**ROLE OF INTERNAL AUDIT IN THE MANAGEMENT OF FRAUD**

**(A STUDY OF ZENITH BANK PLC ENUGU)**

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**BY**

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**FACULTY OF MANAGEMENT AND SOCIAL SCIENCES**

**GODFREY OKOYE UNIVERSITY, ENUGU STATE**

**JULY, 2018**

**TITLE PAGE**

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A PROJECT PRESENTED TO THE

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GODFREY OKOYE UNIVERSITY, ENUGU STATE

IN PARITAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE (B.Sc) DEGREE IN ACCOUNTING

JULY, 2018**DECLARATION**

I, Udeh Prisca Nneka, Reg. No: U14/Mss/Acc/051 is a bonafidestudent in theDepartment of Accounting and Financeunderthefaculty of Management and Social Sciences in GodfreyOkoyeUniversity. I wouldlike to declare thattheworkentitled “The Role of InternalAudit in the Management of Fraud. A Study of Zenith Bank Plc, Enugu”, submittedby me in partialfulfilment of therequirementsfortheaward of Bachelor of Science (B.Sc.) in Accounting and Financeismy original work and has notbeensubmittedeither in partor full foranyotherdegreeor diploma either in thisoranyothertertiaryinstitution.

**CERTIFICATION**

Thisis to certifythatthisresearchtitledRole Of Internal Audit In The Management Of FraudwrittenbyUdeh Prisca NnekawithRegistrationNumber U14/Mss/acc/051presented to theDepartment of Accounting/Finanace of GodfreyOkoyeUniversity, Enugu has beenassessed and approvedor oral examination/defencebytheDepartment of AccountingFinance, GodfreyOkoyeUniversity, Enugu.

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EXTERNAL EXAMINER Date

**DEDICATION**

Thisprojectisdedicated to GodAlmightyforHisinfinitelove and protection, throughoutthisresearchwork.

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**­** I mustacknowledge and expressmygratitude to allthosewhocontributed in onewayortheother to bringaboutthefulfillment of thisresearchwork.

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**ABSTRACT**

*The aim of the study is to appraise the role of internal audit in the management of fraud with special emphasis on Zenith Bank Plc. The main objective of this study is to ascertain the role played by internal audit in the management of fraud. The specific objectives include; (1) to examine the role of internal audit in the detection of fraud, (2) to examine the role of internal audit in theprevention of fraud and (3) to examine the role of internal audit in the control of fraud. Thestudyusedchi – squareforthestudy. Thestudyusedsimple surveywhilethe data usedwasprimary data. Thestudyfoundoutthatinternalaudit has helped in detecting cash theft. Internalaudit has helped in detecting cases of moneylaunderingbybank staff and internalaudit has aided in detectingillegaltransactionscommitted in thebank. Thestudyrecommendedthatmanagementshouldestablish and implementperiodicreview of internalaudit performance to ensurethatits performance and value to theInstitutionismaximized and to ensurecompliancewithappropriatestandards and guidance.*

**CHAPTER ONE**

**INTRODUCTION**

* 1. **Background to the Study**

At the heart of business establishment, is the audit function; which is evidenced by the fact that all other departments are linked with the internal audit department. The importance of internal audit system cannot be overemphasized where a variety of requirements, processes that are both manual and information communication technology-based (ICT) are used.

Organizations such as the banking sector have recognized internal audit function as a tool for ensuring effective workings of the internal control system. Okolo (2011) describes the internal audit function as an aspect of control mechanism, within a business, manned by specially assigned staff.

In today’s volatile business environment, firms in Nigeria face a wide array of complex business challenges. These challenges come in the form of regulatory compliance, litigation, competitive market pressure, changing technology, investors demand, corporate governance, business ethics and accountability. In a business environment, anyone given the opportunity and the environment can commit fraud. The internal audit staff, in a non-automated or particular environment, may be ill-positioned to investigate fraud. It is established that an internal audit staff who is professionally certificated with the right motivation and training can contribute to the efficiency and effectiveness of the audit department.

Oseni (2014) reveals that an effective internal audit function reduces overheads, identify ways to improve efficiency and minimize exposure to possible losses. According to Lavy (2008), the internal audit provides an independent and objective appraisal of activity for management. Katz (2012) summarizes the core activities of the internal audit as *analysis of data, recommendation,counsel and information activities.* He argues that these activities operate to accomplish the mission of organizations. Young (2010) finds out that the internal audit functions assist management in achieving organization’s financial and operating goals by evaluating controls, identifying weaknesses, and providing recommendations through complete and unrestricted access to records, property and personnel.

However, in Nigeria, the audit function in the banking sector has not been fully tapped; consequently, cases of errors and intent to defraud and other fraud cases exist in the industry. It is therefore no wonder that the distress in most banks reflected lack of effective control mechanism of the audit function. The experiences of failed banks in Nigeria, have called for the reinforcement of internal audit and the strengthening of the controls system. This becomes relevant, given the fact that the banking sector is critical to the survival of any economy. In the light of the above, this study critically appraises the role of internal audit in the management of fraud.

**1.2 Statement of the Problem**

The duty of detecting fraud and irregularities lies with the management. This could only be done through an effective and efficient internal audit system. But even with the presence of the internal auditor some problems are still inherent in the Nigerian banking sector that interferes with goal attainment. These include:

1. Physical cash stolen while signatures are forged in cheques also to steal cash. Out if untimely or inappropriate audit, there are cases of monetary losses due to forged cheques.
2. Assets are either misappropriated or not accounted for. Due to ineffectiveness of internal auditors cases of assets misappropriation sometimes occur in the banking sector.
3. Frauds perpetuated are only being discovered after a long time. Internal auditors can decide not to reveal the fraudulent activities of staff or management. Such actions are mostly discovered by external auditors after a long while.

Due to the above enumerated problems, there have been cases of errors and intent to defraud and other fraud cases which exist in the banking sector. This has been mainly as a result of lack of effective control mechanism of the audit function.

**1.3 Objectives of the Study**

The broad objective of this study is to appraise the role of internal audit in the management of fraud with special emphasis to Zenith Bank Plc.

The specific objectives include the following:

1. To examine the role of internal audit in the detection of fraud in Zenith Bank Plc.
2. To examine the role of internal audit in the prevention of fraud in Zenith Bank Plc.
3. To examine the role of internal audit in control of fraud in Zenith Bank Plc.
   1. **Research Questions**

The following questions are stated for this study:

1. To what extent does internal audit aid in the detection of fraud in Zenith Bank Plc?
2. To what extent does internal audit aid in the prevention of fraud in Zenith Bank Plc?
3. What is the role of internal audit in thecontrol of fraud in Zenith Bank Plc?
   1. **Research Hypotheses**

The following hypotheses are formulated for the study:

HOI: Internal audit has no significant role in the detection of fraud in Zenith Bank Plc.

