Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.7, No.4, 2016

Role of Effective Internal Control Systems on Insurance Business Performance in Nigeria

Siyanbola Trimisiu Tunji[1] Oyebamiji Taofeek Adewale[1] Ibrahim John[2]
1.Department of Accounting, Babcock University, Ilishan Remo, Ogun State, Nigeria
2.Account Department, University of Maiduguri Teaching Hospital, Maiduguri, Borno State, Nigeria

Abstract
This study assessed, in empirical terms, the roles that effective internal control systems play on the performance of insurance business in Nigeria, using selected insurance companies in Adamawa State in the North Eastern part of the country, as case study. The population consists of all insurance companies in Nigeria, random sampling was used to select five of the existing sixteen active insurance companies in Adamawa State and primary data were used to elicit responses on seven structured questionnaire administered. Pilot survey was adopted for the reliability test and it yielded correlation coefficient of 0.82. Pearson Product Moment Correlation Coefficient was used to analyze the relationship between internal control system and performance of insurance companies. The study found a positive relationship between the independent and dependent variables, indicative of the fact that effective and efficient internal control system plays major roles on performance of insurance business. The study therefore recommends that a well established internal control system should be mandatory for all companies in the insurance industry. It was also recommended that they should all engage the services of well qualified accountants to manage their internal control functions so as to reduce the incidence of frauds and malpractices in the economy.
Keywords: internal control; insurance; performance; frauds; malpractices.

1 Introduction

Internal control system is the backbone of every insurance company and the successful attainment of the goals of most insurance companies depends upon the effectiveness of their policies and internal control system. Internal control system can be defined as the whole system of controls, financial or otherwise established by the management of an organization in order to carry on the business of the organization in an orderly and effective manner, safeguard and secure as much as possible the assets of the organization and ensure the completeness and accuracy of its records (ICAEW).

A proper internal control system in an insurance company can serve as a check and balance and as a tool for the prevention of fraud and other sharp practices.

The American Institute of Certified Public Accountants (AICPA) in Eze (2009) defined internal control as policies, procedures, practices and organizational structure implemented to reduce risk. In other words, internal control is the process put in place by an organization, including structure work and authority flow, people and management information system designed to help the organization to accomplish specific goals or objectives.

Pindiga (2003) conducted a research on internal control system and internal audit. Both primary and secondary data were used. He found out, amongst others, that no framework for internal control system is perfect. The task of internal control is neither total prevention of fraud nor is it implemented as a complete insulation against fraud and other sharp practices, but as a tool that will help achieve efficient operation and reduce temptations.

In his study titled 'evaluation of the effect of internal control on management performance in the banking sector in Nigeria' Baba (2010) used descriptive and inferential statistical methods and found that internal control has significant effect on management performance and that the occurrence of fraud drastically reduces the efficiency of an organization. He therefore emphasised the need for effective internal control system in all banks in Nigeria. Most of the measures adopted by banks to avoid the occurrence of fraud is the efficient and adequate internal control measures. It was also found out that the occurrence of fraud in the banking sector is less frequent, and internal control measures have no direct effect on the activities of the banks. Hence, it does not influence their activities in terms of protocol time consumption, bottlenecking etc. He recommended that banks should adhere to the laid down procedures, policies and plans that are put in place in order to ensure efficiency and effectiveness in managers' performance.

Similarly Olaoye (2009) carried out a study on the impact of internal control system in banking sector in Nigeria, using descriptive and inferential statistical methods and found out that the function of fraud prevention and detection and controls are interwoven. He discovered that the three work together to eliminate fraud and fraudulent tendencies. He concluded that internal control is highly significant in fraud detection and prevention in the banking sector in Nigeria.

Siyanbola (2013) also conducted a research on 'effective internal control system as antidote for distress in the banking industry in Nigeria'. He traced distresses in banks to non-adherence to established internal control system, he believes that adherence to internal control system in any establishment will reduce the incidence of frauds and fraudulent practices as well as improving job efficiency which is an antidote to distress of any establishment.

