INTERNAL CONTROL SYSTEM AND FRAUD CONTROL ON DEPOSIT MONEY BANKS (DMBs) IN NIGERIA

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BEING A DISSERTATION SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES, AHMADU BELLO UNIVERSITY IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE (M.Sc.) IN ACCOUNTING AND FINANCE

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DECLARATION

I hereby declare that the work in this Dissertation entitled “Internal Control System And Fraud Control on Deposit Money Banks in Nigeria” has been carried out by me in the Department of Accounting. The information derived from the literature has been duly acknowledged in the text and a list of references provided. No part of this Dissertation was previously presented for another degree or diploma at this or any other Institution.

…… ……

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CERTIFICATION

This is to certify that this Dissertation entitled Internal Control System and Fraud Control in Deposit Money Banks in Nigeria by HUDU, Abubakar Sadiq meets the requirements and regulations governing the award of the Degree of Master of Science (M.Sc.) in Accounting and Finance of Ahmadu Bello University, Zaria and is therefore approved for its contribution to knowledge and literary presentation.

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DEDICATION

This work is dedicated to my late mom Mrs. Khadijah Galadima, my father Mr. Hudu Moyi and to all the lovers of education.

ABSTRACT

Nigeria has had the highest incidences of fraud in the world, based on a global ranking countries surveyed. Deposit Money Banks in Nigeria are more susceptible to fraud than other banks in her neighbouring countries. This heightened interest in internal controls systems is as a result of significant losses incurred by several banking organizations. An analysis of the problems related to these losses indicates that avoided had the banks put enough effort in maintaining an effective Internal Control Systems. Thus, the main objective of this study is to examine the effect of ICS on fraud control in the Deposit Money Banks in Nigeria. The study employ cross sectional survey design where the use of questionnaire to collect the primary data from the management staffs of the Deposit Money Banks in Nigeria were analyzed through the Structural Equation Modelling statistical techniques (SEM) with the help of Smart PLS software. The study found that some components of internal control systems had a significant relationship with fraud control after computing the coefficients of determination. Based on the research findings it can be concluded that internal control system is a positive significant predictor of controlling fraud. Thus, Control environment has positive and significant influence on fraud control, in addition to a significant relationship between monitoring activities and fraud control. Risk assessment also influence fraud control significantly. Therefore, the study also recommends the establishment of government regulations which can be used as amendments in order to improve and strengthen the internal control system to protect the investors' investments and grow the economy, so as to attract investor's confidence.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

An organization is an entity that comprises of various intrinsic features that have to work as a structure in-order to ensure that the resources provided by all stakeholder of the organization are effectively utilized in attaining both short and long realistic goals. The poor internal control of the resources will lead to a misfortune or demise of the organization. The recent fraud cases in Nigeria banking sector which made the Central Bank to inject 620 Billion naira tax payers fund and take over some deposit money banks (DMBs) known as troubled banks namely: Oceanic Bank Plc, Fin Bank Plc, Afri bank Plc, Bank PHB, Spring Bank and Intercontinental Bank can also be traced to fraud. And Considering some corporate scandals which have also been experienced in recent years in Nigeria, like series of well-publicized cases of accounting improprieties and scandals such as Cadbury Nigeria Plc in 2006 and Lever Brothers (Adeyemi, Okpala & Eyesan, 2012). These occurrence of fraudulent practices in most deposit bank in Nigeria have negatively affected the mindset of most shareholders and investors, and may take some period of time before it can be corrected (Obafemi, 2015).

However, in an environment according to Klibi (2015) as cited by Adebukola (2017), where there is perpetual mutation and vigorous increase managers are expected to adapt themselves to changes and become flexible in their manner of managing both inside and outside organization. In this context managers must acquire important management tools and allow the proper auditing to aid to reduction of risk and fraud in the operation of the organization.

Internal controls are a set of measures which are performed by the managers in order to ensure relatively confidence about proper implementation of affairs and compatibility to the imposed regulations and policies so that operation's efficiency and usefulness is increased and predetermined goals are achieved (Gamage, Lock & Fernando, 2014; Adebukola, 2017). In other words, internal controls include organization's plan and coordination of all procedures listed in an organization which are prescribed to protect the assets, deal with accuracy and reliability of accounting data, promote and encourage efficient operations management to comply with the managerial procedures (Adebukola, 2017). Internal Control are process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories effectiveness and efficiency of operation, reliability of financial reporting and compliance with applicable law and regulation (Rezaee 2015). According to Samaha (2016) and Krishmn (2005) as cited by Adebukola (2017), Internal control system represents an important factor in achieving good quality financial reporting.

Internal control is a process, policies, and procedures designed by management to ensure reliable financial reporting and financial reporting in accordance with the applicable accounting framework (Campbell & Harther, 2010; Gamage, et al., 2014; Rezaee 2015). Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013), there are five components of internal control: environmental control, risk assessment, activity control, information and communication, and monitoring. International Standard on Auditing (ISA) defines internal control as all policies and procedure adopted by the management of an entity to assist in

achieving the primary objectives of the management by make sure the business is conducted in the most possible efficient way and also ensuring strict adherence to management policies, safeguarding of asset, prevention and detection of fraud and timely preparation of reliable account.

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. 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. (Adekunle, Omowunmi & Niyan, 2015).

Fraud is seen as an act of deliberate deception with the aim of securing a personal benefit by taking advantages of other. Also, it could simply be put as the misappropriation, theft or embezzlement of corporate assets in a particular economic environment in the simplest thinking" it is also known as "stealing by tricks" (Achibong, 2013). It is the trusted and valued employee who generally commits business fraud. When frauds are discovered, there is often shock and disbelief that they could have committed such an act. The perpetrator of business fraud could be "the person next door." This person is likely to be a married male with a family, religious affiliation, and above average education (Russell & Norvig, 2013).

Many frauds occur because the opportunity exists and the perpetrator does not believe he/she will be caught. Fraud has been an ongoing issue for thousands of years and continues to be a problem today. There are several definitions for fraud as a legal (or criminal) concept. According

to the Encyclopedia Britannica, (2012), it is "the deliberate misrepresentation of fact for the purpose of depriving someone of a valuable possession. Although fraud is sometimes a crime in itself, more often it is an element of crimes such as obtaining money by false pretence or by impersonation" To understand the components of fraud, a systematic approach is in order. As a system, fraud involves victims and perpetrators, and as a structure, it involves a fraud scheme. It can be evaluated as an open system, and the challenge is to evaluate the weaknesses of this system in order to impact it (detect, prevent, or deter).

Internal control is the process designed and effected by those charged with governance, management and other personnel to provide reasonable assurance about achievement of entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations (Gamage, et al., 2014). Internal control plays an important role in the prevention and detection of fraud (Rezaee, 2015). Under the Sarbanes-Oxley Act, companies are required to perform a fraud risk assessment and assess related controls. This typically involves identifying scenarios in which theft or loss could occur and determining if existing control procedures effectively manage the risk to an acceptable level. The risk that senior management might override important financial controls to manipulate financial reporting is also a key area of focus in fraud risk assessment. According to Campbell and Harther, 2010, internal controls are policies, procedures, practices and organizational structures implemented to provide reasonable assurance that an organization's business objectives will be prevented or detected and corrected, based on either compliance or management initiated concerns.

The Committee of Sponsoring Organization of the Treadway Commission (COSO) defined internal control as a process effected by the entity's board of directors, management and other

personnel designed to provide reasonable assurance regarding achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations (COSO, 2010). This definition points to the fact that internal controls create a basis of amount of work to be carried out by the professionals charged with the function, as they are expected to ensure the safeguard of the organization's funds, ensure that there is efficient and effective management of assets and that financial statements are accurate at all time. Though internal controls system cannot eliminate all errors and irregularities, it is expected that they can alert management to potential problems, which can be controlled before they escalate to big problems (Campbell & Harther, 2010).

Nigerian banking industry has suffered a lot due to fraud resulting from either lack of adherence to laid down principles and policies (internal control systems) that have been established by the management of financial institutions and regulatory authorities. Whatever the situation, every financial and non-financial organization, need to have a better efficient, effective and proper functioning internal controls system in order to protect its assets from possible misuse and misapplication by the employees, theft and errors made by inefficient and inexperienced personnel, (Ifeanyi, Adejanju & Olagunju, 2011). The Nigerian banks can still avoids further damages of fraud by having better and improve strong systems of internal controls. This would be facilitated by improved structures of operations which stem from the control environment. Therefore, internal controls form a backbone of preventing fraudulent activity by ensuring proper authorization of transaction, avoiding errors and irregularities as well as exposing those already committed. The Committee of Sponsoring Organizations (COSO, 2013) provides five incorporated elements of internal controller which are; control environment, risk Assessment, control activities, information and communication, and monitoring activities.

It is indubitable that without having proper internal control system and practicing the same, the organizations face numerous problems and risks. If the situation continues it may affect company's growth, image, employees and customers dissatisfaction and employees welfare, loss of investors, insolvency (Gamage, et al., 2014). Effective and efficient controls provide reasonable assurance regarding the accomplishment of established objectives (COSO, 2013). Many employees in bank or financial institutions have taken advantage of weak internal controls to commit fraud. Weak internal controls have contributed to large losses for some banks and failures of others arising from fraudulent activities (Hartman, 2014).

