

**Decision Rule:** Since the calculated chi-square value (56.34) is greater than the table value (7.8), the alternative hypothesis (HI) is accepted while the null hypothesis (H0) is rejected. It therefore means that internal control does not have significant contribution in detection of fraud and irregularities in medium scale businesses.

**Hypothesis Two:**

HO2: Internal control system does not have significant contribution to prevention of fraud and irregularities in medium scale businesses.

Question one of the questionnaire administered were used to test this hypothesis

**Table 16: Testing of Hypothesis 2**

Data from table 9 was used to test the hypothesis

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Variables** | **O** | **E** | **0 – E** | **(O – E)2** | **(0 – E)2**  **E** |
| Very effective | 50 | 26.5 | 23.5 | 552.25 | 20.84 |
| Effective | 31 | 26.5 | 4.5 | 20.25 | 0.76 |
| Ineffective | 15 | 26.5 | -11.5 | 132.25 | 4.99 |
| Very ineffective | 10 | 26.5 | - 16.5 | 272.25 | 10.27 |
| ***Total*** | ***106*** | ***106*** |  |  | ***36.86*** |

The calculated chi-square value = 36.86

Df = (K – 1) (4 – 1) = 3

Table value at 0.05 of significance and 4 degree of freedom (Df) = 7.8

**Decision Rule:** Since the calculated chi-square value (36.86) is greater than the table value (7.8), the alternative hypothesis (HI) is accepted while the null hypothesis (H0) is rejected. It therefore means that internal control system does not have significant contribution to prevention of fraud and irregularities in medium scale businesses.

**Hypothesis Three:**

HO3: Internal control system does not have significant contribution in investigation of fraud and irregularities in medium scale businesses.

Question one of the questionnaire administered were used to test this hypothesis

**Table 4.17: Testing of Hypothesis 3**

Data from table 12 was used to test the hypothesis

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Variables** | **O** | **E** | **0 – E** | **(O – E)2** | **(0 – E)2**  **E** |
| Strongly agree | 50 | 26.5 | 23.5 | 552.25 | 20.84 |
| Agree | 25 | 26.5 | - 1.5 | 2.25 | 0.08 |
| Disagree | 14 | 26.5 | -12.5 | 156.25 | 5.90 |
| Strongly disagree | 17 | 26.5 | - 9.5 | 90.25 | 3.41 |
| ***Total*** | ***106*** | ***106*** |  |  | ***30.23*** |

The calculated chi-square value = 30.23 Df = (K – 1) (4 – 1) = 3

Table value at 0.05 of significance and 4 degree of freedom (Df) = 7.8

**Decision Rule:** Since the calculated chi-square value (30.23) is greater than the table value (7.8), the alternative hypothesis (HI) is accepted while the null hypothesis (H0) is rejected. It therefore means that internal control system does not have significant contribution in investigation of fraud and irregularities in medium scale businesses.

* 1. **Discussion of Findings**

1. The study discovered that 56% of the respondents strongly agree that internal control significantly contribute in detection of fraud and irregularities in medium scale businesses, 21% agree, 15% disagree while 8% strongly disagree.

2. The study also discovered that 48% of the respondents strongly agree that internal control system significantly contribute to prevention of fraud and irregularities in medium scale businesses, 29% agree, 14% disagree while 9% strongly disagree.

3. The study also discovered that the researcher found out that 47% of the respondents strongly agree that internal control system significantly contribute in investigation of fraud and irregularities in medium scale businesses, 24% agree, 13% disagree while 16% strongly disagree.

**CHAPTER FIVE**

**SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

**5.1 Summary of Findings**

The major findings of this study include;

* 1. Internal control significantly contribute in detection of fraud and irregularities in medium scale businesses.
  2. Internal control system significantly contribute to prevention of fraud and irregularities in medium scale businesses.
  3. Internal control system significantly contributes in investigation of fraud and irregularities in medium scale businesses.

**5.2 Conclusion**

Based on the summary of findings, it is concluded that internal control system has significant contribution in fraud control and the study also concluded that internal control system l has helped in elimination of flaws in the audit plan, detecting illegal conduct in organizations.

**5.3 Recommendations**

The following recommendations are made for this study:

1. The internal control of government enterprises should be effectively implemented as it aids in detecting cash larceny in organizations.
2. There should be enlightenment of staff on the basics of internal control system. This is due to the fact that internal control helps in detecting voucher padding.
3. For organizations to maintain their professional codes of conduct and ethical considerations, internal control should be adequately maintained as it helps in detecting illegal conduct like fake receipt among staff.

**5.4 Suggestion for Further Studies**

The study suggested that other researchers should focus on related areas of internal control systems such as the components of internal control system which are; control environment, risk assessment, control activities, information and communication and monitoring.

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