Internal Control System and Quality Audit Work

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Abstract
The Central Bank of Nigeria (CBN) reported that the backward development in the Nigeria banking sector is attributable to the weaknesses in the internal control systems and poor audit work of the banks. This has clearly pointed out the picture of how fraud has penetrated in the financial strength of Nigerian Banks. In a nut-shell, the damage which this menace, called fraud has done to the banks is innumerable and needs urgent attention. Therefore, the attempt to put an end to this economic degradation, gave rise to the topic of this research study the internal control system and quality audit work in the banking sector in Nigeria with Access Bank PLC as a case study. However, this study verifies the conception that an effective and efficient internal control system has a greater influence on the quality of audit work. Data captured for this study, were analyzed through descriptive and inferential statistical methods. The descriptive analysis involves the use of tabulation and percentages. While the inferential statistical method involved the use of the chi-square. This study reveals that internal control system has a great influence on the operations of the bank and consequently on their quality audit work. Base on the above point, it was recommended that a good internal control system should be employed by the management of every organization.
Keywords: Internal control, fraud, audit quality, banking sector

1.0 INTRODUCTION

Internal control, the strength of every organization, has become of paramount importance today in Nigerian banks. The reason being that the control systems in any organization is a pillar for an efficient accounting system. The need for the internal control systems in an organization, especially banks, cannot be undermined, due to the fact that the banking sector, which has a crucial role to play in the economic development of a nation, is now being characterized by macro economic instability, slow growth in real economic activities, corruption and the risk of fraud. Fraud, which is the major reason for setting up an internal control system, is a problem to Nigerian bank managers. It has also become an unfortunate staple in Nigeria's international reputation. Fraud is really eating deep into the Nigeria economy in general.

According to CBN bi-annual publication, (June 2007), CBN reported that cases of attempted fraud and forgery in banks, as at half-year 2007 have surpassed what was recorded for the whole year 2006. The CBN half-year report for 2007, revealed a total of 1,741 cases of attempted fraud and forgery, involving #5.4 billion, $35,406.1 and 150 Euros were reported as at June, 2007. In 2006, 1,193 cases were reported involving   #4.6 billion, $1.8 million and 14,389.7 pound sterling. The CBN also reported that the backward development was attributable to weaknesses in the internal control systems of the banks and the quality of audit work done in these periods. This has clearly painted the picture of how fraud has penetrated in the financial strength of Nigerian Banks.

1.2 STATEMENT OF PROBLEM

Fraud and other irregularities are prevalent problem in every organization today. An attempt in proffering solution to these problems lead to the emergence of auditing and a good internal control process will enhance quality audit work. In a nut-shell, the damage which this menace, called fraud has done to the banks is innumerable and needs urgent attention. Therefore, the attempt to put an end to this economic degradation, gave rise to the topic of this research study the impact of internal control system and audit quality in the banking sector. However, this study is aimed at verifying the conception that an effective and efficient internal control system engender quality audit which is the best measure for preventing and detecting fraud, especially in the banking sector. *This in effect, means that, quality audit work is not feasible without the establishment of a workable, efficient and effective internal control system in the organization.*

1.3 RESEARCH QUESTIONS
-   To what extent does lack of good internal control system a major cause of fraud in banks?
-   To what extent will good internal control systems prevent the menace of fraud?
-   To what extent can a good internal control system lead to quality audit work?

1.4 OBJECTIVES OF THE STUDY
The objectives of this study are to determine:
-   The extent to which lack of good internal control system a major cause of fraud in banks.
-   The extent to which a good internal control systems can prevent the menace of fraud.
-   How will a good internal control system lead to quality audit work.

1.5 HYPOTHESES

Three hypotheses are formulated and tested in this study.

H01: The lack of a good internal control is not a major cause of fraud in banks.

H02: Banks with internal control systems cannot prevent the menace of fraud.

H03: A good internal control system cannot lead to quality audit work.

1.6 SCOPE OF THE STUDY

The content of this research should not be seen as being totally exhaustive of all possibly situations available in the Nigerian Banking sector on the theme of this study. This is due to the vast size of the banking sector and the boundless nature of the study under review. Therefore, the scope of this research is limited to the study carried out on Access Bank branches in some states in the South-South region of Nigeria, particularly 20 selected branches. In the following states: Edo, Delta and Rivers.