Despite good performance of the Nigerian banking sector, the issue of fraud is one of the most intractable and monumental problem facing the industry. the fear is that the increasing wave of fraud in the financial institutions if not arrested might pose threat to the stability and the survival of the individual financial institutions, the industry performance as a whole and no part of the economy would be immune from the impact. It is against this background that the study examined that whether or not the established internal control systems components (Control Environment, Risk Assessment, Control Activities and Monitoring Activities) are effective and how effective are they being practiced in the Deposit Money Banks (DMBs).

1.2 Statement of the Problem

Fraud has become an unfortunate staple in Nigeria's international reputation, which has eating deep into the Nigerian banking system and that any bank with a weak internal control system is dangerously exposed to fraud in banks (Adeduro, 2014). In the year 2018, Nigerian banks despite efforts by the regulatory authorities to curb financial fraud and clean up the banking system, Nigerian banks recorded 20,768 cases costing them N19.77 billion in the first 6 months

of 2018 (CBN, 2018). According to the apex bank, the reported fraud and forgery incidences were perpetrated by both bank staff and non-bank culprits.

Internal control is considered as effective if the board of directors and management are ensured logically concerning following cases: Awareness about achievement to operational goals of the economic unit, preparing reliable financial statements; complying with respective regulations. Thus, the problem is that effective internal controls lead to reduction of fraud, and ineffective internal controls influences increasing fraud in banks, detection of significant errors and distortions, and validating financial statements.

Jensen and Meckling (1976) stated that there is a tendency of principal-agent conflicts to arise, when there is role separation between management and ownership that is compounded by the asymmetric information. They claimed that this stems from the ineffective utilization of corporate assets that is influenced by the self-interest of management in conducting risky but imprudent projects with evident adverse outcomes borne by the capital providers. Hence, various internal and external mechanisms have been examined in terms of corporate governance for the prevention of agency conflicts and mitigation of agency costs.

This heightened interest in internal controls is in part a result of significant losses incurred by several banking organizations (Adebukola, 2017). An analysis of the problems related to these losses indicates that they could probably have been avoided had the banks put enough effort in maintaining an effective internal control systems. Such systems would have prevented or enabled earlier detection of the problems that led to the losses, thereby limiting damage to the banking industries (Levi, 2013). Nigeria has the highest incidences of fraud in the world, based on a

global ranking of 78 Countries surveyed (PwC, 2011). Deposit Money Banks (DMBs) in Nigeria are more susceptible to fraud than other banks in her neighboring countries (Adebokula, 2017).

In Nigeria now, the level of fraud in Deposit Money Banks (DMBs) has reached an alarming peak. If not arrested might pose threat to the stability and the survival of the individual financial institutions, also the industry performance as a whole and no area of the economy would be immune from the impact. The problem identified by this study is the incessant and unabated occurrence of frauds in Nigerian banks which continue to worry all stakeholders in the sector because it is a known and established fact that the development of any economy would largely be hampered when the level or rate of fraud occurrence is left uncontrolled this is mainly because according to Nwaze, (2006) and Okpara, (2009) the major perpetrators are employee staffs and fraudulent members of the top, middle and branch management, who emphatically stated that no fraud will be successful without the input of management employees. Hence, it is upon this backdrop that this study is carried out to examine the effect of internal control system on fraud control in deposit money banks (DMBs).

1.3 Research Questions

The following research questions are raised with a view to finding answers to them at the end of the study:

i. What is the effect of control environment on fraud control in DMBs in Nigeria?
ii. Does control activities affects fraud control in DMBs in Nigeria?
iii. To what extent does risk assessment influence fraud control in DMBs in Nigeria?
iv. What is the effect of monitoring activities on fraud control in DMBs in Nigeria?

1.4 Objectives of the Study

The main objective of this study is to examine the effect of internal control system on fraud control in the Deposit Money Banks (DMBs) in Nigeria. The specific objectives are as follows:

i. To determine the relationship between control environment and fraud control in DMBs in Nigeria.
ii. To evaluate the relationship between control activities and fraud control in DMBs in Nigeria.
iii. To examine the relationship between risk assessment and fraud control in DMBs in Nigeria.
iv. To evaluate the relationship between monitoring activities and fraud control in DMBs in Nigeria.

1.5 Research Hypotheses

In line with the objectives of the study, the following null hypotheses will be tested in the study:

H_{01}: There is no significant relationship between control environment and fraud control in DMBs in Nigeria.

H_{02}: There is no significant relationship between control activities and fraud control in DMBs in Nigeria.

H_{03}: There is no significant relationship between risk assessment and fraud control in DMBs in Nigeria.

H_{04}: There is no significant relationship between monitoring activities and fraud control in DMBs in Nigeria.

1.6 Scope of the Study

This research focuses on fraud control in DMBs in the Nigerian banking sectors. The study looks into the relationship between internal control system and fraud control in the Nigerian banking

sector and to examine the possibility of reducing the occurrence of fraud cases by use of the aforementioned variables (Control Environment, Risk Assessment, Control Activities and Monitoring Activities). The content of this study should not be seen as being totally exhaustive of all possible 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 study is limited to (17) DMBs among the listed (21) banks published by CBN on the month of June 2018.

1.7 Significance of the Study

The findings of the study would help the management of the bank to maintain an enhanced controlled environment by helping management and employees to establish and maintain an environment throughout the bank that sets a positive and supportive altitude towards internal control, reliable management, operating personnel for effecting internal control and internal check for evaluating whether appropriate controls have been implemented and whether the internal controls are functioning as intended. Other significance of the study includes: Help the bank in reducing fraudulent activities that occur in the organization serve as good reference materials for other researchers on the subject matter.

This research work which is conducted on effect of internal control system on fraud control in DMBs. The researcher is of the hope that the work will go a long way in helping banks discover the impact of weaknesses of internal control in terms of fraud control and suggest measures in improving the system. This research work will help show how various ways fraud can be perpetrated, detected and prevented through the use of proper internal control system.

The study is significant in contributing to the body of knowledge especially the methodology. In order to derive more valuable and broader conclusions, the methodology adopted in this research

involved administering questionnaires across deposit money banks in Nigeria, in order to increase the generalizability of the results. Most researches utilized SPSS techniques of analysis to produce results. This study now explored PLS-SEM which is comparatively a new analytical tool, to examine the structural relationship among the constructs of this study.

And also the findings of the study are expected to have implications on policy, practice and theory building. The policy makers will be able to deduce from the study the important component in the internal control system that should be aided the more for goal attainment reason. Academia will use findings to induce proper knowledge on the effect of internal control system on banks. The government through the Central Bank of Nigeria (CBN) may use the study findings to improve on formulate policies on other internal control system components.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section of the study contain the conceptual issues on the variables of the study. It then review empirical studies on management control system and banking fraud. The essence of this is to establish a conceptual framework and relationships among the variables of the study as provided by previous empirical studies, and to subsequently fill in the gaps which may be uncovered in the course of the review. Related theories that are linked to the variables of the study will also be presented and the most relevant theory/theories that best explain the relationship between the variables of the study are selected.

2.2 Concept of Fraud

Several definitions of the term fraud have been expressed, based on the objectives of each research. Rationally, every financial institutions should want to prevent fraud from happening against their organizations, but there are some organizations that would not readily want to admit that their organizations might be vulnerable to any significant fraud. The unfavourable reality is that many individuals can commit fraud against any organization with a clever understanding of the company's internal control structure.

For instance, according to the American Institute of Certified Public Accountants (2003), fraud is an intentional act that results in a material misstatement in financial statements that are the subject of an audit. There are two ways in which a material misstatement could occur with respect to fraud: misappropriation of assets and fraudulent financial reporting. Misappropriation

of assets, as the name suggests, refers to the theft of company assets that may result in the company's financial statements being materiality misstated (AICPA, 2003).

According to Ojeigbede (2000) and Olaoye (2009), fraud is the use of dishonest means to obtain an unjust or illegal material advantage at the expense of another. They opined that fraud is an intentional misrepresentation of financial information by one or more individuals among management, employees or third parties. According to The American Heritage Dictionary, fraud is defined as a deception deliberately practiced in order to secure unfair or unlawful gain. It could be appreciated from this definition that fraud involves deception being rehearsed in order to acquire the skill needed to deprive another of a lawful gain. Fraud always involves one or more persons who, with intent, act secretly to deprive another of something of value, for their own enrichment (Obafemi, 2015)

According to AICPA (2014), fraud is any intentional or deliberate act to deprive another of property or money by deception or other unfair means. The association also classifies fraud into eight categories namely; misrepresentation of material facts, concealment of material facts, corruption, illegal gratuity, extortion, conflict of interest, embezzlement and theft .Fraud refers to any illegal act characterized by deceit, concealment, or violation of trust. According to Cressey as cited by Adeyemo (2012), three factors that are present in every situation of fraud are motive or pressure – the need for committing fraud; rationalization – the mind-set of the fraudster that justifies them to commit fraud; and opportunity – the situation that enables fraud to occur often when internal controls are weak or non-existent.