HAI: Internal audit has significant role in the detection of fraud in Zenith Bank Plc.

HO2: Internal audit has no significant role in the prevention of fraud in Zenith Bank Plc.

HA2: Internal audit has significant role in the prevention of fraud in Zenith Bank Plc.

HO3: Internal audit has no significant role in the investigation of fraud in Zenith Bank Plc.

HA3: Internal audit has significant role in the control of fraud in Zenith Bank Plc.

* 1. **Significance of the Study**

The findings of this work will be of immense significance to the banking sector in Nigeria. It will go a long way in enlightening them on the concept of internal audit as well as its role in the management of fraud.

It will also benefit other organizations. The findings from this study will aid them to apply better internal auditing strategies or effective control mechanisms in checking fraud in their diverse organizations.

It will as well benefit the general populace. They will be enlightened on the concept of internal auditing as well as its roles.

Students and researchers will as well benefit from this study. They will widen their scope from the information contained in this study.

* 1. **Scope of the Study**

Internal audit covers a large area in every organization. However, this study will concentrate only on the aspect that concerns fraud detection, fraud prevention and fraud control. Other aspects of internal control will be considered in this study.

* 1. **Definition of Terms**

**Auditing:**Auditing is a branch of accounting concerned with the efficient use of resources to achieve a previously determined objective or set of objectives contained in a plan (Obazee, 2012).

**Internal Audit:**Internal auditing is the whole system of auditing, financial and otherwise, intended to secure management information and reliability of accounting records (Gbenga, 2011).

**Bank Fraud:**Bank fraud is defined as the use of fraudulent means to obtain money, assets, or other property owned or held by a financial institution, or to obtain money from depositors by fraudulently representing to be a bank or financial institution (Daniel, 2012).

**Internal Control System:** This is defined as the whole system of control, financial and otherwise established by management in order to carry on the business of the enterprises in an orderly and efficient manner (Beattie, 2006).

**Bank:**A bank is a [financial intermediary](http://en.wikipedia.org/wiki/Financial_intermediary)that accepts [deposits](http://en.wikipedia.org/wiki/Deposit_account) and channels those deposits into [lending](http://en.wikipedia.org/wiki/Loan)activities, either directly by loaning or indirectly through [capital markets](http://en.wikipedia.org/wiki/Capital_market) (Doolan, 2009).

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

**2.1 Conceptual Framework**

**2.2.1 The Concept of Auditing**

Betty (2005) describes auditing as a branch of accounting concerned with the efficient use of resources to achieve a previously determined objective or set of objectives contained in a plan. Obazee (2012) describes internal auditing as the whole system of auditing, financial and otherwise, intended to secure management information and reliability of accounting records.

The general definition of an audit is an [evaluation](http://en.wikipedia.org/wiki/Evaluation) of a person, organization, system, process, enterprise, project or product (Gbenga, 2011). The term most commonly refers to audits in accounting, but similar concepts also exist in project management, quality management, water management, and energy conservation.

According to Daniel (2012) audits are performed to ascertain the [validity](http://en.wikipedia.org/wiki/Validity_(statistics)) and [reliability](http://en.wikipedia.org/wiki/Reliability_(statistics)) of information; also to provide an [assessment](http://en.wiktionary.org/wiki/assessment) of a system's [internal control](http://en.wikipedia.org/wiki/Internal_control). The goal of an audit is to express an opinion of the person / organization / system (etc.) in question, under evaluation based on work done on a test basis.

Due to constraints, an audit seeks to provide only reasonable assurance that the statements are free from material error. Hence, statistical sampling is often adopted in audits. In the case of [financial audits](http://en.wikipedia.org/wiki/Financial_audit), a set of [financial statements](http://en.wikipedia.org/wiki/Financial_statements) are said to be true and fair when they are free of material misstatements – a concept influenced by both [quantitative](http://en.wikipedia.org/wiki/Numerical_data) (numerical) and [qualitative](http://en.wikipedia.org/wiki/Qualitative_data) factors.

Beattie (2006) is of the view that auditing is a vital part of accounting. Traditionally, audits were mainly associated with gaining information about financial systems and the financial records of a company or a business. However, recent auditing has begun to include non-financial subject areas, such as safety, security, information systems performance, and environmental concerns. With nonprofit organizations and [government agencies](http://en.wikipedia.org/wiki/Government_agencies), there has been an increasing need for [performance audits](http://en.wikipedia.org/wiki/Performance_audit), examining their success in satisfying mission objectives. As a result, there are now audit professionals who specialize in [security audits](http://en.wikipedia.org/wiki/Security_audit) and [information systems audits](http://en.wikipedia.org/wiki/Information_systems_audit).

In [cost accounting](http://en.wikipedia.org/wiki/Cost_accounting), it is a process for verifying the cost of manufacturing or producing of any article, on the basis of accounts measuring the use of material, labour or other items of cost (Gbenga, 2011). In simple words the term, cost audit, means a systematic and accurate verification of the cost accounts and records, and checking for adherence to the cost accounting objectives. According to the Institute of Cost and [Management Accountants](http://en.wikipedia.org/wiki/Management_Accountant) of Nigeria (2007), a cost audit is "an examination of cost accounting records and verification of facts to ascertain that the cost of the product has been arrived at, in accordance with principles of cost accounting.

An audit must adhere to generally accepted standards established by governing bodies. These standards assure third parties or external users that they can rely upon the auditor's opinion on the fairness of financial statements, or other subjects on which the auditor expresses an opinion.