2.0 CONCEPTUAL FRAMEWORK

A usual adage says prevention is better than cure; so also, people say that one should look before one leaps. These statements are more or less the equivalents of an internal control system. It is very important to state that the success of the operations of banks world-wide is strictly guided and dependent among other things, on the existing quality of their internal control system and the audit process (Siddiqui and Podder, 2002).

Palfi and Muresan (2009) in their study, on the "weaknesses of banks internal control systems" posit that internal control system act as a catalyst of quality audit work. Base on this study, they agree with the objectives of audit given by Adeniji (2004) as to prevent and detect errors and fraud. However, Abu-Musa (2010) describes Fraud as a predetermined and well planned tricky process or device usually undertaken by a person or group of persons, with the sole aim of checking another person or organization, to gain ill-gotten advantages, be it monetary or otherwise, which would not have accrued in the absence of such deceitful procedure. In the same vein, Savcuk (2007) opined that management fraud is a deliberate fraud, committed by management that injures investors and creditors, through materially misleading financial statements. Management fraud is sometimes called fraudulent financial reporting. Management fraud is usually perpetrated by the management staff of an organization, which includes directors, general managers, managing directors etc. A recall of the objectives of this study is to investigate what causes fraud and how this fraud can be prevented. In this regard, research into similar studies reveals that internal control system has a great influence on fraud and the audit process itself.

On the other hands, "Internal controls are policies, procedures, practices and organizational structures implemented to provide reasonable assurance that an organization's business objectives will be achieved and undesired risk events will be prevented or detected and corrected, based on either compliance or management initiated concerns" (Amudo, 2008).

In the view of the Institute of Chartered Accountants of England and Wales (ICAEW), internal control is the whole system of controls, financial or otherwise, established by management in order to carry on the business of an enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible, the completeness, accuracy and validity of the records. Chan (1995), sees it as the measures taken by an organization for the purpose of protecting its resources against wastes, fraud, inefficiency; ensuring accuracy and reliability in accounting and operating data; Securing compliance with organization policies and evaluating the level of performances in all divisions of the organizations.

From these views, it can be deduced that internal control comprises the plan of an organization and all of the coordinate methods and measures adopted within it, to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies. Cahil (2006), states that the objectives of internal control system are channeled towards ensuring adherence to managerial policies and achieving organizational goals by reducing errors and frauds to the barest minimum.

In the light of the foregoing, it is logical to agree with the work of Olatunji (2009), *"that there is a positive (direct) correlation between the objectives of internal control and audit itself"*.

3.0 METHODOLOGY

3.1 DATA COLLECTION

The data, from which the information constitute the findings, were collected from twenty branches of Access Bank Plc. This involved traveling to all the above mentioned states and asking the officers in charge, some prepared questions in which answers were provided accordingly. Data were obtained from both the primary and secondary sources, which includes; interview, structured questionnaire, journal publications, textbooks, newspapers, internet facilities. Secondary data are used to complement the primary data as the primary data is the original work.

3.2 RESEARCH DESIGN

Data captured for this study were analyzed through descriptive and inferential statistical methods. The

descriptive analysis involves the use of tabulation and percentages. While, the inferential statistical method involved the use of the chi-square. This means that the analysis will be descriptive in nature that is, it would include tabulation and percentages. Chi-square will be used for all relevant hypotheses.

4.0 DATA ANALYSIS AND INTERPRETATION

The result of the study had been presented according to the problems and testing the hypotheses.

Analysis of key aspect of the questionnaires: One hundred questionnaires were distributed to respondents, but 60 were retrieved:

TABLE 1: Percentage distribution of respondents to questionnaires

ITEM	NUMBER OF RESPONSE	PERCENTAGE (%)
Total Questionnaire Retrieved (TQR)	60	60
Total Questionnaire Not Retrieved (TQNR)	40	40
Total Questionnaire Distributed (TQD)	100	100

Source: Field survey 2013

Table 1, reveals that the research study was successful as 60% of the questionnaires distributed were retrieved.

TABLE 2: Percentage distribution of responses to the question that lack of good internal control is not a major cause of fraud in banks.