Busayo (2008) also conducted a research on the evaluation of the role of the insurance industry in the Nigerian economy, also using both primary and secondary data. He found out that insurance companies serve as a base for collecting relatively small premium [from millions of policy holders, into a pool which in turn helps in the economic growth of the country.

The Nigerian insurance industry has evolved over the years and recapitalization exercises had taken place, just exactly as done in the banks. The recapitalization exercises had reduced the number of insurance companies which are bound to experience a remarkable transformation as the regulation of the industry has also become stricter than before. This study therefore aims to assess the impact of internal control system on the activities of insurance companies in Nigeria and also appraise its role in fraud prevention in the industry.

1.1 Statement of research problems

Many insurance companies fail to recognize the importance of internal control and take its implementation for granted, which in return, manifests mostly in the reports of fraud and embezzlement in the insurance sub-sector. Baba (2010) observes that, in the Nigerian banking industry, internal control has significant effect on management and that the occurrence of fraud can drastically reduce the efficiency of an organization. As one of the recommendations, the researcher recommended the need for an effective internal control system in the banking industry. A look into the existing body of literature shows that very few researchers have investigated the role of internal control in fraud prevention specifically in the insurance sub-sector in Nigeria.

This study will fill in this gap in the literature by studying the effectiveness of internal Control system and its role in fraud prevention in insurance companies in Adamawa metropolis. The following questions were raised:

- What is the impact of internal control systems on performance of insurance companies?
- Has occurrence of fraud and fraudulent practices reduces with the existence of internal control activities in the insurance company in Nigeria?
- How effective are measures put in place to punish culprit to serve as deterrent for fraud prevalence in the industry?
- Is management adequately remunerating the internal control officer to function effectively in monitoring internal control system in insurance companies?
- Is the management committed in ensuring effective monitoring of internal control system in the industry?

1.2 Objectives of the study

The main objective of the study is to critically review and appraise the effectiveness of internal control system in insurance companies in Adamawa using five randomly selected insurance companies. The study also aims to assess the effect of lack of proper internal control system in insurance companies, and to determine the problem associated with internal Control system in insurance companies.

1.3 Research hypotheses

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

Ho1: Internal control systems have no direct impact on performance of insurance companies in Nigeria;

Ho2: Existence of internal control system has not reduced occurrence of fraud and fraudulent practices in insurance companies in Nigeria;

Ho3: Measures put in place by insurance companies have not served as deterrent for fraud prevalence in the industry;

Ho4: Internal control officers are not adequately remunerated to function effectively in monitoring internal control system in insurance companies;

Ho5: Insurance companies' managements are not committed to ensure effective monitoring of internal control system in the industry.

2. Literature review

2.1 Conceptual review

Insurance: insurance is an arrangement in which you pay money to a company, and the latter in turn, pays money to you if something unpleasant, on which you had earlier made the arrangement, happens to you.

Internal control: is defined by the Consultative Committee of Accounting Bodies (CCAB) in the United Kingdom 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, safeguard the asset and secure as far as possible the completeness and accuracy of the record. There are two elements of internal control systems which should be paid attention to by all organizations, including insurance companies. Two important elements of internal control system are internal audit and internal check.

Internal audit: is an element of internal control system set up by the management of an enterprise to examine, evaluate and report on accounting and other controls in operation. It is an independent appraisal activity within an organisation for the review of accounting, financial and other operations, as a basis for service to management. IIA Inc (2009). It is a management service function which primarily involves the periodic review of an enterprise's accounting and internal control procedures by designated officers called "internal auditor" or "internal control officer" as we normally call them in the bank. Siyanbola (2013)

Internal check: according to Ajayi and Olusona (2007), are those routine day to day administrative controls which ensure that the work of one person is complementary to that of another person, thus, the work of one person is independently proved by that of another person in the normal course of work. Therefore, no single person or group of persons would carry out a transaction from origination to completion without the involvement of others. If this is fully observed, problem of malpractices or frauds that can derail an establishment's operation would be a thing of the past, as routine or deliberate mistake would be immediately discovered before it becomes a full blown fraud that create permanent extinction of the organisation. Siyanbola (2013)