Gbenga (2011) stated that auditors of financial statements can be classified into two categories:

* [External auditor](http://en.wikipedia.org/wiki/External_auditor) / [Statutory auditor](http://en.wikipedia.org/wiki/Statutory_auditor) is an independent firm engaged by the client subject to the audit, to express an opinion on whether the company's [financial statements](http://en.wikipedia.org/wiki/Financial_statements) are free of material misstatements, whether due to fraud or error. For [publicly-traded companies](http://en.wikipedia.org/wiki/Publicly-traded_companies), external auditors may also be required to express an opinion over the effectiveness of [internal controls](http://en.wikipedia.org/wiki/Internal_controls) over [financial reporting](http://en.wikipedia.org/wiki/Financial_reporting). External auditors may also be engaged to perform other agreed-upon procedures, related or unrelated to financial statements. Most importantly, external auditors, though engaged and paid by the company being audited, are regarded as independent auditors.
* [Cost auditor](http://en.wikipedia.org/w/index.php?title=Cost_auditor&action=edit&redlink=1) / [Statutory Cost auditor](http://en.wikipedia.org/w/index.php?title=Statutory_Cost_auditor&action=edit&redlink=1) is an independent firm engaged by the client subject to the Cost audit, to express an opinion on whether the company's [Cost statements and Cost Sheet](http://en.wikipedia.org/w/index.php?title=Cost_statements_and_Cost_Sheet&action=edit&redlink=1) are free of material misstatements, whether due to fraud or error. For [publicly – traded companies](http://en.wikipedia.org/wiki/Publicly-traded_companies), external auditors may also be required to express an opinion over the effectiveness of [internal controls](http://en.wikipedia.org/wiki/Internal_controls) over [Cost reporting](http://en.wikipedia.org/w/index.php?title=Cost_reporting&action=edit&redlink=1).

**2.1.2 The Role of Auditors in the Recent Nigerian Banking Crisis**

Many organizations are required by law or by policy to hire an accountant to produce a periodic audit of the organization’s financial statements. Auditors affix qualifications or warnings to an audit report that exposes defects within the organization’s financial systems. This qualification serves as a protection to the auditor in that the auditor’s opinion of the organization’s fiscal policies is subject to the qualified item being corrected. The qualified audit indicates that there are areas of concern in the presentation of financial data that may need to be addressed by an organization’s management (Simon, 2008). These areas may be minor in scope. They should, however, be addressed as soon as possible to prevent abuse. In fact, a qualified finding may actually provide the road map to those who would commit malfeasance if any underlying practice of concern is not addressed. An audit report that does not contain qualification is a positive affirmation of organization management (Doolan, 2009). A qualified audit report is issued when the auditor encountered one of two types of situations which do not comply with generally accepted accounting principles, however the rest of the financial statements are fairly presented. This type of opinion is very similar to an unqualified or "clean opinion", but the report states that the financial statements are fairly presented with a certain exception which is otherwise misstated. The two types of situations which would cause an auditor to issue this opinion over the unqualified opinion are: Single deviation from GAAP – this type of qualification occurs when one or more areas of the financial statements do not conform to GAAP (e.g. are misstated), but do not affect the rest of the financial statements from being fairly presented when taken as a whole. Examples of this include a company dedicated to a retail business that did not correctly calculate the depreciation expense of its building. Even if this expense is considered material, since the rest of the financial statements do conform to GAAP, then the auditor qualifies the opinion by describing the depreciation misstatement in the report and continues to issue a clean opinion on the rest of the financial statements.

**2.1.3 Fraud Prevention and Internal Control in the Nigerian Banking System**

Fraud control is becoming an issue that the regulators and top banking executives who are in saddle when fraudulent activities takes place or more succinctly when someone commit an act of fraud in the financial institutions under their management. It is quite clear that the installation of internal controls cannot be sufficient to eliminate dishonest activities, constantly rejigging of the controls already put in place to ensure that they are effective in reducing fraudulent activities in financial institutions from becoming successful should become important (Murphy, 2012). Fraudulent activities are rampant in every organization but more rampant in financial institutions and perhaps more common in Deposit Money Banks (DMBs) because of the instruments of their trade. Banks are most prone to financial fraud as a result of money and near money instruments used in the process of their operations. The acts of financial fraud has persisted in DMBs in spite of strong internal controls put in place to forestall and control any planned intention to steal the bank’s money. Caplan and King (2008) stated that strong controls that at times are antithetical to the efficient operations of the bank having been put in place in certain cases but have not succeeded in reducing drastically the amount of funds lost. Thus all internal control measures have become preventive and protective of the banks financial resources sometimes to the detriment of the bank’s primary operations. Most banks are litigation-shy as judicial officers often do not find it interesting that the process (internal controls) put in place by the bank was compromised by the employee. In addition, where the bank is litigious, courts often sympathize with customers whose infractions led to large losses of funds irrespective of whether collusion with an employee had existed. The scenarios are not funny outside the banking halls when financial fraud happened and parties have to prove their innocence. Whatever the case is, the bank losses money and reputation, the staff members’ lose jobs. One of the reasons for the use and continuous revision of internal control systems in the bank is to ensure that losses occasioned by fraudulent activities are minimal if they occur, and attempts are discovered very early before losses can occur. The triumvirate of fraud prevention, fraud control and detection are coalesced into the effective internal control system that the bank employs. Smith and Zuckerman (2013) conclude in their study that internal control is an effective deterrent to internal organizational fraud that may be planned in the organization.

* + 1. **Overview of Internal Auditor’s Independence**

The independence of internal auditors is regarded as key to their credibility as external verifiers of external financial statements (Caplan & King, 2008). The requirement for external auditors to be independent of their clients when undertaking an audit is enshrined in the International Federation of Accountant's (IFAC) Code of Ethics and in the European Union's Eighth Directive. In the IFAC code, this requirement is translated into various situations where observance of certain rules should ensure independence. Recent bankruptcies of many large corporations with clean auditor‘s reports around the globe have called to question the validity of the financial statements prepared by those corporations. The case of Enron in the United States, Parmalat in Italy and Cadbury in Nigeria are clear examples.

According to Okolie (2007), statutory auditors are expected to audit the financial statements prepared by the directors of enterprises and express an independent opinion on them. Therefore, in accounting practice of today, the independence of the auditor is one of the most important issues because it increases the effectiveness of the audit by ensuring that the auditor plans and carries out the audit objectively.

McBarnet and Whelan (2007) maintain that high quality audits enhance the reliability of the financial reporting process and facilitate optimal allocation of capital by investors and other users of the financial statements.

The nature of the auditor‘s work requires him to be independent from the influence of any party so that he can objectively form an opinion on the financial statements examined by him and not tossed by wind from either the owners of the resources or the managers of such resources (Knap, 2014).The foregoing discussions show that the independence of an auditor is fundamental when the issue of accountability is concerned and is influenced by many factors within and outside the control of the auditor himself. In addition, most literature appears to concentrate on the developed countries and the Asian countries. In Nigeria, much evidence from literature dwells more on private sector audit. Very few literatures exist, particularly about audit in the public sector.