According to the International Federation of Accountants (IFAC), fraud is an intentional act by one or more individuals in management, by those charged with governance or employees of the

third party who are involved in deception to obtain an unjust or illegal advantage. The Internal Control Institute of Turkey refers to fraud as misconduct and defines it as illegal acts described as counterfeiting and misappropriation. According to AICPA (2014), fraud is also a comprehensive legal concept that can be separated from error depending on its detection as an intentional or unintentional act. Fraud is the intentional misuse or abuse of resources and assets of a business or the obtaining of illegal advantage by acquiring them. For an action to constitute fraud, therefore there must be a dishonest intention, and the action must be intended to benefit the perpetrator to the detriment of another person. It is a special case of irregularity as it involves the use of criminal deceptions to obtain an unjust or illegal advantage (Ojeigbede, 2000; Olaoye, 2009).

Inferences could be drawn from all definitions of fraud given so far that the concept fraud is a militating and diabolical act brought into existence by one or more parties against another with the intention of depriving the other party or parties of things of value. Since fraud is intentionally done on documentation and records, it cannot be expected to appear by itself in the accounting system. In a like manner, since it is done intentionally, it is rather hard to detect. The reason for this is that the human mind constantly develops new methods and ways of hiding such activity.

Fraud can get into a corporate financial reporting system undetected and can spread silently involving more people and affecting more accounts to the extent that anyone responsible for the fraud cannot tell to what extent it has spread. Fraud therefore is a risk that is an inherent part of business life. According to Certified Management Accountant (CMA, 2009), fraud is a risk that impact negatively on the business growth. Fraud assumes so many different degrees and forms that courts are compelled to context themselves with only few general rules for its discovery and defeat. Gray (2013) defined fraud as an act involving deceit (such as intentional distortion of the

truth or misrepresentation nor concealment of a material fact) to gain an unfair advantage over another in order to secure something of value or deprive another of a right. It occurs when a perpetrator communicates false statements with the intent of defrauding a victim out of property or something of value.

Fraud control is a framework which ensures that fraud is prevented as much as possible. According to the Cassowary Coast Regional Council (CCRC, 2015), fraud prevention strategies are the first line of defence and provide the most cost-effective method of controlling fraud within an organisation. To be effective, fraud prevention within an organisation requires a number of contributory elements, including an ethical organizational culture, a strong awareness of fraud among employees, suppliers and clients, and an effective internal control framework.

In view of the gravity of fraud in banks, the management of various banks have employed different measures, such as establishment of internal control unit, fraud alerts, security measures etc. Yet fraud has continued in an upward trend, and this has called the effectiveness of these measures into question (Okubena, 1998). Though details may differ from one bank to another, it all depends on size, location and general environment nationally and internationally. On the other hand, if fraud occur, the fraud control put in place should be able to detect it and deal with it as fast as possible. Nwankwo (1991) was of the opinion that general procedures for the control should normally involve identification and detection, then lastly management.

The process of identification of frauds will enable the bank to access its susceptibility and identify which types it has to address particularly. The next stage would be to evolve measures to prevent the occurrence of such frauds. The existing control systems can be classified into two, those aimed at prevention and those aimed at detection.

Ekechi (1990) stated that measures aimed at controlling fraud include dual control, operational manual, graduated limits of authority, lending units, reporting systems, close circuit television, establishment of inspectorate units, referencing on presentation of document of value, segregation of duties, verification of signatures, controls of dormant accounts, detection of passport sized photos, close watch on the lifestyle of staff and coding/decoding and testing of telex messages. Measures aimed at fraud detection include checking of cashiers, call-over, reconciliation and balancing of accounts at branches, interbank at head office levels, periodical submission of statement of accounts, stock taking of security items and cash in the vaults and inspection by bank inspectors (Ojeigbede, 2000).

In controlling fraud in the banks, the boards of directors also plays a major role because the leadership responsibilities must be clearly spelt out and formally explained to them. This responsibility should include the directing of the overall policy and management of the bank, fiduciary duty to act honestly and with utmost good faith, and exercise of skill and care in discharging the statutory obligations of the bank. In particular, the board has the collective responsibility of the members to ensure that suitable security systems exist; there are adequate accounting records and internal control measures (Sang, 2013).

2.2.1 Fraud in Banking

Banks are the engines that drive the operations in the financial sector and vital for the economy. Bank fraud is the use of fraudulent means to obtain money, assets, or other property owned or held by a financial institution. Bank fraud can be defined as a conscious or deliberate effort aimed at obtaining unlawful financial advantage at the detriment of another person who is the rightful owner of the fund (Adeyemo, 2012). In many instances, bank fraud is a criminal offence,

while the specific element of a particular banking fraud law varies between jurisdictions; the term bank fraud applies to actions that employ a scheme as opposed to bank robbery or theft.

Frauds in the banks are not new they are as old as the industry itself. Bank fraud must be looked at generally as acts that involve the loss of assets by banks through deceitful and dishonest means. The intention of the fraudster is to dishonestly benefit himself to the detriment of the bank or bank staff or bank customer or any member of the public via banking operations. Fraud can be committed by bank customers, bank staff or a combination of staff and customer or third parties that is non-customers (Adeniji, 2004).

In the Deposit money banks (DMBs) which are also known as commercial banks are financial institutions that provide services, such as accepting deposits, giving business loans, mortgage lending, and basic deposit products like current account, savings account and classes of time deposits. The role of finance in terms of money deposit bank was well acknowledged by researchers. The function of these banks as financial intermediation involves channelling funds from the surplus unit to the deficit unit of the economy, thus transforming deposits into loans or credits. The role of deposit money banks in economic development has been recognized as credits are obtained by the various economic agents to enable them meet investment operating expenses. For instance, business firms obtain credit to buy machinery and equipment, farmers obtain credit to purchase machines such as tractors, seeds, fertilizers, and erect various kinds of farm buildings (Adeniji, 2004).

In Nigeria, like other countries of the world, there have been a series of well-publicized cases of accounting improprieties such as is reported in relation to Cadbury Nigeria Plc, Afribank, Lever Brothers, and Oceanic Bank, among others. These ugly events have captured the attention of investors whose confidence in financial reporting process and auditing functions is continuously

on the decline. Nigerian banking industry has suffered a lot due to mismanagement resulting from either lack of adherence to laid down principles and policies (internal control systems) that have been established by the management of financial institutions and regulatory authorities or lack of internal controls system all together. Whatever the situation, every financial and non-financial organization, need to have a better efficient, effective and proper functioning internal controls system in order to protect its assets from possible misuse and misapplication by the employees, theft and errors made by inefficient and inexperienced personnel, (Ifeanyi et al., 2011).

In view of the gravity of fraud in banks, the management of various banks had employed different measures, such as establishment of internal control unit, fraud alerts, security measures etc, yet fraud has continued in an upward trend, and this has called the effectiveness of these measures into question (Okubena, 1998). Young (2002) says that, sample evidence exists that individual integrity of those running the banks today has never been at a higher level. Never before have we seen attention to the actual steps; procedures and control of monetary transactions. Employees‟ as well as firms in all industries and banking activities engage in fraudulent practices all over the world. Frequent occurrences of frauds ultimately distract the attention of the management and led to increased running cost. Time and energies that would have been spent improving customer services would be expended on preventing frauds. According to Ayodele (2013), fraud can lead to a diminishing effect on the asset quality of banks. In fact, the problem is more dangerous when compounded by insider loan abuse which was the reason for the first generation of liquidated banks by NDIC.

According to Adeyemo (2012), the control environment sets the overall tone of the organization in relation to integrity, ethical values and competence of its people. Among the factors that affect

the control environment of an organization include management's philosophy and operating style, adequate training of bank staff, appropriate delegation of authority, and effective bank compensation guidelines (Charles, 2011). In order for the bank to set the control environment, it must undertake the risk assessment. The internal control environment denotes the identification, analysis, and management of uncertainties facing an organization from external and internal sources (Adeyemo, 2012). The risk assessment results into a range of control activities to mitigate the risks identified. The control activities include the policies and procedures that ensure that the compliance of an organization or department to the management's directives and include approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties (Kanu & Okorafor, 2013).

2.3 Internal Control System

Internal control is a process affected by the actions of the board of directors and other organizational structure levels in the firm, which is designed to provide reasonable assurance toward achieving the firm's objectives, plans, and strategies for the related laws, rules, policies, and regulations (Gamage, et al., 2014; Kinyua, 2016). Internal control is considered a plan to regulate the methods for using the assets owned by the unit, maintain it and review the accuracy and documentation of accounting data (Accounting Control) and work to achieve the goals of the production plan, efficiently, economically and effectively, in addition to take the appropriate administrative policies (Administrative Control), as it designed to provide reasonable assurance regarding the achievement of the objectives established regarding to reliability of financial reporting, the effectiveness of the operations and efficiency of compliance with applied laws and regulations (Gamage, et al., 2014). The organizational plan, coordination means and the applied standards in the project aiming at protecting its assets, controlling and reviewing accounting data, ensuring its accuracy and reliability, furthermore,

increasing production efficiency and encouraging employees to adhere to the established administrative policies" (AICPA, 2014). COSO committee had defined internal control as "a process that is designed to provide an appropriate confirmation of the effectiveness and efficiency of operations processes and the possibility of trusting in the financial statements and abide by laws and regulations" (COSO, 2013).