2.2 Theoretical review

Four major theories are relevant to this study. These are agency theory, theory of fraud triangle, theory of fraud diamond and theory of triangle of fraud action summarized as follow:

- Agency theory: this was described by Millichamp and Taylor (2008) as the inclination of agents (directors, managers etc) to act rather more in their own interests than those of their employers (shareholders). ICAEW also state that 'in principle, the agency model assumes that no agents are trustworthy and if they can make themselves richer at the expense of their principals, they will'. The principal, therefore, has no alternative but to compensate the agent well for their endeavour so as not to be tempted to divert the principal's assets into their private business' use;
- Theory of fraud triangle: Cressey (1940) focused his PhD thesis on embezzlers and this resulted in what we now tag as fraud triangle. The first leg of the triangle represents perceived non sharable financial need; the second leg is for perceived opportunity and the last leg is for rationalization.

  According to him, in explaining the first leg of the triangle, 'when the trust violators were asked to explain why they refrained from violation of other position of trust they might have held at previous times, or why they had not violated the subject position at an earlier time: those who had an opinion expressed the equivalent of one or more of the following responses: (a) 'there was no need for it like there was this time' (b) 'the idea never entered my head' (c) 'I thought it was dishonest then, but this time it did not seem dishonest at first". (Fraud examiner manual, 2014)

  For the second leg of the triangle, Cressy states that there are two components of perceived opportunity to commit a trust violation: general information and technical information. General information is the knowledge that the employees' position of trust could be violated. This knowledge might come from hearing of other embezzlements, from seeing dishonest behavior by other employees, or just from generally being aware of the fact that the employee is in a position where he could take advantage of his employer's faith in him. Technical skill refers to the abilities needed to commit the violation. These are usually the same abilities that the employees need to obtain and keep his position in the first place. (Fraud examiner manual, 2014)

  The concluding leg is to rationalize the opportunity available to him and do exactly what comes to his mind, which is of course an infraction on the internally set controls to his advantage to gain financial benefits at the detriment of the employer.
- Theory of fraud diamond: In reviewing the above triangle postulated by Cressey in 1940, Wolf and Hermanson (2004) found a fourth element, capability, as a way of enhancing fraud prevention and detection. They found that capability, such as personal traits and abilities would play a major role in whether fraud may actually occur even with the presence of the other three elements mentioned in the triangle. They added that many frauds, especially some of the multibillion dollar ones, would not have occurred without the right person with the right capabilities in place. Opportunity opens the doorway to fraud and incentive and rationalization can draw the person toward it. But the person must have the capability to recognize the open doorway as an opportunity and take advantage of it by walking through, not just once, but time and time again. Accordingly the critical question is, "who could turn an opportunity for fraud into reality?"
- Theory of Triangle of Fraud Action: Albrecht (2006) described the action an individual must perform to perpetrate fraud as follows: the action (the execution of the fraud, embezzlement, misappropriation etc); concealment (hiding of the fraud action by raising false journal, falsification of bank reconciliation and destroying of files); conversion (turning the gains from fraud into something useable by the perpetrator). Dada (2013) was of the opinion that the theory of triangle of fraud action can be documented, controlled and detected by anti-fraud professional, in this case the officer in charge of internal control system in an organization;

Although all the theories above are of tremendous interest to this study, agency theory seems to be the most appropriate, as the officer in charge of internal control function is to act as the 'eye and ear' of the management in ensuring strict and total adherence to all controls instituted by the management over the entire operations of the establishment.

2.3 Empirical review

Millichamp (2002) stated that internal control is a very important part of a business. Since there are dishonest people that seem to be honest, there is the need to safeguard company's assets. A company must have good accounting system which encourages the reduction of risk of errors and irregularities in all processes. The Sarbanes-Oxley Act. 2002 states that insurance companies should pay more attention to the internal control of their company.