**2.1.5 The Objective of Audit Independence**

The immediate role of audit independence is to serve the audit. It makes the audit more effective by providing assurance that the auditor will plan and execute the audit objectively (Caplan & King, 2008). So the larger purpose of audit independence, its objective, must be sought in the objective of the audit. The immediate objective of the audit is to improve the reliability of information used for investment and credit decisions. Independence is essential to that contribution. More broadly, the objective of the audit is to contribute to the effectiveness of the capital markets. Improvements in the reliability of corporate disclosure reduce the risk that an investor or creditor will make a poor decision because the information is inaccurate or otherwise wanting in quality (Johnstone, 2008). This information risk is present every time an investor or creditor uses information to assess the economic risk of a potential investment. The better the quality of the information investors and creditors use for their assessments of economic risk, the better their chances of making sound decisions. In other words, their information risk is lower. The information risk perceived by investors and creditors is reflected in the cost of capital to the corporation. Both suppliers and users of capital benefit from reliable corporate disclosure in the form of decreased risk, users in the form of decreased capital costs. To see the social benefits of this process, it must be viewed economy – wise as a system of allocating the nation's capital. When investors and creditors make better decisions on capital allocation for their own interests, capital flows more readily to the most productive business entities, increasing economic growth, jobs, and the standard of living. Those are social benefits from effective capital markets and, therefore, social benefits of auditing contribution to effective capital markets. The way in which audits improve the reliability of the information used for investment and credit decisions is well understood. Audits work by deterrence, detection, and verification (Caplan & King, 2008). Knowing that auditors are on the way deters managements so inclined from distorting the financial results; auditors detect the vast majority of distortions that nevertheless occur; and verification of undistorted information by selective tests provides evidence of its reliability. Research shows that auditing improves the reliability of the financial information investors use for decision making. More reliable information affects the meaning of share prices. Share prices are more likely to reflect corporate earning power if the numbers analysts use more closely reflect the substance of corporate operations.

Capital is more likely to flow to the most productive enterprises if financial reports reflect corporate earning power than if they do not. The auditor's contribution is sometimes described as adding credibility to the capital markets. Credibility is an important concomitant of auditing, but it is not the core of the auditor's contribution. The core contribution, to repeat, lies in the effects of the audit process on the reliability of the information used for decisions. Without improved reliability there would be no valid basis for investor confidence in the information, and share prices would have less of a relationship to corporate earning power (Hall & Renner, 2013). Auditors would indeed be cheerleaders for their clients if their purpose was merely or chiefly to overcome the hesitations of investors to engage in transactions because of possible management bias in the financial statements. The effect on the capital markets would be limited to improving the willingness of capital suppliers to enter transactions, with no effect on the relationship between share prices and the substance of corporate operations and no effect on the likelihood of returns from capital outlays. There are costs to effective capital markets. The costs of preparing, auditing, and distributing corporate disclosure are among those costs, and the cost of audit independence is one of the costs of auditing. The lower the costs of effective auditing, the higher its net contribution to the capital markets. The costs of audit independence include compliance, quality controls and safeguards, compensation for opportunities lost by obedience to prohibitions, and incremental service costs borne by clients deprived of service providers' economies of scale and scope. A usefully stated objective of audit independence would capture both the cost and the benefit side of the contribution to the capital markets. Here is the way such an objective might be formulated:

The purpose of audit independence is to improve the cost effectiveness of the capital markets.

This objective follows from the idea that the purpose of auditing is to improve the cost-effectiveness of the capital markets (independence improves auditing, which should improve the cost-effectiveness of the capital markets).

**2.1.6 Effective Functioning of Internal Audit**

Some of the functions of internal audit are highlighted by McBarnet and Whelan (2007) as thus;

1. Support of management is necessary because it is directly under management. The management is to give the internal audit the free will to carryout his duty because they will help them keep their policies. There are times when the internal audit is not given the freedom to do his duty and this can only take place where the internal audit dept so working on compliance. Recognizing the important role of the external auditor. The internal audit is established by the management to assist the management and also to ensure that their financial records in assessed and in compliance with the set standards.
2. The internal audit is to have sufficient fund to enable him carryout his work efficiently.
3. The internal auditor should be someone recognizable and his recognition will give him status and freedom to exercise his duty effectively. His recognition shouldn’t just be on individual in the firm, he is to be recognized by all in the organization.
4. When a report is written especially to criticize a personnel’s work, the management is to take that into check so as to ensure the effectiveness of the internal auditor.
5. Independence of the internal auditor from other department within the organization. He does not need permission from anyone to check inefficiency in the organization. He is free to carryout any duty he wishes to carryout so long as it falls within the scope of his duty.
6. Strong ethical culture (manner at which things are done) in the organization so that the internal auditor would be able to know the boundaries of the members of staff of the organization.
7. Appointment of qualified staff: Internal audit and staff who are qualified either in skills, education or technical skills, education or technical skill and ability to communicate. A good auditor must have a thorough knowledge on book keeping, accounting and cost accounting.
8. Continuing education and training: every internal auditor must be willing to continue education; this will help improve his independence and status.
9. Ensure high job satisfaction and reward system. Here, the auditor could spot out a staff who he feels deserves on improvement or reward because its manner of carrying out his duty.

**Internal Check**

It is a continuous system of routine checking of day to day transactions in a business. It involves the arrangement of duties in such a way to ensure.

1. That no single task is executed from its beginning to its completion by only one person.
2. That the work of each clerk is subject to an independent check in the course of another’s duties.

**2.1.7 Types of Internal Audit**

The following are different types of internal audit (Smith & Zuckerman, 2013)

1. Compliance auditing
2. Efficiency auditing
3. Effectiveness auditing

**Compliance Auditing**

This is where the internal audit is concerned with determining whether the company’s systems to control and record costs are operating as laid down by management and, whether these costs have been properly determined and disclosed in the accounts. Therefore, the main aim of compliance auditing is to ensure complete and accurate recording of costs and expenditure.

**Efficiency Auditing**

Under this, internal audit is concerned with whether the resources (personnel, property, etc) are used optimally within the bounds of what is feasible. Whether the resources are used in a possible way to reduce costs. the internal auditor would want to know if the property of the company are being regularly serviced to keep costs over time to the minimum. He will also determine whether the personnel requirements are well planned to reduce unnecessary expenditure or inefficiency.

**Effectiveness Auditing**

This type of internal audit is concerned with whether resources are being used to proper effect. That is, it will consider the cost of alternative policies and the benefit to be derived from them. Effectiveness auditing will want to know if using alternative option would be desirable, and what effect would this have on the company and its customers as result of change in policy.