Every financial institutions wants to stop fraud from happening against their organizations but interestingly, most financial institutions would not readily want to admit that their organizations might be vulnerable to any significant fraud. The unfavorable reality is that many individuals can commit fraud against any organization with a clever understanding of the institution's internal control structure. An internal control structure is a significant component of any financial institution and a foundation to safe operation within it. Gamage, et al. (2014) posits that internal control concept is very important for proper management of an organization's risk, which may constitute barriers to the attainment of its set objectives if neglected.

Internal control is the process designed and implemented by those charged with governance, management, and other personnel, to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations (Gray, 2013). According to Ofori (2011), internal control system is the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguarding the asset and secure as far as possible the completeness and accuracy of the records.

Nyakarwa and Karwirwa (2014), defines internal control as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories :effectiveness and efficiency

of operations; reliability of financial reporting; and compliance with applicable laws and regulations.

Internal accounting controls are mechanisms through which an entity provides useful information which is important for decision making. Internal controls means all the policies and procedures adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

Control procedures are those policies and procedures in addition to the control environment which management has established to achieve the entity's specific objectives. Specific control procedures include reporting, reviewing and approving reconciliations. Checking the arithmetical accuracy of the records, maintaining and reviewing control accounts and trial balances. Approving and controlling of documents. Comparing internal data with external sources of information and finally comparing and analyzing the financial results with budgeted amounts.

2.3.1 Internal Control System and Fraud Control

A system of internal controls is a critical component of bank management and a foundation for the safe and sound operation of banking organizations. A system of strong internal controls can help to ensure that the goals and objectives of a banking organization will be met, that the bank will achieve long-term profitability targets, and maintain reliable financial and managerial reporting (Markowski & Mannan, 2008). Such a system can also help to ensure that the bank will comply with laws and regulations as well as policies, plans, internal rules and procedures, and

decrease the risk of unexpected losses or damage to the bank's reputation. The Basel Committee, along with banking supervisors throughout the world, has focused increasingly on the importance of sound internal controls. This heightened interest in internal controls is, in part, a result of significant losses incurred by several banking organizations. An analysis of the problems related to these losses indicates that they could probably have been avoided had the banks maintained effective internal control systems. Such systems would have prevented or enabled earlier detection of the problems that led to the losses, thereby limiting damage to the banking organization. A system of accounting and records keeping will not succeed in completely and accurately processing all transaction unless controls known as internal controls are built into the system (Opromolla & Maccarini, 2010).

Internal controls are processes designed to provide reasonable assurance that management achieves effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations (Grant, Miller, & Alali, 2008). A system of internal controls potentially prevents errors and fraud through monitoring and enhancing organizational and financial reporting processes as well as ensuring compliance with pertinent laws and regulations (Rae & Subramanian, 2008). Reasonable assurance is provided when cost effective actions are taken to restrict deviations, such as improper or illegal acts to a tolerable level. The internal audit reviews the effectiveness of the internal control system to ascertain whether the system is functioning as intended (Fadzil, Haron & Jantan, 2005).

The system of internal controls should emphasize on, proper identification measurement and monitoring of risks, control activities for each level of operation, creation of reliable information systems that promptly reports anomalies and detailed reporting of all operations and monitoring of all the activities (Opromolla & Maccarini, 2010). Internal control systems operate at different

levels of effectiveness. Determination of whether a particular internal control system is working properly, assessment of these four components (Control environment, Risk assessment, Control activities and Monitoring activities) should ensure that they are present and functioning well. Effective controls provide reasonable assurance regarding the accomplishment of established objectives (COSO, 2013).

2.3.1.1 Control Environment and Fraud Control

Hartman (2014) stated that banking industry has suffered so many losses because of weak internal control system. This makes it very important for banking institution to adopt strong system of internal control if they must eradicate or minimize unethical attitude both from internal and external environment. The resulting control environment has a pervasive impact on the overall system of internal control (COSO, 2013). Price Water House Coopers (PWHC, 2012) indicated that, the control environment includes the governance and management functions and the attitudes, awareness, and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity. According to Ofori (2011); Dougles (2011); Millichamp (2002) and Sri Lanka Auditing Standards (2013), they all mentioned that control environment is the attitude toward internal control and control consciousness established and maintained by the management and the employees of an organization. It may be viewed as the foundation for other components of internal control providing discipline and structure.

In order for the bank to set the control environment, it must undertake the risk assessment. The internal control environment denotes the identification, analysis, and management of uncertainties facing an organization from external and internal sources (Adeyemo, 2012). The

risk assessment results into a range of control activities to mitigate the risks identified. The control activities include the policies and procedures that ensure that the compliance of an organization or department to the management's directives and include "approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties (Kanu & Okorafor, 2013). Previous reforms of banking industry had revealed weaknesses in the Nigerian financial service industry. The financial service industry was characterized by poor risk management practices, due to the absence of basic control measures, as boards and managements of banks failed to observe established controls by the CBN (CBN 2014). Other elements of the crisis in the Nigerian financial service industry can be attributed to poor operating environment, stiff competitions, and lack of dependable consumer credit report on corporate bodies and prospective borrowers. Thus, in assessing risk it forms the basis for determining how risks will be managed or control (COSO, 2013).

Ayagre, Appiah & Joseph (2014) indicated that it is important to continually evaluate the internal control systems intermittently. Internal control effectiveness are assessed on three levels. These are: (1) the degree to which the directors comprehend that the organization's objectives are being realised; (2) the reliability of published financial statements; and (3) compliance with appropriate rules and guidelines

There are other factors affecting the control environment which include management's philosophy and operating style, integrity and ethical values, a commitment to the competence, board of directors or audit committee, organizational structure, assignment of authority and responsibility and human resource policies and practices (Gamage et al. 2014; Nyakarwa & Karwirwa 2014;Ogetange, 2017 & Kinyua, 2016).

2.3.1.2 Control Activities and Fraud Control

Control activities are considered to be the procedures as well as actions that help to ensure that administration directives are done. They ensure that needed activities are taken to deal with hazards that hinder accomplishment of the entity's aims (COSO, 2011). Control actions, if automatic or manual, have numerous aims as well as functional at numerous administrative and practical levels. Usually control actions that may be pertinent to an examination may be characterized as plans and processes that relate to performance evaluation, information handling, physical control and separation of obligations.

Control activities are the most visible element of internal control and arguably the most important in preventing wrong actions from occurring. However, COSO (2013) suggests that the control environment is more critical because it influences motivation for proper behavior. Control activities can be easily established and should be considered start-up elements for developing the internal control system of a new organization. it also identifies six categories of control activities. These categories include segregation of duties, physical controls over cash and other assets, top-level reviews of performance, effective direct management of activities, information processing of transactions, restriction of access to data, investigation of unusual performance indicators, and maintenance of proper documentation of transactions. The effectiveness of an internal control system is dependent on how fluid the system interact with itself and how embedded it is into the organizations business processes. For an internal control

system to be effective and provide that needed assurance to the board, there should be some agents of effectiveness (Ayagre et al (2014).

Effective communication must ensure that the information flow down, up and across and the entire organization on time and form needed for operations to take place. All employees should receive clear and relevant message from top management that control responsibilities which should be taken seriously. Employees also should understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information to the top management. Evaluation of the quality of the contents of information can be done through determination of how appropriate, timely, current and accessible they are. The auditor as an independent examiner is expected to communicate his results on his examination of the internal controls system to the management for corrective actions (Tunji, 2013). Researches on bank fraud are normally prompted by the perceive effects of fraud on banks, and the desire to find the means of curbing such adverse effects. Attempts have therefore, been made by many researchers to identify the effects of fraud on banks. Effects of fraud on banks can be classified into internal and external effects. Bank frauds cannot be wholly eradicated, thus it can only be controlled or minimized. Such controls which have been recognized to be effective are undertaken via the sequence of identification, prevention, detection.

2.3.1.3 Risk Assessment and Fraud Control

Every entity faces a variety of risks from external and internal sources. Risk is defined as the possibility that an event will occur and adversely affect the achievement of objectives. Thus, risk assessment forms the basis for determining how risks will be managed (COSO, 2013). An entity's risk assessment process is a process for identifying risks (relating to its objectives,

activities and which are relevant to financial reporting), estimating the significance of the risks, assessing the likelihood of their occurrence, and deciding upon actions to manage them. If the entity's risk assessment process is appropriate to the circumstances. The process of identifying and analyzing risk is an ongoing process and is a vital component of an effective internal control system (Ayagre, et al., 2014).

Risk assessment is the process of detecting, assessing and determining how to succeed these things. There are both internal and external risks that could prevent the achievement of established objectives at the every level in an organization. Therefore, management should take necessary actions to prevent these risks. But, sometimes management cannot avoid the risk from occurring. In these situations, management should determine whether to accept the risk, reduce it up to the acceptable levels, or avoid. So management should ensure each risk is assessed and handled properly to achieve its objectives (Ofori, 2011; Messier, 1997; Whittington & Pany, 2001).

2.3.1.4 Monitoring Activities and Fraud Control

The effectiveness of monitoring activities may be enhanced by using technology based solution according to the results arising from the study of (Nyakarwa & Karwirwa, 2014). The study implicates that the use of technology in internal control monitoring is associated with lower level of material weaknesses and with smaller increases in audit fees. However, the benefits of the IT implementations in monitoring internal controls have not yet fully been utilized because of the current maturity levels of these software tools. In the future these benefits may be more widely exploited but even now the efficient design of the technology based monitoring solutions does

contribute to the assessment of the organization's control system effectiveness (Nyakarwa & Karwirwa, 2014).