In a similar study on the impact of internal control system in the banking sector in Nigeria Olaoye (2009) used descriptive and inferential statistical methods on data obtained on some banks in Nigeria. He concluded that the function of fraud prevention, detection and control are interwoven. He stated that the three work together to eliminate fraud and fraudulent tendencies and that internal control is highly significant in fraud detection and prevention in the Banking sector in Nigeria.

Saidu (2012), in his research on effectiveness of internal control system and the issues of independent and confidentiality in an organization, used survey method of data collection, aiming to generate and reliable data for the study. A simple percentage method was used to analyze the data. The result obtained shows that, there is a significant relationship between internal control and external control system and confidentially in business and public organization.

Olajide (2013) examined the impact of Information Communication Technologies (ICT) on insurance companies' profitability. He identifies that it is imperative for organizations to adopt ICT to promote efficient services for the attainment of the profit maximization objective, specifically in insurance companies in Nigeria. The study finds out that there is a positive relationship between ICT and insurance companies' profitability in Nigeria.

Ozigbo and Orife (2011) also conducted a research on internal control and fraud prevention in insurance business. The study examines internal control and fraud prevention in insurance business. A survey was undertaken in some selected firms in Warri metropolis. The study population comprised of all business entities operating in Warri metropolis in Delta state. Few companies were randomly selected for sampling. Research Questionnaires were designed and administered to 80 senior staff in the accounting sections of the firms. The method of data analysis was descriptive statistics, adopting tables and simple percentages. The finding of the study was that internal control was a necessary, safeguard tool, which ensures owners of the business that their funds are being utilized efficiently.

2.4 Gaps in literature

While major literatures on internal control concentrate on the banking sub-sector of Nigerian economy, the need to extend it beyond that sub-sector needs not be over-emphasized as each sub-sector presents different needs and aspirations to contribute to the economy of a nation. Olaoye (2009), Saidu (2012) and Siyanbola (2013) all concentrated on the banking sub-sector, while Ozigbo and Orife (2011) concentrated on the insurance sub-sector. Even though the latter authors concentrated on the insurance sub-sector, their findings were based on the result of responses from internal staff of the insurance companies used. This paper has gone beyond theirs by including responses from other stakeholders outside the sampled insurance companies.

3 Method of data analysis

The population of this study consists of internal staff and clients of the companies. 50 staff members of various cadres drawn from the sampled insurance companies (Financial Insurance, Unity Capital Insurance, Mansard Insurance, Niger Insurance and Union Assurance Company) and 50 customers of all these companies. The instrument used was a seven structured survey questionnaire grouped into 2 with 5-likert scale response options. The first group of the questionnaire based on personal attributes of respondents while the second group is based on the questions tested, which form the basis of our conclusion and recommendations. The 5-likert scale response was assigned points as follows: Strongly agreed (SA-5 points); Agreed (A-4 points); Undecided (U-3 points); Disagreed (D-2 points) and Strongly Disagreed (SD-1 point). The validity of the questionnaire was confirmed by the experts. Pilot survey was adopted for the reliability test and it yielded correlation coefficient of 0.82. Pearson Product Moment Correlation Coefficient and t-test were used for data analysis and determining the significance of the relationship. The formula is:

$$r = \frac{n\Sigma xy - (\Sigma x)(\Sigma y)}{\sqrt{[n\Sigma x^2 - (\Sigma x)^2]\,[n\Sigma y^2 - (\Sigma y)^2]}}$$

4.0 Data presentation, analysis and interpretation

4.1 Test of hypothesis

Hypothesis 1

Ho: Internal control systems have no direct impact on performance of insurance companies in Nigeria;

H1: Internal control systems have direct impact on performance of insurance companies in Nigeria;

Table 1: Summary of responses to question 3 of the questionnaire and computation of average response

Question 3 of the questionnaire administered: internal control systems have no direct impact on performance of insurance companies