Furthermore, internal audit can be termed operational auditing. This is where it is concerned with the whole organization and not merely with finance and accounting. It looks into the operations in general including production, personnel, research and development, etc. Operational auditing encompasses both efficiency and effectiveness auditing.

**2.1.8 The Objective of Audit Independence**

The immediate role of audit independence is to serve the audit. It makes the audit more effective by providing assurance that the auditor will plan and execute the audit objectively. So the larger purpose of audit independence, its objective, must be sought in the objective of the audit.

The immediate objective of the audit is to improve the reliability of information used for investment and credit decisions. Independence is essential to that contribution. More broadly, the objective of the audit is to contribute to the effectiveness of the capital markets.

Ismail (2010) stressed that improvements in the reliability of corporate disclosure reduce the risk that an investor or creditor will make a poor decision because the information is inaccurate or otherwise wanting inequality. This risk--information risk--is present every time an investor or creditor uses information to assess the economic risk of a potential investment. The better the quality of the information investors and creditors use for their assessments of economic risk, the better their chances of making sound decisions. In other words, their information risk is lower.

The information risk perceived by investors and creditors is reflected in the cost of capital to the corporation. Both suppliers and users of capital benefit from reliable corporate disclosure-suppliers in the form of decreased risk, users in the form of decreased capital costs. To see the social benefits of this process, it must be viewed economy-wide as a system of allocating the nation's capital.

When investors and creditors make better decisions on capital allocation for their own interests, capital flows more readily to the most productive business entities, increasing economic growth, jobs, and the standard of living. Those are social benefits from effective capital markets and, therefore, a social benefit of auditing’s contribution to effective capital markets.

The way in which audits improve the reliability of the information used for investment and credit decisions is well understood. Audits work by deterrence, detection, and verification.

Knowing that auditors are on the way deters managements so inclined from distorting the financial results; auditors detect the vast majority of distortions that nevertheless occur; and verification of undistorted information by selective tests provides evidence of its reliability.

Research shows that auditing improves the reliability of the financial information investors’ use for decision making. More reliable information affects the meaning of share prices. Share prices are more likely to reflect corporate earning power if the numbers analysts use more closely reflect the substance of corporate operations. Capital is more likely to flow to the most productive enterprises if financial reports reflect corporate earning power than if they do not.

The auditor's contribution is sometimes described as adding credibility to the capital markets. Credibility is an important concomitant of auditing, but it is not the core of the auditor's contribution. The core contribution, to repeat, lies in the effects of the audit process on the reliability of the information used for decisions. Without improved reliability there would be no valid basis for investor confidence in the information, and share prices would have less of a relationship to corporate earning power. Auditors would indeed be cheerleaders for their clients if their purpose was merely or chiefly to overcome the hesitations of investors to engage in transactions because of possible management bias in the financial statements. The effect on the capital markets would be limited to improving the willingness of capital suppliers to enter transactions, with no effect on the relationship between share prices and the substance of corporate operations and no effect on the likelihood of returns from capital outlays. There are costs to effective capital markets. The costs of preparing, auditing, and distributing corporate disclosure are among those costs, and the cost of audit independence is one of the costs of auditing. The lower the costs of effective auditing ,the higher its net contribution to the capital markets. The costs of audit independence include compliance, quality controls and safeguards, compensation for opportunities lost by obedience to prohibitions, and incremental service costs borne by clients deprived of service providers' economies of scale and scope.

A usefully stated objective of audit independence would capture both the cost and the benefit side of the contribution to the capital markets. Here is the way such an objective might be formulated:

“The purpose of audit independence is to improve the cost effectiveness of the capital markets”.

This objective follows from the idea that the purpose of auditing is to improve the cost effectiveness of the capital markets (independence improves auditing, which should improve the cost-effectiveness of the capital markets).

**2.1.9 Conceptual Framework and Cost for Auditors Independence**

In November 2010, the Independence Standards Board **(ISB)** issued an exposure draft (ED) of a conceptual framework for auditor independence containing the concepts and basic principles that will guide the board in its standard setting. The framework defines auditor independence as “freedom from those factors that compromise, or can reasonably be expected to compromise, an auditor’s ability to make unbiased audit decisions.”

It will help Practitioners, investors, regulators and other standard setters understand the significance of auditor independence and provide a common language so that those involved in the on-going independence debate can contribute to the development of ISB standards. The framework does not provide easy answers to specific independence questions but it supplies a structure and methodology for analysing issues (Smith & Zuckerman, 2013).

The need for a framework arose from the jumble of confusing independence rules and regulations—many in the form of interpretations issued in response to specific independence questions—that applied to public companies and their auditors. The guidance in those interpretations, issued over the years and under changing circumstances, sometimes conflicted and lacked theoretical consistency. Auditors also faced challenges in applying such guidance if the facts and circumstances of an auditor’s relationship with his or her audit client did not match those in the interpretation.

The framework is the product of an open process. A task force of academics, lawyers, audit committee members, regulators, auditors and others helped identify the issues and reviewed drafts for clarity and completeness. The group included representatives from international standard setters so board standards could be harmonized where possible with those used in other countries.

The framework defines, and identifies the goal of auditor independence. The model for standard setters is based on three key steps (Murphy, 2012):

* Identify threats to the auditor’s independence and analyze their significance.
* Evaluate the effectiveness of potential safeguards, including restrictions.
* Determine an acceptable level of independence risk—the risk that the auditor’s independence will be compromised.

Under the model, the ISB and other standard setters are to analyze the costs and benefits of regulations and consider the views of investors, other users of financial information and additional interested parties.

The definition of independence does not require the auditor to be completely free of all the factors that affectthe ability to make unbiased audit decisions, but only free from those that rise to the level of compromising that ability (Levitt, 2007). For example, the audit client pays the auditor’s fee, so complete independence is impossible and not necessary to meet the framework’s definition. The framework doesn’t spell out specific examples of what would constitute “rising to the level of compromising” an auditor’s independence, but it does offer a structure that will allow an auditor to analyze whether undue bias exists in a particular situation (Doolan, 2009).

Some costs of audit independence are incurred by the audit firm directly (e.g., the cost of monitoring adherence to independence policies and the cost of the review of the independence quality control during peer review), others by regulators and the profession as a whole (e.g., the cost of developing SEC or ISB independence requirements), and others by clients (e.g., foregone scale and scope economies). They are put in perspective by considering how the costs to the national economy would vary if audit independence varied from zero to total. To approximate zero audit independence, assume the auditor is an employee of the auditee, deeply in debt, with stock options in the auditee. To approximate total audit independence, assume auditors were selected at random, had no non audit relationships to management or other company personnel, were paid from general tax revenues, and had no other financial or non-financial interest in the client.