The study does implicate that the argued benefits of monitoring are supported by empirical evidence and that the organizations do benefit from having formal monitoring procedures implemented into the control system. However, the authors point out that by the time of conducting their research there were no studies contributing to the empirical evidence documenting the benefits asserted by COSO. They note also that the research has concentrated on investigating the determinants and impacts on material control weaknesses but there seems to be a lack of evidence on what kind of strategies organizations adopt to monitoring of internal controls (Nyakarwa & Karwirwa, 2014)

Internal control system and application of controls change overtime. This can be due to the arrival of new personnel, varying effectiveness of implementing the procedures or supervision, time and resource constraints or changes in the circumstances for which the internal control system originally was designed (Gamage et al. 2014). Thus the management needs to determine and observe whether the internal control system continues to be relevant and effective in the entity as intended. The purpose of monitoring is to determine whether internal control is adequately designed, properly executed, and effective.

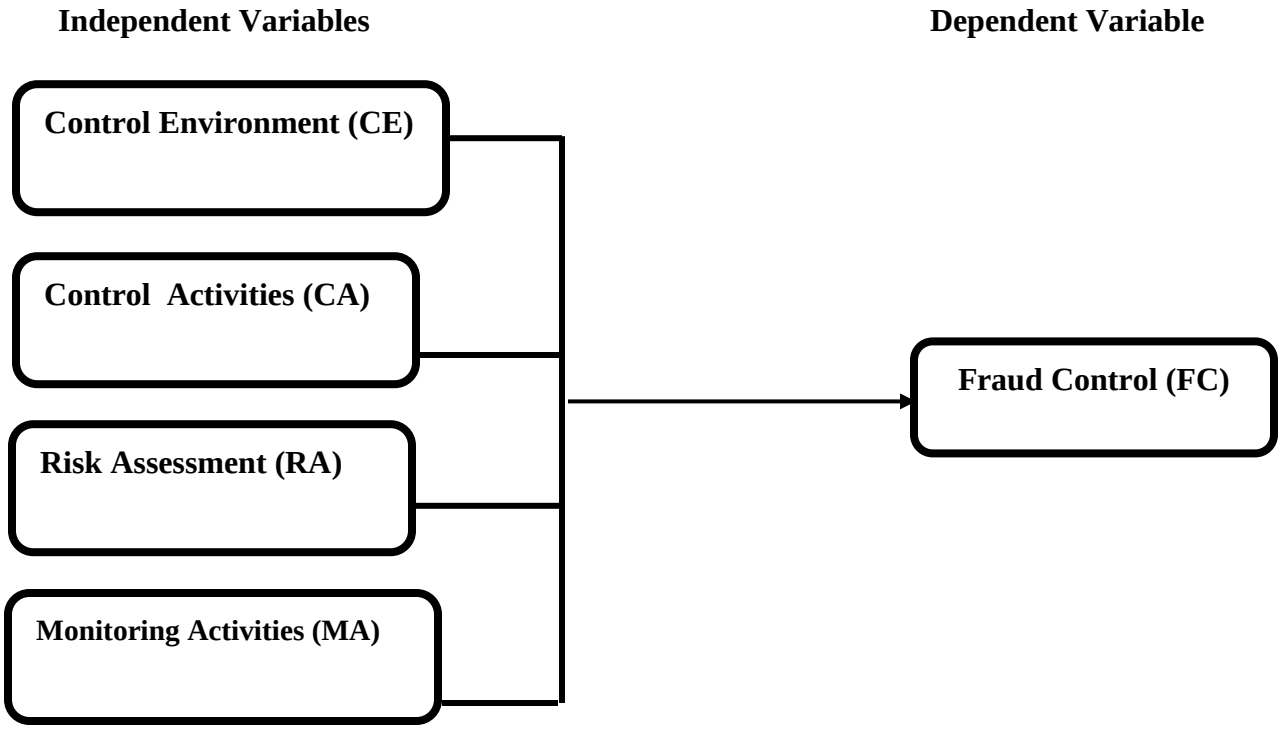
Monitoring, the last component of internal control, is a process that assess the quality of internal control over time. Also monitoring is the evaluation of an organization's events and transactions to gauge the quality of performance throughout the period and to decide whether controls are effective. Management should emphasis monitoring efforts on internal control and accomplishes the organization objectives. It is important to monitor internal control to determine whether it is

operating as intended and whether any modifications are necessary. All employees need to understand the organization's mission, objectives, and responsibilities and risk tolerance levels for monitoring to be most effective. According to Simmons (1995) Monitoring can be done through ongoing activities or separate evaluations.

Ongoing monitoring activities include regularly performed supervisory and management activities such as continuous monitoring of customer complaints or reviewing the reasonableness of management reports. Separate evaluations are monitoring activities that are performed on non-routing basis such as periodic audits by internal auditors. In evaluating the extent to which the effectiveness of internal control is monitored, the following criteria in ongoing monitoring activities, separate evaluations and reporting deficiencies should be considered. (COSO 1994).

2.3.2 Conceptual Framework

From the following figure 2.1 represent the conceptual framework of the study:



Sources: Developed by the Researcher from literature Reviewed

The conceptual framework of this study was developed in relation to the research objectives of the present study. In assessing the components of the internal control system as a means of fraud control, the COSO framework was adopted. The diagram shows the conceptual framework which also present the relationship between independent and dependent variables for the study. The dependent variable is achieved by the presence and proper functioning of all the prescribed independent variables in relation to each category of organization's objectives.

The above mention independent variables were used by Gamage et al. (2014) to evaluate the effectiveness of internal control system in Sri Lankan State Commercial Banks. Also Nyakarwa and Karwirwa (2014) has used same dependent variable and independent variables for their study to establish the relationship between internal control system and fraud control in deposit taking financial institutions. Adetoso and Akinselure (2016) uses the dependent variable which the present study uses. Their work was on fraud control and fraud prevention in Nigeria banking Industry (A Study of selected banks in Nigeria). And though, the study of Gamage et al. (2014) used all the five component of internal control system (Control environment, control activities, risk assessment, information and communication, and monitoring) as the independent variables, while in the work of Nyakarwa and Karwirwa (2014) used four of the components (Control environment, risk assessment, information and communication, and monitoring) with the exception of control activities. Although a clear and certifying reason wasn't given for using four and not five components of internal control system

Under this study, the researcher is also adopting four components which are: Control environment, control activities, risk assessment and monitoring. The information and

communication was removed because the study of Kinyua (2016) on Effect Of Internal Control Systems On Financial Performance Of Companies Quoted In The Nairobi Securities Exchange used information and communication as internal control activities major factors which will be applicable to these study in the control activities factors. Therefore, when evaluating the relationship between internal control system and fraud control in banks, these four most important components must be present.

2.4 Review of Empirical Studies

There exists a number of empirical studies on effect of internal control system on fraud control, such as Ayodele (2013), Gamage et al. (2014), Nyakarimi and Karwirwa (2015) and Onyefulu and Ofor (2016). Internal control systems operate at different levels of effectiveness. In determining whether a particular internal control system is working properly an assessment of the four aforementioned components which this study focusing on (Control Environment, Control Activities, Risk Assessment and Monitoring) are required and should ensure that they are present and functioning well. In evaluating control structure effectiveness, it must be in tandem with the individual components. However, the effectiveness of control a framework is a subjective decision on the individual components of entire the control system (COSO, 2011). Effective controls provide reasonable assurance regarding the accomplishment of established objectives (COSO, 2013).

Olaoye (2009) studied the Impact of Internal Control System in Banking Sector in Nigeria. The study attempts to put an end to the economic degradation, gave rise to the topic of the research studied with Wema Bank of Nigeria PLC as a case study. The study mention that the Central Bank of Nigeria reported that the backward development in Nigeria was attributable to weaknesses in the internal control systems of the banks. This has clearly pointed out the picture

of how fraud has been 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. However, the study was aimed at verifying the conception that an effective and efficient internal control system is the best control measure for preventing and detecting fraud, especially in the banking sector. Data captured for this study, were analyzed through descriptive and inferential statistical methods. The descriptive analysis involves the use of percentages, tabulation and graphical presentation. While the inferential statistical method involved the use of the chi-square. The functions of fraud prevention, detection and control are interwoven, as the three works together to eliminate fraud and fraudulent tendencies. Therefore, internal control is highly significant in fraud detection and preventions in banking sector in Nigeria. Which also suggest that there is significant relationship between internal control system and fraud control.

Wanyama (2012) investigated the effectiveness of fraud response strategies adopted by co-operative bank of Kenya limited. This was a case study aimed at getting detailed information regarding effectiveness of responses strategies to fraud at Co-operative bank of Kenya. The primary data was collected using an interview guide. The interview guide contained open-ended question that enabled the researcher to collect in-depth qualitative data. The information was presented in a continuous prose. The researcher interviewed all the six proposed managers making a response rate of 100%. The study concluded that ineffective strategies cannot adequately control fraud. The study was narrow in scope as it only concentrated on one bank in Kenya and the present study will improve on it by making use of 17 Deposit Money Banks (DMBs) in Nigeria.