Options	Staff of the companies		Clients		Average	
	Point (x)	Response (y)	Point (x)	Response (y)	Point (x)	Response (y)
SA	5	14	5	19	5	16.5
A	4	21	4	23	4	22.0
U	3	3	3	2	3	2.5
D	2	10	2	3	2	6.5
SD	1	2	1	3	1	1.5
Σ	15	50	15	50	15	49.0

Source: **Field Survey 2015**

Table 2: **Correlation analysis relating to the question "internal control systems have no direct impact on performance of insurance companies"**

Variables	X	Y
Descriptive Statistics		
Mean	3.0	9.8
Median	3.0	2.5
Maximum	5.0	22.0
Minimum	1.0	1.5
Standard Deviation	3.13	9.736
Skewness	-0.828	-0.23
Kurtosis	0.877	1.075
Jacq Bera	1.51	0.816
Sums	15.0	49.0
Sum SqDev	49.0	473.99
Inferential Statistics		
R	0.80	
t-statistics	2.2771	
p-value of t-statistics	0.04681	

Source: Babstat Statistical Tools for Social Researchers, September 2015

The Coefficient of Correlation of 0.80 indicates that there is strong positive relationship between effective internal control system and performance of insurance companies. This is confirmed by the p-value of t-statistics of 0.0468 which is lower than 0.05 level of significance adopted by this study.

Decision: On the basis of the above analysis, we reject the null hypothesis one and accept the alternative hypothesis and conclude that effective internal control systems have direct impact on performance of insurance companies.

Hypothesis 2

Ho: Existence of internal control system has not reduced occurrence of fraud and fraudulent practices in insurance companies in Nigeria;

H1: Existence of internal control system has reduced occurrence of fraud and fraudulent practices in insurance companies in Nigeria;

Table 3: Summary of responses to question 4 of the questionnaire and computation of average response
Question 4 of the questionnaire administered: existence of internal control system has not reduced occurrence of fraud and fraudulent practices in insurance companies in Nigeria.

Options	Staff of the companies		Clients		Average	
	Point (x)	Response (y)	Point (x)	Response (y)	Point (x)	Response (y)
SA	5	15	5	25	5	20.0
A	4	30	4	20	4	25.0
U	3	2	3	3	3	2.5
D	2	2	2	2	2	2.0
SD	1	1	1	0	1	0.5
Σ	15	50	15	50	15	50.0

Source: Field Survey 2015

Table 4: Correlation analysis relating to the question: "existence of internal control system has not reduced occurrence of fraud and fraudulent practices in insurance companies in Nigeria"

Variables	X	Y
Descriptive Statistics		
Mean	3.0	10.0
Median	3.0	2.5
Maximum	5.0	25.0
Minimum	1.0	0.5
Standard Deviation	3.13	11.274
Skewness	-0.828	-0.058
Kurtosis	0.877	1.065
Jacq Bera	1.51	0.783
Sums	15.0	50.0
Sum SqDev	49.0	635.5
Inferential Statistics		
R	0.85	
t-statistics	2.7626	
p-value of t-statistics	0.03859	

Source: Babstat Statistical Tools for Social Researchers, September 2015.
This correlation coefficient, r, of 0.85 indicates that there is strong positive correlation between the two variables. This position is further attested to by the p-value of t-statistics of 0.0386
Decision: The alternative hypothesis is accepted, we therefore conclude that existence of internal control system has reduced occurrence of fraud and fraudulent practices in insurance companies in Nigeria;
Hypothesis 3
Ho:Measures put in place by insurance companies have not served as deterrent for fraud prevalence in the industry;
H1: Measures put in place by insurance companies have served as deterrent for fraud prevalence in the industry;
Table 5:Summary of responses to question 5 of the questionnaire and computation of average response
Question 5 of the questionnaire administered: measures put in place by insurance companies have not served as deterrent for fraud prevalence in the industry.