Because audit independence does involve some costs, there is a point beyond which additional audit independence generates negative returns to the economy. Auditing is not the sole contributor to the reliability of financial information and the reduction of information risk for investors and creditors. The quality of the information that goes to investors and creditors can be improved at several stages in its course to the distributed financial statements. The better the accounting system, including the personnel who control it, the more reliable the financial information that will go to investors and creditors; the more effective the audit committee, the better the quality of the information that goes to investors and creditors; and the more effective the independent auditor, the more reliable the financial information that will go to investors and creditors. Moreover, the auditor's contribution can be improved by expenditures to assure competence, diligence, and integrity as well as by expenditures to assure independence. It might on occasion be wiser to spend dollars intended to achieve more effective capital markets on improving auditor competence rather than on increasing audit independence (Kehinde, 2013).

Similarly, the necessity for regulatory spending on improving the auditor's contribution should be seen in light of all the elements that can reduce information risk to investors.

**2.2 Theoretical Framework**

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

The American criminologist Donald Cressey (2001) 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 Literature**

Kehinde, (2013) studied Fraud Prevention and Internal Control in the Nigerian Banking System. His objective was to examine the issues of internal control viz., fraud prevention in the banking industry. He adopted both primary and secondary data. Primary data was used to test internal control while secondary data were employed to test fraud prevention. The main primary variables were separation of duties, monitoring, and staff qualifications while the main secondary variables are bank profit, regulation, technology and M2. In both cases regression techniques were adopted. The results show that internal control on its own is effective against fraud, but not all staff are committed to it, while the secondary data is quite supportive of the primary data but more exemplifying in that M2, staff qualifications and technology were significant throughout the various dependent variables. It is also clear from the regressions that technological based fraud is significant. The paper recommended the continuation of the cashless policy of the Central Bank to reduce available cash and improvement in educated staff engagement to reduce fraud in the banking system.

Musa, Iyaji, and Ejura (2014) studied the Role of Auditors in the Recent Nigerian Banking Crisis. Their objectives were to determine the role of auditors in bank crisis as well as to identify the causes of bank crisis. They used ex post facto design and unit root test for analysis. The study found out that it is common practice for companies and their directors to select and remunerate auditors, it has been argued that such an audit model is fundamentally flawed and cannot deliver an independent or searching audit. The flaws are further compounded by permitting auditors to have a direct economic interest in corporate transactions through the sale of accounting services. There is evidence to show that the commercialization of professional firms enables them to act as a ‘watchdog’ on profits and, on occasions, appease and even collude with directors. Their professional independence is indeed compromised because auditors are dependent on executive directors for their nomination, appointment and the determination of their fees, and, as such, they cannot easily go against the interests of executive directors rather they will prefer to doctor the report in favor of the management at the expense of professionalism. It is therefore recommended that, to strengthen corporate reporting and auditing there should be corporate democracy in that stakeholders in our banking industry should have the power to determine who should be the auditor and how the auditor is to be remunerated. Further reforms could include imposing personal accountability for wrongdoing on all executive directors and finance directors of the banks, and barring accounting firms involved in anti-social financial practices from auditing and conducting other accounting related assignments and services.

**CHAPTER THREE**

**RESEARCH DESIGN AND METHODOLOGY**

**3.1 Research Design**

This study is a descriptive type. According to Orji (2006:19) descriptive research is concerned with the collection, presentation, analysis and interpretation of data for the purpose of describing vividly existing conditions, prevailing practical beliefs, attitudes and on-going processes.

**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 staff and management of Zenith Bank Nigeria Plc. The population of the management and staff of the bank is 109.

The distribution of the population is shown below:

**Table 3.1: Population Distribution Table**

|  |  |
| --- | --- |
| Respondents | No of staff |
| Marketing dept | 23 |
| Operations department | 15 |
| Customer service department | 17 |
| Clearing department | 14 |
| Human Resource | 18 |
| Loan Dept | 22 |
| Total | 109 |

Source: Profile of Zenith Bank Nigeria Plc

**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 109, e will be assumed to be 5%

Therefore the sample size for this research work will be

n = 109

1+109 (0.05)2

= 109

1+ 109 (0.0025)

= 109

1 + 0.2725

= 109

1.2725

n = 86

**Stratified sampling**

For copies of questionnaire to be proportionally allotted to different cadre of employees in the study organization, Bowley’s formular was used which is as shown below:

nh = nNH

N

Where: n = sample size

NH = population of a strata

N = population

Substituting;

Marketing dept = 86 X 23 = 18

109

Operations department = 86 X 15 = 12

109

Customer service department = 86 X 17 = 13

109

Clearing department = 86 X 14 = 11

109

Human Resource Dept = 86 X 23 = 18

109

Loan Dept = 86 X 22 = 17

109

**3.5 Instrumentation**

The principal instrumentation used to gather information for this study were through questionnaire questions administered on the staff of affected departments.

The questionnaire were distributed personally to various staff of the bank thereby giving the researcher good opportunity of making first hand observation and independent judgment of the research project.

The type of statistical tools used in analyzing the questionnaire are based on simple distribution tables and percentages. The test of hypothesis were done with the use of Chi-Square (X2)

**3.6 Sampling Techniques**

In order to get a good representation of the population, the researcher used the stratified random sampling techniques. To make a sample a true representation of the parent population, we first divided the entire population into homogenous groups called strata. By applying the systematic sampling, we selected items from each stratum into the sampling. Using this method, we selected items out of a population of staff.

**3.7 Validation of the Instrument**

To ensure validity of the research questionnaires the set of drafted questions was sent to the research supervisor, an expert in research supervision, who ensured that the questions were clearly appropriate and covered the research objective of the study.

After this a pilot study of two of the respondents was carried out. The combined effort led to modification of some questions, additions, and selection of some other leading to a set of questions that are clear, unambiguous with enough coverage of the research objectives.

**3.8 Reliability of the Instrument**

The questionnaires were first administered to a selected small fraction of the sample in order to determine the degree of accuracy of the instrument. From this exercise, a satisfactory outcome was achieved which shows that the instrument was reliable.

**3.9 Method of Data Treatment and Analysis**

In treating and analyzing of data collected extensive use of tabular and percentage will be paramount. The data collected will be presented in table and analyzed with percentage. The hypotheses will be analyzed by the use of Chi – Square formular.