The research works of Idowu and Adedokun (2013) on Internal Control System on Fraud Detection in Nigeria. The study focused on evaluation of the effects of internal control system on

fraud detection in selected Nigerian commercial banks. Primary and secondary data were collected and analyzed using General Least Square Regression Analysis, Correlation Analysis, Panel Data Analysis. Although secondary data was majorly used, extracted from the published accounts and reports of the banks, based on information supplied by the CBN from reports or return of the banks to the later from 2001-2010. Number of fraud cases, number of persons involved, amount involved, total loss, equity, asset, loan advances, profit before tax, profit after tax and tax among others were considered. Ten (10) banks were randomly selected from the15 banks with their headquarters in Lagos, (200) heads of the banks were sampled, five (5) were the heads of each units of 10 banks selected. They are: Branch Managers – BM (4), Operations Managers - OM (4), Head of Human Resources-HHR (4), Head of Internal Control – HIC (4) and Head of Foreign Exchange - HFOREX (4) totalling twenty (20) staff in each bank, while this sample size was selected from Lagos area. Lagos being a commercial nerve centre and former federal capital of the nation was chosen, and it was believed will serve as good representatives of the other banks without being biased.

Idowu and Adedokun (2013) studied an evaluation of the effect of monitoring and control activities on fraud detection in selected Nigerian commercial banks. The purpose of the study was to examined the effects of monitoring and control activities on fraud detection in selected Nigerian quoted commercial banks. The relationship between monitoring and fraud detection were examined, while the relationship between control activities on fraud detection were also investigated. Which both variables showed significant effect on fraud detection. Primary and secondary data was applied The primary data were sourced from the respondents through structured and well designed questionnaires. Multiple Regression Analysis (MRA) and Analysis of Variance (ANOVA) were used to analyze data collected. The results revealed that there is

significant relationship between effective and efficient monitoring and fraud detection in Nigeria commercial banks from the first hypothesis; and hypothesis two also showed there is significant relationship between control activities after considering four factors (supervisory control, data control, management control and physical control) and fraud detection in Nigeria commercial banks. Proper review of transactions after they have been processed and completed can be effective in identifying fraudulent or corrupt activity. From the study it suggest that there is significant relationship between monitoring activities, control activities and fraud control.

Research undertaken by Sang (2013) on 'Determinants of Fraud Control Measures in Commercial Banks: A Survey of Selected Commercial Banks in Nakuru Town, Kenya, found that the general control environment is relatively poor and not adequate to prevent frauds. In this context, only 21.8% of the respondents indicated adequate adherence to the dual control aspects. The lack of sufficient time to undertake periodic checks is cited by up to 7.7% of the respondents. The purpose of the study was to examine the determinants of fraud measures in selected commercial banks in Nakuru Town. The objectives of the study were to assess the measures put in place at these banks to mitigate fraud and examine the effectiveness of the internal control measures on fraud occurrence.

The study above was guided by the fraud triangle theory, the fraud scale theory and the agency theory. The study was based on descriptive research design. Sampling was done through stratified sampling design. Data was collected using questionnaires and analysed by using both descriptive and inferential statistics. The study concluded that the effectiveness of the internal control measures was undermined by non adherence to dual control aspects and lack of sufficient time to undertake the various periodic tests diligently. The study recommended establishment of comprehensive fraud mitigating measures against external frauds at the cashiers departments,

more enforcement of compliance of fraud mitigation methods, an increase in staff numbers in key operational areas and lifestyle audits among the bankers to detect fraud occurrences among bankers.

Ajala, Amuda And Arulogun (2013), Evaluating Internal Control System as Preventive Measure of Fraud in the Nigerian Banking. This study evaluated Internal Control System as preventive measure of fraud in the Nigerian banking sector. The objective was to identity whether this has actually achieved the desired result for which it was purposed, especially, in the popular Nigerian banks. To this end, the study was carried out by purposely collecting data from five Nigerian Commercial banks. The data were collected from bank audited and published financial statements and were analyzed with the use of Product Moment Correlation Coefficient and regression analysis. The findings revealed that Internal Control System has significantly prevented and curbed frauds in Nigerian banks. That bad corporate governance was responsible for proper designing of Internal Control System and that Internal Control System has led to increase in the corporate performance of Nigerian banks. Based on the findings, 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 to promote continuity of operations and to ensure the liquidity or solvency and going concern concept of the banks.

Ayodele (2013), Evaluation Of Fraud Control Measures In The Nigerian Banking Sector (A Case Study Of Central Bank Of Nigeria, Kaduna Branch). The purpose of this topic evaluation of fraud control measures in Nigerian banking sector (a case study of central bank of Nigeria, Kaduna branch) is to aimed at finding practical means of eliminating, reducing the incidence of fraud in our banking industries and researcher used both primary and secondary source. Questionnaire and order interview were administered on a population of 350 person made up of

both staff of central bank and management, the findings derives from respondents indicate that poor internet system not greed is the main cause of fraud in the Nigerian banking and recommendation and solution of fraud is a means of segregation of duties, were officer that past entry should not be responsible for checking with compulsory annual holiday for all member of the staffs and organization procedure, development of a good organization structure and career opportunity for staff so as to have dedicated loyal staff and contented with force and good training programme is important for staff at all levels.

Ayagre et al (2014) in a study evaluated the control environment and monitoring activities components of Internal Control Systems of Ghanaian Banks using COSO‟s principles and attributes of assessing the effectiveness of internal control systems in helping to prevent fraud. System theory was adopted. A five point Likert scale was used to measure respondents knowledge and perception of internal controls and the banks internal control system effectiveness. Responses ranged from strongly disagree to strongly agree, where 1 represented strongly disagree (SD) and 5 represented strongly agree (SA). Statistical Package for Social Sciences (SPSS) was used to analyze data and presented in the form of means and standard deviations for each question and each section of the questionnaire. The study found out that, strong controls exist in the control environment and monitoring activities components of the internal control systems of banks in Ghana and this invariably assists in the deterrence of fraud.

However, the present study will also adopt the system theory because based on the definition or concept of system theory is that: is a set of interrelated and interdependent components that interact in a way to achieve a set goal. These components or sub-systems are inter-dependent and the failure of one component leads to the failure of the whole system. Although, in the above study reviewed only two components (control environment and monitoring activities) were

looked at for assessing the effectiveness of internal control systems in helping to control fraud. This are gaps the present study intends to fill by adding two more components of internal control system which are: Risk assessment and control activities.

The study of Joseph, Okike and Patricia (2014) on Employee Frauds in Financial Institutions: Evidence from Deposit Money Banks (DMBS) in Nigeria. It aimed at studying the relationship between variables (dependent and independent) with the study employing non-experimental research design. For the purpose of gathering comprehensive data secondary data is used. Secondary data is gathered from Nigerian Deposit Insurance Corporation (NDIC) reports covering 6 years (2009 -2014). The population for this study consists of the 22 Deposit Money Banks in Nigeria as at 31st December, 2014. The stated hypotheses were analyzed using Panel Regression statistical tool. The Panel Regression analysis is executed with the aid of Statistical Package for Social Sciences. The study found that the number of employees of the bank engaged in fraud does not affect the magnitude of fraud of the Nigerian DMBs.

The present study will tends to see that there should be more proactive control measures that will oversee the activities of the top management staff of the banks in order to reduce further fraud case that involve such class of staffs, enhance audit function to oversee the activities of middle level management employees of the banks and that lower level employees of the banks should be encourage by ensuring prompt promotion with the deserved package and absorbing the temporary staff as permanent staff.

Nyakarimi and Karwirwa (2015), Internal control system as means of fraud control in deposit taking financial institutions in imenti north sub-county. The purpose of the study was to establish the relationship between internal control systems (ICS) and fraud control in deposit taking

financial institutions. ICS was analyzed based on its component which include; Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring. The Researcher set out to establish how ICS could be used to control fraud in financial institutions. The research was conducted using both quantitative and qualitative approaches using Stratified random sampling, ANOVA and Descriptive Research Designs. Data was collected using Questionnaires from the operations managers and supervisors, from various deposit taking financial institutions in Imenti North Sub- county. A sample of 92 respondents from a population of 120 was used for this study. Data was analyzed using the Statistical Package for Social Scientists (SPSS) where conclusions were drawn from tables and figures derived from the Package.

Observation was made by Karagiorgos, Drogalas and Dimou (2013), indicating that the bank failures have mostly been due to fraud. Basle committee analyzed the situations leading to bank failures and it observed that the failures and losses in banks could have been avoided had the banks maintained strong ICS and also observed, that strong ICS are pertinent to the banks due to their susceptibility to fraud. Similarly banking industry in Nigeria has suffered a lot due to mismanagement resulting from either lack of adherence to laid down principles and policies (internal control systems) that have been established by the management of financial institutions and regulatory authorities or lack of internal controls system all together. Whatever the situation, every financial and non-financial organization, need to install efficient, effective and proper functioning internal controls system in order to protect its assets from possible misuse, vandalisation and misapplication by the employees, theft and errors made by inefficient and inexperienced personnel, (Ifeanyi et al. 2011)

The study established a significant relationship between ICS and fraud control. The researcher recommends that the management of these institutions should establish proper mechanisms of promoting qualified and deserving employees, also the institutions should ensure fair remunerations based on qualification, responsibilities and output of employees. The study recommends that the financial institutions establish and manages knowledge or information management system within the institution, so as to enable all parties within the institution to freely access and utilize necessary official information that will enable the employees to embrace and appreciate their roles in enhancing vigilance against fraudsters.