Options	**Staff of the companies**		**Clients**		**Average**	
	Point (x)	**Response (y)**	**Point (x)**	**Response (y)**	**Point (x)**	**Response (y)**
SA	5	38	5	21	5	29.5
A	4	2	4	27	4	14.5
U	3	4	3	1	3	2.5
D	2	0	2	1	2	0.5
SD	1	6	1	0	1	3.0
Σ	15	50	15	50	15	50.0

Source: Field Survey 2015

Table 6: Correlation analysis relating to the question: "measures put in place by insurance companies have not served as deterrent for fraud prevalence in the industry"

Variables	X	Y
Descriptive Statistics		
Mean	3.0	10.0
Median	3.0	2.5
Maximum	5.0	29.5
Minimum	1.0	0.5
Standard Deviation	3.13	9.119
Skewness	-0.828	-0.931
Kurtosis	0.877	0.987
Jacq Bera	1.51	1.567
Sums	15.0	50.0
Sum SqDev	49.0	415.75
Inferential Statistics		
R	0.87	
t-statistics	3.0257	
p-value of t-statistics	0.03523	

Source: Babstat Statistical Tools for Social Researchers, September 2015.

The Coefficient of Correlation relating to this hypothesis is 0.87.This coefficient indicates that there is strong positive correlation between the two variables. The p-value of t-statistics of 0.0352 indicates that the relationship between the two variables is causal and not spurious.

Decision: The alternate hypothesis is accepted we therefore conclude that measures put in place by insurance companies have served as deterrent for fraud prevalence in the industry;

Hypothesis 4

Ho: Internal control officers are not adequately remunerated to function effectively in monitoring internal control system in insurance companies;

H1: Internal control officers are adequately remunerated to function effectively in monitoring internal control system in insurance companies;

Table 7: Summary of responses to question 6 of the questionnaire and computation of average response

Question 6 of the questionnaire administered: internal control officers are not adequately remunerated to function effectively in monitoring internal control system in insurance companies

Options	Staff of the companies		Clients		Average	
	Point (x)	**Response (y)**	**Point (x)**	**Response (y)**	**Point (x)**	**Response (y)**
SA	5	5	5	11	5	8.0
A	4	7	4	7	4	7.0
U	3	5	3	9	3	7.0
D	2	17	2	18	2	17.5
SD	1	16	1	5	1	10.5
Σ	15	50	15	50	15	50.0

Source: Field Survey 2015

Table 8: Correlation analysis relating to the question: "internal control officers are not adequately remunerated to function effectively in monitoring internal control system in insurance companies"

Variables	X	Y
Descriptive Statistics		
Mean	3.0	10.0
Median	3.0	7.0
Maximum	5.0	17.5
Minimum	1.0	7.0
Standard Deviation	3.13	7.409
Skewness	-0.828	-0.802
Kurtosis	0.877	1.548
Jacq Bera	1.51	0.976
Sums	15.0	50.0
Sum SqDev	49.0	274.5
Inferential Statistics		
R	-0.55	
t-statistics	-1.1503	
p-value of t-statistics	-0.09268	

Source: Babstat Statistical Tools for Social Researchers, September 2015.

From table 8 above, it is observed that there is a moderate negative relationship between the two variables as indicated by the coefficient of correlation is: -0.55. The p-value of the t-statistics of -0.093, which is lower than 0.05 level of significance at which the hypothesis is tested, indicates that there is significant relationship between the explanatory and explained variables.

Decision: The null hypothesis is accepted we therefore agree that internal control officers are not adequately remunerated to function effectively in monitoring internal control system in insurance companies

Hypothesis 5

Ho: Insurance companies' managements are not committed to ensure effective monitoring of internal control system in the industry.

H1: Insurance companies' managements are committed to ensure effective monitoring of internal control system in the industry.

Table 9: Summary of responses to question 7 of the questionnaire and computation of average response

Question 7 of the questionnaire administered: insurance companies' managements are not committed to ensure effective monitoring of internal control system in the industry.