The formular is shown below:

X 2 = Σ (o – e) 2

e

Where: X 2 = Chi – Square

O = Observed frequency

E = Expected frequency

**CHAPTER FOUR**

**DATA PRESENTATION AND ANALYSIS**

* 1. **Data Presentation**

The presentation of data collected means the way of arranging the different forms of data obtained through various data collecting techniques to enable the researcher perform analysis and exact new meaning from it. The data collected will be presented in simple table. The data analyses were based on the answer to the key questions received from the various departments. The key questions in the questionnaires will be analyzed by the use of simple percentage.

**Table 4.1: Distribution table showing the returned and unreturned sets of questionnaire:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Options | Sets of quest. Distributed | Sets of quest. Returned | Sets of quest. not returned | Percentage  (%) |
| Mgt. | 11 | 9 | 2 | 10% |
| Staff | 75 | 71 | 4 | 83% |
| Total | 86 | 80 | 6 | 93% |

**Source:** Field Survey, 2018

Table 4.1 shows that a total of 11 copies of questionnaire were distributed to management of Zenith Bank and 2 copies of the questionnaire were lost while 9 copies were returned representing a 10% return rate while 75 copies were distributed to the staff of the bank and 4 copies were lost while 71 copies were returned representing a return rate of 83%. Therefore, the total return rate is 93%.

**Presentation of Demographic Characteristics**

**Table 4.2:** Distribution of Respondents according to Gender

|  |  |  |
| --- | --- | --- |
| Gender | Number of respondents | Percentage |
| Male | 57 | 70 |
| Female | 24 | 30 |
| Total | 81 | 100 |

**Source:** Field Survey, 2018

Table 4.2 shows that 70% of the respondents are male while 30% of them are females.

**Table 4.3:** Distribution of Respondents According to Marital Status

|  |  |  |
| --- | --- | --- |
| Marital status | Number of respondents | Percentage |
| Single | 35 | 43 |
| Married | 46 | 57 |
| Total | 81 | 100 |

**Source:** Field Survey, 2018

Table 4.3 shows that 43% of the respondents are married while 57% of them are single.

**Table 4.4:**Does internal audit aid in the detection of fraud in Zenith Bank Plc?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| Yes | 61 | 76 |
| No | 20 | 24 |
| Total | 81 | 100 |

**Source:** Field Survey, 2018

Table 4.4 shows that 61 respondents representing 76% of the respondents are of the opinion that internal audit aids in the detection of fraud in Zenith Bank Plcwhile 24% of them said no to this.

**Table 4.5:** Has internal audit helped in detecting cases of money laundering by bank staff?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| Yes | 71 | 88 |
| No | 10 | 12 |
| Total | 81 | 100 |

**Source:** Field Survey, 2018

Table 4.5 shows that 71 respondents representing 88% of the respondents are of the opinion that internal audit has helped in detecting cases of money laundering by bank staff while 10 respondents representing 12% said no to this.

**Table 4.6:** Has internal audit aided in detecting illegal transactions committed in the bank?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| Yes | 69 | 85 |
| No | 12 | 15 |
| Total | 81 | 100 |

**Source:** Field Survey, 2018

Table 4.6 shows that 69 respondents representing 85% of the respondents are of the opinion that internal audit has aided in detecting illegal transactions committed in the bank while 12 respondents representing 15% said no to this.

**Table 4.7:**Does internal audit aid in the prevention of fraud in Zenith Bank Plc?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| Yes | 74 | 91 |
| No | 7 | 9 |
| Total | 81 | 100 |

**Source:** Field Survey, 2018

Table4 4.7 shows that 74 respondents representing 91% of the respondents are of the opinion that internal audit aids in the prevention of fraud in Zenith Bank Plcwhile 7 respondents representing 9% of them said no to this.

**Table 4.8:** Has the frequency of fraud reduced as a result of internal audit in the bank?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| Yes | 67 | 83 |
| No | 14 | 17 |
| Total | 81 | 100 |

**Source:** Field Survey, 2018

Table 4.8 shows that 67 respondents representing 83% of the respondents are of the opinion that the frequency of fraud has reduced as a result of internal audit in the bank while 14 respondents representing 17% of them said no to this.

**Table 4.9:** Has strict surveillance by both internal and external auditors reduced the extent of money laundering in the bank?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| Yes | 60 | 74 |
| No | 21 | 26 |
| Total | 81 | 100 |

**Source:** Field Survey, 2018

Table 4.9 shows that 60 respondents representing 74% of the respondents are of the opinion that strict surveillance by both internal and external auditors has reduced the extent of money laundering in the bank while 21 respondents representing 26% of them said no to this.

**Table 4.10:** Is there an adequate segregation of duties among the banking staff?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| Yes | 59 | 73 |
| No | 22 | 29 |
| Total | 81 | 100 |

**Source:** Field Survey, 2018

Table 4.10 shows that 59 respondents representing 73% of the respondents are of the opinion that there is an adequate segregation of duties among the banking staff while 22 respondents representing 29% of them said no to this.

**Table 4.11:**Does internal audit play a significant role in theinvestigation of fraud in Zenith Bank Plc?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| Yes | 68 | 84 |
| No | 13 | 16 |
| Total | 81 | 100 |

**Source:** Field Survey, 2018

Table 4.11 shows that 68 respondents representing 84% of the respondents are of the opinion that internal audit plays a significant role in theinvestigation of fraud in Zenith Bank Plcwhile 13 respondents representing 16% of them said no to this.

**Table 4.12:** Are those banking staff found guilty prosecuted duly to discourage fraud?

|  |  |  |
| --- | --- | --- |
| Options | Number of respondents | Percentage |
| Yes | 44 | 54 |
| No | 37 | 46 |
| Total | 81 | 100 |

**Source:** Field Survey, 2018

Table 4.12 shows that 44 respondents representing 54% of the respondents are of the opinion that those banking staff found guilty are prosecuted duly to discourage fraud while 37 respondents representing 46% of them said no to this.

**4.2 Test 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 alternate hypothesis (H1) is accepted, but if the calculated chi-square value is less than the table value, the null hypothesis (H0) is accepted.

**Hypothesis One:**

HOI: Internal audit has no significant role in the detection of fraud in Zenith Bank Plc.

HAI: Internal audit has significant role in the detection of fraud in Zenith Bank Plc.