According to Okonkwo and Ezegbu (2015), effectiveness of any internal control system is dependent on how fluid the system interacts with itself and how embedded it is into the organization's business processes. They applied survey research design method. Questionnaires were administered to the participants who were mainly drawn from bank staff (Desk Cashiers, Accounts Officers, Loan Officers, Bank Manager, Programmers, Trust Officers, Marketers, and Internal Auditors) and bank customers (Savings and current account holders) of Guaranteed Trust Bank (GTB) Okpara Avenue Branch and Garriki branch Enugu in Enugu State; and Fidelity Bank, Awka Express and Zik‟s Avenue Branch in Anambra State. The total number of staff of selected banks (Guaranty Trust Bank and Fidelity bank, Okpara Avenue branch and Awka branch) were 87 with 433 customers. The data were also analyzed using descriptive statistics, expected frequency response and Likert scale ranking. Their findings were that: the internal control techniques employed by banks in checking fraud have not been very effective; and the branch managers were the dominant perpetrators of fraud in the banks. They recommend that all banks should establish work ethics unit; reduce excessive confidence in any bank staff; and leadership by example should be the watch word of all bank mangers.

The study was limited to Anambra State and to generalize their findings that internal control system reduces and control fraud, it is important or rather necessary to carry out the same study in other States. Invariably, this is on the gaps this present study is bridging of internal control system and fraud control on deposit money banks in Nigeria.

According to Oguda et al. (2015) on effect of internal control on fraud detection and prevention in district treasuries of kakamega county, there was a statistically significant and positive relationship between the adequacy of internal control systems and fraud prevention and detection in district treasuries in Kakamega County. After purposive sampling method and simple random sampling method was used to select respondents which are; Treasury Staffs and Heads of Departments to respond to the data collection instruments. The study used closed ended questionnaires designed for treasury staff and their clients and was administered by the researcher though drop and pick method. Data collected was analyzed using both descriptive and inferential statistics using Statistical Package for the Social Science (SPSS). The study recommends that effective and efficient internal control policies and procedures should be put in place to prevent and detect fraud within district treasuries and other institutions.

Also the work of Akani and Akaninyene (2015) on determinants of effective internal control system in Nigerian Banks. This study was aimed at investigating the determinants of effective internal control system in Nigerian banks and the impact of such determinants. In order to generate the necessary data for the study, a questionnaire designed in modified Likert-scale was administered on twenty-one (21) chief internal auditors (respondents) of selected recapitalized banks currently operating in Port Harcourt. The data were analysed using the mean scores and the multiple regression. In this study, although not all component of internal control system was employed provided by COSO. This study revealed that control environment and control

activities have a significant impact on the effectiveness of internal control system in Nigerian banks. Based on the finding of this study, internal control staff should be made to be answerable to authorities outside management to promote independence, internal control staff should be given the autonomy to operate so that proper investigation of the activities of executive members can be carried out, high level ethical standards should be enshrined in Nigerian banks to make internal control more effective. This is to say that, control activities control environment are the most visible element of internal control and arguably the most important in preventing wrong actions from occurring and evaluation of an organization's events and transactions to gauge the quality of performance throughout the period and to decide whether controls are effective.

Looking at both studies Oguda et al. (2015); Akani and Akaninyene (2015), clearly these studies are similar with this present study only the previous was only on the impact of internal control system determinants in Nigerian banks while the present study is to examine the relationship between internal control system and fraud control. And base on the present study definition of fraud control can be seen as a framework of both detection and prevention of fraud.

Adetoso and Akinselure (2016) study of Fraud Control And Fraud Prevention In Nigeria Banking (A Study Of Selected Banks In Nigeria). The study was purely based on primary data, which were obtained from distribution of one hundred and fifty (150) copies of questionnaire to selected respondents. This data were then analyzed using statistical tools such as; Ordinary least square, Durbin Watson and P-value in Eviews, which were also used for the interpretation of the hypotheses in this study. The result of the analysis shows that there was significant relationship between fraud control and fraud prevention because their proxies considered in the study such as; Management control (Fraud prevention as the IV), while internal audit, and whistle blowing (Fraud control as the DV) showed a P-values of 0.0004 and 0.0001, which were lower than the

5% critical value specified in Eviews for this analysis. Based on this result, The management policies must be able to strengthen both fraud control and fraud prevention of commercial banks based on the sample study since the proxies of both variables have significant effect on each other. The same dependent variables is adopted in the present study so as to determine how effective and efficient are the internal control system components they are if well utilize.

Onyefulu and Ofor (2016) studied on effect of internal control on fraud prevention and detection in the public sector in Nigeria. That examines how internal control can prevent and detect fraud in the public sector. The study covers the accounts section of Anambra state government of the 247 staff in the accounts section, sample size of 152 calculated using the Yaro Yamen formular and staff in the director of accounts office, internal control unit, cash unit and pay office were sampled using well-structured questionnaire. Data were analyzed using Pearson's moment correlation coefficient. The study shows internal control of the state public sector is not adequately staffed, equipped with unqualified personnel to prevent and detect fraud. It is recommended that their accounting systems provide an efficient means of recording and reporting financial transactions, providing management information and protecting the public's asset from fraud and misappropriation. Therefore, ascertain the effectiveness of an ICS will require an assessment of the five components of an ICS which includes Control Environment, Risk Assessment, Information and Communication, and Monitoring should ensure that they are present and functioning well.

The above study was on public sectors in Anambra state while this present study was carried out on Deposit Money Banks (DMBs) in the Kaduna State, so as to also ascertain the effectiveness of an internal control system components which includes Control Environment, Risk Assessment, control activities and Monitoring activities on ensuring that they are present and

functioning well in the banking sectors. And the research targeted respondents for the study are the Branch Managers, Operation Managers, Cash Officers, Internal Auditors and Fund Transfer Officer of Deposit Money Banks in Nigeria.

Enenwan and Ufot (2017) conducted a study on the assessment of the effectiveness of internal control systems for checking financial fraud in commercial banks in Akwa Ibom State. Three broad categories of fraud were identified in the study. Which are internal, external and mixed fraud. Descriptive survey design was employed in the study with a sample size of 102 consisting of operations personnel of commercial banks operating in Uyo, Akwa Ibom State. The study employed both primary and secondary sources of data. The data was collected through administered questionnaires and were coded for analysis. The data generated were analyzed using descriptive statistics (frequencies, Mean and standard deviation) to answer the research questions. The methodology used that is descriptive survey design in the above work was a good choice. Because the best systematic method for gathering information from samples of entities for the purposes of constructing quantitative descriptors of the attributes of the larger population of which the entities are members by means of questionnaires and putting them in a graphical and numerical methods that is graphs, tables and numerical summaries are by undertaken a descriptive survey design. This same design is going to be adopted in the present study. While in testing the hypotheses, the regression analysis was employed. Three findings of the study indicate that internal control systems significantly predict internal, external and mixed fraud. Based on the findings, it was recommended that bank management should exhibit exemplary leadership and conducts that do not encourage fraudulent activities.

The above study is similar to this present study undertaking. However, there is a bit distinction because this present study tends to use the Structural Equation Modelling statistical techniques

(SEM) with the help of Smart PLS software that will help in developing a systematic and complete assessment while forming measures of solving some of the study research problems.

The study of Anyim (2017) investigated on the issues of fraud control measures in the Nigerian banking sector. The study adopted the survey research design method which data were obtained from both primary and secondary sources. The purposive sampling technique was adopted in the study. The Cronbach's Alpha statistic was used to obtain a value of 0.81 as the instrument reliability ratio. Data analysis was committed to descriptive statistics and correlation analysis with the use of SPSS software. The results showed that various fraud control measures were used to reduce fraud in Nigerian banks. It was concluded that the banks would have grown faster if the bank workers had allowed the Bank Verification Number (BVN) and Treasury Single Account (TSA) initiatives to be freely used without unnecessary interferences and if they had made good use of internal control and whistle-blowing strategies to make fraud a history in that very critical sector of the economy. It was recommended that management of commercial banks should investigate the internal and external factors that threaten the successful implementation of the BVN and TSA policies; they should do all they can to promote whistle-blowing and top management should be more committed to internal control systems with a view to combating the menace of fraud in the Nigerian banking sector.

Obviously from the study above, banks hasn't make good use of internal control system and whistle blowing strategies in controlling fraud in the banking sectors due to lack of proper promotion of whistle blowing and top management being less involve or committed to internal control systems with the intention of controlling fraud in the Nigerian banks. This is one of the gap the present study seeks to established.