Options	Staff of the companies		Clients		Average	
	Point (x)	**Resp (y)**	**Point (x)**	**Resp. (y)**	**Point (x)**	**Response (y)**
SA	5	2	5	0	5	1.0
A	4	2	4	2	4	2.0
U	3	1	3	3	3	2.0
D	2	15	2	20	2	17.5
SD	1	30	1	25	1	27.5
Σ	15	50	15	50	15	50

Sources: Field Survey 2015

Table 10: Correlation analysis relating to the question: "insurance companies' managements are not committed to ensure effective monitoring of internal control system in the industry"

Variables	X	Y
Descriptive Statistics		
Mean	3.0	10.0
Median	3.0	2.0
Maximum	5.0	27.5
Minimum	1.0	1.0
Standard Deviation	3.13	11.752
Skewness	-0.828	0.34
Kurtosis	0.877	1.312
Jacq Bera	1.51	0.69
Sums	15.0	50.0
Sum SqDev	49.0	690.5
Inferential Statistics		
R	-0.91	
t-statistics	-3.7099	
p-value of t-statistics	-0.02873	

Source: Babstat Statistical Tools for Social Researchers, September 2015.

Table 10 above reveals that the Coefficient of Correlation is: -0.91. This coefficient indicates that there is strong negative correlation between the two variables. Furthermore, the p-value of the t-statistics of -0.029 indicates that the relationship observed is not spurious and that the influence of the independent variable on the dependent variable is significant at 95% confidence level.

Decision: The null hypothesis is accepted we therefore agree that insurance companies' management is not committed to ensure effective monitoring of internal control system in the industry.

4.2 Discussion of the Findings

From the result obtained for hypothesis one, r calculated of 0.80 is strong and the probability value of t-statistics of 0.0468 indicates that the influence of internal control systems on performance of insurance companies in Nigeria is significant when tested at 95% confidence level. The alternative hypothesis is accepted, we therefore conclude that effective internal control systems have direct impact on performance of insurance companies. This result is in consonance with our a-priori expectation that an effective and efficient internal control system and the general notion from theories that institution of sound and efficient internal control system is capable of blocking loopholes and leakages within an organization thereby improving the performance of the company

From hypothesis two, the r calculated of 0.85 indicates that there is a strong positive correlation between internal control systems and fraud prevention and by extension, an effective fraud strategy. This position is further attested to by the p-value of t-statistics of 0.0386 which is lower than 0.05 level of significance set for this study. This finding is consistent with the long established theory that institution of sound and effective internal control system is a panacea for fraud prevention. The alternative hypothesis is accepted, we therefore conclude that existence of internal control system has reduced occurrence of fraud and fraudulent practices in insurance companies in Nigeria

From hypothesis three, the r calculated of 0.87 shows that internal control system is positively correlated to fraud deterrent. The probability of t-statistics of 0.0352 also indicates that this relationship is causal and not spurious. The finding therefore confirms that establishment and institution of an effective internal control system is required to serve as deterrent for fraud within insurance companies in Nigeria. The alternative hypothesis is accepted we therefore conclude that measures put in place by insurance companies have served as deterrent for fraud prevalence in the industry.

From hypothesis four, the r calculated of -0.55 indicates that there is a moderate negative correlation between the explanatory and explained variables. This means that the remuneration of the internal control officers is negatively correlated with effective monitoring of the internal control systems indicating that high prevalence of fraud and fraudulent practices in insurance companies is directly linked to low remuneration of internal control officers. The p-value of t-statistics of -0.093 which is lower than the set significance level also indicates that the relationship between the independent and dependent variables is not spurious. The null hypothesis is accepted we therefore agree that internal control officers are not adequately remunerated to function effectively in monitoring internal control system, hence the prevalence of fraud in insurance companies.

From hypothesis five, the r calculated of -0.91 reveals that there is very strong negative correlation between the independent and the dependent variables. This is confirmed by the probability value of the t-statistics of -0.0287 which is lower than the 0.5 level of significance. The null hypothesis is accepted we therefore agree that insurance companies' managements are not committed to ensuring effective monitoring of internal control system in the industry.