ITEM	NUMBER OF RESPNSE	PERCENTAGE (%)
YES	18	30
NO	37	61.67
UNDECIDED	5	8.33
TOTAL	60	100

Source: Field survey 2013

Table 2, shows that 18 respondents (representing 30%) feels that lack of good internal control is not a major cause of fraud in banks, while 37 respondents (representing 61.67%) feel otherwise and the remaining 5 respondents (representing 8.33%) were undecided.

TABLE 3: Percentage distribution of responses to the question that banks with internal control systems cannot prevent the menace of fraud.

ITEM	NUMBER OF RESPNSE	PERCENTAGE (%)
YES	42	70
NO	15	25
UNDECIDED	3	5
TOTAL	60	100

Source: Field survey 2013

Table 3, shows that 15 respondents (representing 25%) believed that the existence of internal control systems cannot prevent the menace of fraud in banks, while 42 respondents (representing 70%) believed otherwise and the remaining 3 respondents (representing 5%) were undecided.

TABLE 4: Percentage distribution of responses to the question that a good internal control system cannot lead to quality audit work.

ITEM	NUMBER OF RESPNSE	PERCENTAGE (%)
YES	23	38.33
NO	35	58.33
UNDECIDED	2	3.34
TOTAL	60	100

Source: Field survey 2013

From table 4, it is obvious that there is a relationship between internal control system and audit quality as 35 respondents (representing 58.33%) agrees that a good internal control system can lead to a quality audit work, while 23 respondents (representing 38.33%) feel otherwise and the remaining 2 respondents (representing 3.34%) were undecided.

From the tables above, it is obvious that effective and adequate internal control system is the best measure to be adopted not only to detect and prevent frauds, but also because it has a positive relationship with audit quality.

Testing of Hypotheses

Three hypothetical statements which were used as guides in the study were tested.

Hypothesis 1

H0: The lack of a good internal control is not a major cause of fraud in banks.

H1: The lack of a good internal control is a major cause of fraud in banks.

OPTION	RESPONSES
YES	18
NO	37
UNDECIDED	5
TOTAL	60

The statistical tool chi-square(X^2) is used thus:

$$X^2 = \frac{\mathcal{E}(O - E)^2}{E}$$

Where:

O = Observed Frequencies

E = Expected Frequencies

Since we are dealing with only one row variable, expected frequencies is calculated thus:

$$E = \frac{\mathcal{E}F}{N}$$

Where:

$\mathcal{E}F$ = Summation of responses

 N = Number of options

Therefore, E = 60/3 = 20

Then, $X^2 = \frac{(18 - 20)2}{20} + \frac{(37 - 20)2}{20} + \frac{(5 - 20)2}{20}$

$= 0.2 + 14.45 + 11.25$

$= 25.9$

The critical value of X^2 at two degree of freedom and 95% confidence limit is given as 5.99

DECISION

Since the cal. X^2 of 25.9 is greater than the tab.X^2 of 5.99. The null (Ho) hypothesis is rejected and the alternative accepted.

Therefore, it concludes that the lack of a good internal control is a major cause of fraud in banks.

Hypothesis 2

H0: Banks with internal control systems cannot prevent the menace of fraud.

H1: Banks with internal control systems can prevent the menace of fraud.

OPTION	RESPONSES
YES	42
NO	15
UNDECIDED	3
TOTAL	60

Then, $X^2 = \frac{(42 - 20)2}{20} + \frac{(15 - 20)2}{20} + \frac{(3 - 20)2}{20}$

$= 24.2 + 1.25 + 14.45$

$= 39.9$

The critical value of X^2 at two degree of freedom and 95% confidence limit is given as 5.99

DECISION

Since the cal. X^2 of 39.9 is greater than the tab.X^2 of 5.99. The null (Ho) hypothesis is rejected and the alternative accepted.

Therefore, it concludes that banks with internal control systems can prevent the menace of fraud.

Hypothesis 3

H0: A good internal control system cannot lead to quality audit work.

H1: A good internal control system can lead to quality audit work.

OPTION	RESPONSES
YES	23
NO	35
UNDECIDED	2
TOTAL	60

Then, $X^2 = \dfrac{(23-20)2}{20} + \dfrac{(35-20)2}{20} + \dfrac{(2-20)2}{20}$

$= 0.45 + 11.25 + 16.2$

$= 27.9$

The critical value of X^2 at two degree of freedom and 95% confidence limit is given as 5.99

DECISION

Since the cal. X^2 of 27.9 is greater than the tab.X^2 of 5.99. The null (Ho) hypothesis is rejected and the alternative accepted.