Data from table 4.6 was used to test the hypothesis

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Variables** | **O** | **E** | **0 – E** | **(O – E)2** | **(0 – E)2**  **E** |
| Yes | 61 | 40.5 | 20.5 | 420.25 | 10.38 |
| No | 20 | 40.5 | 20.5 | 420.25 | 10.38 |
| Total | 81 | ***81*** |  |  | ***20.76*** |

The calculated chi-square value = 20.76

Df = (K – 1) (2 – 1) = 1

Table value at 0.05 of significance and 4 degree of freedom (Df) = 3.8

**Decision:** Since the calculated chi-square (X2) value (20.76) is greater than table value (3.8), we reject the null hypothesis (Ho) and accept the alternate hypothesis (H1) which states thatinternal audit has significant role in the detection of fraud in Zenith Bank Plc.

**Hypothesis Two:**

HO2: Internal audit has no significant role in the prevention of fraud in Zenith Bank Plc.

HA2: Internal audit has significant role in the prevention of fraud in Zenith Bank Plc.

Data from table 4.7 was used to test the hypothesis

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Variables** | **O** | **E** | **0 – E** | **(O – E)2** | **(0 – E)2**  **E** |
| Yes | 74 | 40.5 | 33.5 | 1122.25 | 27.71 |
| No | 7 | 40.5 | 33.5 | 1122.25 | 27.71 |
| Total | 81 | ***81*** |  |  | ***55.42*** |

The calculated chi-square value = 55.42

Df = (K – 1) (2 – 1) = 1

Table value at 0.05 of significance and 4 degree of freedom (Df) = 3.8

**Decision:** Since the calculated chi-square (X2) value (55.42) is greater than table value (3.8), we reject the null hypothesis (Ho) and accept the alternate hypothesis (H1) which states thatinternal audit has significant role in the prevention of fraud in Zenith Bank Plc.

**Hypothesis Three:**

HO3: Internal audit has no significant role in the control of fraud in Zenith Bank Plc.

HA3: Internal audit has significant role in the control of fraud in Zenith Bank Plc.

Data from table 4.13 was used to test the hypothesis

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Variables** | **O** | **E** | **0 – E** | **(O – E)2** | **(0 – E)2**  **E** |
| Yes | 68 | 40.5 | 27.5 | 756.25 | 18.67 |
| No | 13 | 40.5 | 27.5 | 756.25 | 18.67 |
| Total | 81 | ***81*** |  |  | ***37.34*** |

The calculated chi-square value = 37.34

Df = (K – 1) (2 – 1) = 1

Table value at 0.05 of significance and 4 degree of freedom (Df) = 3.8

**Decision:** Since the calculated chi-square (X2) value (37.34) is greater than table value (3.8), we reject the null hypothesis (Ho) and accept the alternate hypothesis (H1) which states that internal audit has significant role in the control of fraud in Zenith Bank Plc.

**CHAPTER FIVE**

**SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

**5.1 Summary of Findings**

The major findings of the study include;

1. Internal audit plays significant role in the detection of fraud in Zenith Bank Plc.
2. Internal audit aid in the prevention of fraud in Zenith Bank Plc.
3. Internal audit aids in control of fraud in Zenith Bank Plc.

Other findings include;

1. Internal audit has helped in detecting cases of money laundering by bank staff.

2. Internal audit has aided in detecting illegal transactions committed in the bank.

3. The frequency of fraud has reduced as a result of internal audit in the bank.

4. Strict surveillance by both internal and external auditors has reduced the extent of money laundering in the bank.

5. There is an adequate segregation of duties among the banking staff.

6. There is speedy conduct of investigation of suspected cases of fraud in the bank.

7. Those banking staff found guilty are prosecuted duly to discourage fraud.

**5.2 Conclusion**

The study concludes as thus;

The study concluded that internal audit has helped in detecting cash theft and has also helped in detecting cases of money laundering by bank staff as well as aided in detecting illegal transactions committed in the bank.

The study also concluded that internal audit has helped in eliminating weaknesses in the audit plan and also the frequency of fraud has reduced as a result of internal audit in the bank. Strict surveillance by both internal and external auditors has reduced the extent of money laundering in the bank.

Finally, the study concluded that there is an adequate segregation of duties among the banking staff as well asspeedy conduct of investigation of suspected cases of fraud in the bank and those banking staff found guilty are prosecuted duly to discourage fraud.

**5.3 Recommendations**

The recommendations made by the researcher include the following:

1. The study recommended that management of Zenith Bank Plc should monitor the activities of internal auditors as their activities influence organizational performance.

2. The study further recommended that the head of Internal Audit department should be a professional accountant and registered with any of the professional accountancy body in Nigeria to ensure ethical righteousness.

3. There should be regular management and performance audits. This will help identify the underperforming areas.

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**Appendix**

Department of Accounting/Finance

Godfrey Okoye University,

Enugu.

12thApril, 2018.

Dear Respondents,

I am a final year student of the above named institution, currently conducting a research on “Role of Internal Audit in the Management of Fraud: A Study ofZenith Bank Plc”.

I implore your frank response to the matters raised in this questionnaire and guarantee that the information supplied will be kept confidential.

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

Thank you for your anticipated cooperation

Yours Sincerely,

**Udeh Prisca Nneka**

**Appendix**

**Questionnaire**

*Please tick good (*🗸*) against the answer of your choice.*

***Personal Data***

1. What is your gender?

a) Male ( )

b) Female ( )

2. Marital status

a) Married ( )

b) Single ( )

**General Questions**

3. The role of internal audit in the detection of fraud in Zenith Bank Plc.

a. Has internal audit helped in detecting cash theft?

Yes ( ) No ( )

b. Has internal audit helped in detecting cases of money laundering by bank staff?

Yes ( ) No ( )

c. Has internal audit aided in detecting illegal transactions committed in the bank?

4. The role of internal audit in the prevention of fraud in Zenith Bank Plc.

a. Has internal audit helped in eliminatingweaknesses in the audit plan?

Yes ( ) No ( )

b. Has the frequency of fraud reduced as a result of internal audit in the bank?

Yes ( ) No ( )

c. Has strict surveillance by both internal and external auditors reduced the extent of money laundering in the bank?

Yes ( ) No ( )

5. The role of internal audit in the control of fraud in Zenith Bank Plc.

a. Is there an adequate segregation of duties among the banking staff?

Yes ( ) No ( )

b. Is there speedy conduct of investigation of suspected cases of fraud in the bank?

Yes ( ) No ( )

c. Are those banking staff found guilty prosecuted duly to discourage fraud?

Yes ( ) No ( )