The positive correlations between the dependent variable and the independent variables in hypotheses 1-3 confirm the fact that internal control systems have a major influence on the performance of insurance business in Nigeria. This assertion is however been limited by poor remunerations of officers in charge of internal control functions aside from non-commitment of management towards ensuring proper monitoring of internal control system in the industry, as confirmed by hypotheses 4 and 5. Most of the companies deliberately employ unqualified personnel to head the internal control functions to confirm their uncompromising attitudes toward ensuring proper monitoring of internal control systems.

4.3 Conclusions

This study find that some of the major problems affecting internal control system in insurance companies in Adamawa are lack of training/effective communication among employees, ineffective company policies and procedures regarding employees, ineffective utilization of resources, wastages and high cost of operation, among others.

Moreover, we conclude that carelessness of managers can give fraudulent employees opportunity to perpetrate fraud and management enforcement of policies is a major indicator of organization commitment to successful internal control system.

5.0 Recommendations

Based on the finding of this study, it is recommended that:
A well established internal control system should be mandatory for all companies, in the insurance industry;
All law and regulations must be strictly enforced and penalties commensurate with the magnitude of the crime committed be prescribed and implemented;
Insurance companies should ensure that internal control unit personnel are qualified with at least a minimum of a MSC or MBA in management sciences and the head of unit should be a qualified accountant with many years of cognate experience;
Reasonable incentive for staff would help to minimize fraudulent activities from occurring;
Internal control managers or auditor should be given free hands and empowered, to allow them carry out their duties; and
Job rotations, training and retraining of internal control personnel should be encouraged.

References:

Ajayi, M. O. and Olusona, R.A., (2007). *Introduction to auditing.* Lagos: D. Elizoji & Co.

Albrecht, W.S., (2006), *Fraud Examination.* Thomson: South Western Publishing.

Baba (2010). Evaluating the effect of internal control on management performance in banking sector in Nigeria. A case study of some selected banks. unpublished research project presented to the Department of Accounting, Gombe State University.

Cressey, I., (1940), *Other people's money.* Montclair: Patterson Smith.

Dada, S. O., (2013). *Forensic accounting and the fight against corruption in Nigeria (1999 2010). U*npublished doctoral degree thesis presented to the Department of Business Administration, School of Postgraduate Studies, Babcock University, Ilishan-Remo, Ogun State, Nigeria

Eze. D, (2009). *Writing research (professional) report without tears*. Nsukka: Ephrata publishers, University of Nigeria.

Millichamp, A. H., (2008). *Auditing: An instructional manual for students.* London: BookPower: Croatia Montgomery.

Millichamp, A. H., and Taylor, J., (2012). *Auditing*. China: Centage Learning Higher Education.

Olajide, S. (2013). Corporate governance and insurance company growth: Challenges and opportunities. *International Journal of Academic Research in Economics and Management Sciences, 2(*1).

Olaoye, C. (2009). Impact of internal control system in banking sector, *Pakistan Journal of Social Sciences, 6*(4), 181-187.

Ozigbo, A. and Orife, O. (2011). Internal control and fraud prevention in insurances business. International Journal of Economic Development, *Research and Investment*, 2(3), 77.

Pindiga, A. (2003). Internal control system and internal audit. Kaduna, Audit Press.

Saidu, B. (2012). Role of internal auditors in ensuring effective financial control at Local Government Level, Local Government Audit System, pp. 9, Lagos, Trend publishing Ltd.

Siyanbola, T.T. (2013), Effective internal control systems as antidote for distress in the banking industry in Nigeria. *Journal of Business Management (JBM), 1*(5), 106-121.

The Institute of Internal Auditors (IIA) (2009). *The role of internal auditing in enterprise-wide risk management*", Florida, IIA Inc
Wolf, D.T. and Hermanson, D.R., (2014), *The fraud diamond: Considering the four elements of fraud.*