Therefore, it concludes that a good internal control system can lead to quality audit work.

5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY OF FINDINGS

It is obvious that, bank fraud is now becoming a global phenomenon. Fraud in general, inflicts untold hardship on bank owners, customers and their family members, as most bank failures are associated with large scale frauds.

The prevention and detection of frauds are basically the responsibility of the management, through the establishment of an effective and efficient internal control system.

5.2 CONCLUSION

Indeed, the importance of the internal control department/unit of any organization, especially banks cannot be undermined. Since the lack of an effective internal control system, according to the findings is the major cause of bank frauds. It is then concluded that the management of every bank should create and establish a standard internal control system, strong enough to stand against the wiles of fraud in order not only to promote continuity of operations and to ensure the liquidity, solvency and going concern concept of the bank but also to facilitate quality audit work in the bank.

5.3 RECOMMENDATIONS

The functions of fraud prevention, detection and control are interwoven, as the three works together to eliminate fraud and fraudulent tendencies. The knowledge of the possible causes of a disease will assist a medical doctor to give adequate prescription and panacea, for the prevention and cure of the disease.

Similarly, it is pertinent to recommend the following preventive, detective and curative measures to control fraud in the banking sector as this will go a long way in ensuring and guarantee quality audit work.

Adequate internal control system: Internal control which has been earlier mentioned and defined as all types of checks and balances, both operational and financial, should be employed by the management of every bank, to ensure that the bank's assets are safeguarded, of which cash is one. This would go a long way in reducing and curbing fraud in banks.

Effective internal audit department: Banks should try as much as possible to have an effective internal Audit department, which should be headed by a qualified accountant. In addition, the accountant should be responsible to the managing director or a higher authority in the bank.

Attractive pay packages: The maintenance of a rewarding workmen compensation scheme, will enable, an average banker live above poverty level. Hence, he will shun the temptation to defraud his/her employer.

Formulation of good personnel and recruitment policies: Recruitment should not be based on sentiment but on personal knowledge, guarantee and reference from people of high integrity will go a long way in preventing the recruitment of kleptomaniac, greedy and ungodly individuals in the banking sector.

Good management: Management by example, should be the watch word of every banker, be it director, manager, officer or messenger. Everyone should comply with the laid down policies and procedures in the performance of any banking function.

Other measures includes: Keeping of adequate records, putting operating procedures manual in writing, observing the attitude of the staff towards work and their spending habit, whether amount spent is commensurate with income earned etc. If the aforementioned measures are strictly adhered to, the ever increasing menace of fraud, which has ruined many Nigerian banks, (as well as the Audit Firms who can do little or nothing about fraud detection in any organization without an efficient and effective internal control), will be drastically reduced to its barest minimum and eventually eradicated.

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APPENDIX A

 (Sample questionnaire)

Department of Accounting,, Faculty of Management Sciences,University of Benin,Benin City,Nigeria.

Dear respondent,

This questionnaire is designed to find out "the efficiency of internal control system and quality audit work". It is a research currently carried out by (AKHOR SADIQ OSHOKE and OKUNGBOWA AIYAMENKHUE FRANCIS), M.Sc. students of the above institution and department.

Please, kindly complete the questionnaire as honestly and objectively as you can.

The information supplied will be treated with utmost confidentiality and solely for the purpose of this research.

Your co-operation is highly appreciated.

Thank you

Yours faithfully

AKHOR and OKUNGBOWA

QUESTIONNAIRE

SECTION A

INSTRUCTION: TICK AS APPROPRIATE,

NB: You can tick more than one in section A as applicable.

1. Qualification ( ) OND/NCE ( ) HND/B.SC. ( ) MBA/MPA/M.SC   ( ) PhD ( ) ACA/ACCA
2. What section/unit do you work? ( ) operation ( ) marketing ( ) audit/inspection.
3. How long have you work in the bank? ( ) below 3yrs ( )   3-6yrs
     ( )7yrs and above.

SECTION B

	YES	NO	UNDECIDED
(1) Is lack of good internal control a major cause of fraud in banks?	( )	( )	( )
(2) Can banks with internal control systems prevent the menace of fraud?	( )	( )	( )
(3) Can a good internal control system lead to quality audit work?	( )	( )	( )

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