William, Richard and Isaac (2017) studied on the Internal Control Systems of GN Bank- Ghana. The main objective of this research was to identify the internal system of control used at GN Bank's credit department. A census sampling technique was used by the researcher in getting a sample size of eighty five (85) who consisted primarily of managers and officers of GN Bank's credit and risk departments in the south eastern zone through the administration of questionnaires. The data was analyzed using the Scientific Package for Social Scientist (SPSS). The study found that there exists an internal system of control. GN Bank board of directors are ultimately responsible for ensuring that an adequate and effective system of internal controls are established and maintained. The study are of the suggestion that, both the board and senior management are responsible for promoting high ethical and integrity standards, and for establishing a culture within the organization. It was realized that GN Bank's implementation of a strong internal control system was able to detect and prevent fraudulent acts and practices. This support a CBN Reports (2000) that, it is also their duty to ensure that fraudulent bank directors and staff are sanctioned with such report being duly circulated among banks and also that banks take advantage of Risk Management System (credit bureau) to monitor fraudulent customers and accomplices.

However, respondents agreed to GN Bank providing adequate training for credit personnel on internal control procedures, some substantial disagreements were recorded for this particular question. They recommended that the board of directors should have responsibility for approving and periodically reviewing the overall business strategies and significant policies of the bank; ensuring that senior management takes the steps necessary to identify, measure, monitor and control these risks; approving the organizational structure; and ensuring that senior management is monitoring the effectiveness of the internal control system. The present study is hoping if the

same applies to the Nigerian banks but with an improved sample size which is one of the gaps to be looked at.

Also the study of Muhammad et al. (2017) on Internal Monitoring Mechanisms and Financial Fraud Prevention: Perceptions of Listed Deposit Money Banks in Nigeria investigates the effect of internal accounting control, top management team characteristics, audit committee qualities on fraud prevention. The target populations under this study consists of all the quoted DMBs on the Nigerian stock exchange as at 2015. A sample of two hundred and seventy-four (274) respondents were selected from the internal audit and the internal control unit staff of fifteen (15) quoted banks in Nigeria. The principal instrument used for the purpose of this study are a questionnaire and annual report and account of the sample banks. The Structural Equation Modelling (SEM) was employed to test the hypothesized model of the study. The result of Structural Equation Modelling (SEM) in this study shows that internal accounting control system and the audit committee quality does not influence financial fraud prevention of the quoted DMB banks in Nigeria. Top management team positively affect financial fraud prevention of the quoted DMB banks in Nigeria. From the above study findings, it seems that the top management teams positively affects financial fraud prevention of banks which according to similar findings of Nwaze, (2006) & Okpara, (2009) that the major perpetrators of bank frauds are employee staffs and fraudulent members of top, middle and branch management.

By reviewing this empirical studies, most of the study fail to mention anything about methods of checking for missing values analysis, non-response bias, assessment of outliers, there was no normality test and multicollinearity test. These are tests that would have showed how valid and reliable the research was and this will be part of the gaps this present research work will tend to undergo. In a bid to push forward the frontier of knowledge, the present study is set out to

examine the relationship between internal control system components and fraud control in the banking sector using the Structural Equation Modelling statistical techniques (SEM) with the help of Smart PLS software which previous studies hasn't used. The Smart PLS therefore will be suitable in this study due to its robustness and clearer display of interrelationship among tested variables of a study.

Despite effort to embark on studies on this issues therefore, most of the studies conducted tend to have inadequate observations which could deter generalization of their findings hence this study will improve the observation for it to be generalized and to overcome the weakness identified on other studies.

This therefore, raises a question if fraudulent activities are exclusive of Deposit Money Banks (DMBs) in Kaduna State. Hence, the study is designed to examine internal control system components as a measure of fraud control in Deposit Money Banks (DMBs) in Kaduna State.

There also exist literatures on internal control on fraud detection and prevention but limited studies on internal control system on fraud control in banks. Looking at some of the studies like Gamage et al. (2014) that used all the five component of internal control system (Control environment, control activities, risk assessment, information and communication, and monitoring) as the independent variables, while in the work of Nyakarwa and Karwirwa (2014) used four of the components (Control environment, risk assessment, information and communication, and monitoring) with the exception of control activities. After reviewing these literatures, there is still a question of whether using four or all five component of ICS well give an efficient and effective control system. These are some of the gaps the present study tends to look at.

2.5 Theoretical Framework

The following theoretical framework were used in guiding the study. We discussed agency theory, systems theory relating to internal controls as well as fraud triangle theory relating to fraud. The purpose of adopting the aforementioned theories for this study is that they all captured the essence of the work that is; both shareholders, management staffs and customers.

2.5.1 Agency Theory

Agency theory has been widely used in literature to investigate the information asymmetry between principals (shareholders) and agent (management). This study used the agency theory to determine the effect of internal control systems on fraud control in DMBs. The theory focuses on the behavioral relationship between the owners (principals) and those others (agents) who are contracted by the owners to execute duties on behalf of the principal where the agent is given some decision making power. It is also used to define the relationship between managers and investors by defining the duties and responsibilities ran by the manger on behalf of the investor

and the reward that the manager receives from the investor (Jensen & Meckling, 1976). The theory further poised that managers are more informative than investors making it hard for investors to effectively determine whether their interests are well taken care of. Therefore, the theory stated that there is need to have proper and adequate contracts in an organization to minimize opportunistic behaviors by the managers (Mwangi, 2012). To address the interest of both the manager and investor, the contract should draft in a manner that captures the two interests. A good agent-principal relationship is whereby the investor has systems that enable them to effectively monitor the work of their managers (Jussi & Petri, 2004). The theory also stated that incomplete contract information on the expectation of the investors as well as the managers could have adverse effects on the general performance of the organization. This is because the managers will have inadequate knowledge on what is expected of them by the agents leading to under-performance. Therefore, this theory assumes the nature of the relationship between managers and agent is based on wealth maximization (Jensen & Meckling, 1976). This theory is relevant to the study since internal control mechanisms are established in organizations to minimize agency cost and improve general organizational performance. This study borrows from this perspective and makes assumptions that the owners of the institutions of higher learning have given mandate to the management of these institutions to effectively manage their resources and ensure smooth running of the institution on a daily basis through delegation of duty. Effective internal control systems ensure that investors' interests are well taken care of. In addition, this theory supports existence of control activities, control environment and risk management.

2.5.2 Systems Theory

Hartman (2010), assert that an operational internal control structure needs to be an incorporated system with interconnected constituents as well as supporting values. They further identified controlled situation, accounting classification besides control actions forming key components of internal controls. An internal control structure accessible for a company consist of; administration oversight as well as control philosophy, control activities, hazard assessment and recognition, information and communication, monitoring actions and adjusting insufficiencies (Grievess,2000).

Hartman (2010) observed that the systems theory provides a leader with a tool for analysing organizational dynamics without providing a specific theory about how an organization should be managed. He also observed that with the recognition of systems theory, all organizations consist of processing inputs and outputs with internal and external systems and sub-systems helpful in providing a functional overview of any organization. Smith and Cronje (2002) observed that a system is a collection of parts unified to accomplish an overall goal. If one part of the system is removed, the nature of the system is changed as well .

This study adopted COSOs 2013 integrated internal control structure for internal controls. The committee of sponsoring organization (COCO) was custom-built in 1980s by the State Commission of Falsified Monetary Reporting (The Treadway Commission) to recognize as well as evaluate the aspects that instigated deceitful company monetary reports as well as make commendations and has since established to become a thought frontrunner in business risk administration (ERM), internal control, and deception discouragement (Amudo & Inanga, 2009).

There is linkage as well as cooperation among elements creating an incorporated structure that responds enthusiastically to the varying circumstances. The internal control structure is entangled with entity functioning activities for essential occupational motives. Internal control is considered to be the most operational when controls are created into object's infrastructure and they are part of the principle of the initiative 'constructed in'. Control support superiority and authorization initiatives; evade superfluous expenses and allows fast reaction to varying circumstances. Monitoring evaluates the quality of the company internal control actions by tracing and checking the internal control setting and functioning grade and take the essential activities to make sure that internal control function efficiently (Amudo & Inanga, 2009).

Relating the foregoing discussion of the study undertaken, the systems theory helped the researcher to visualize the fact that what may seem as an isolated internal problem is actually part of an interconnected network of related issues in internal control systems of financial institutions. The key identifiable organization variables, based on this theory were the people, leadership, structures, processes, resources (human, financial and others), communication systems, position and power. All these are viewed by the systems theory as the parts that, if coordinated strategically, will lead to an effective organization. The systems theory upholds the idea that the different parts of an institution should not be managed in isolation.

The effect of the systems theory in management is that managers look at the organization from a broader perspective. Systems theory has a new perspective for managers to interpret patterns and events in the work place. They recognize the various parts of the organization, and in particular, the interrelations of the parts, for example, the coordination of central administration with its programs, supervisors and workers, among other variables. In traditional management practices, managers typically took one part and focused on it. They then moved all attention to another

part. The problem was that an organization could, for example, have a wonderful central administration and wonderful set of teachers, but the departments didn't synchronize at all.

2.5.3 Fraud Triangle Theory

The classical theory of fraud triangle is conceptualized by Donald Cressey (Adeyemo, 2012). This theory is made of a triangle of different fraud aspects that include perceived opportunities, perceived pressures and rationalizations (Sang, 2013; Joseph et al. 2014; Nyakarimi & Karwirwa, 2014). The fraud triangle originated from Donald Cressey's hypothesis: “Trusted persons become trust violators when they conceive of themselves as having a financial problem which is non-shareable, are aware this problem can be secretly resolved by violation of the position of financial trust, and are able to apply to their own conduct in that situation verbalizations which enable them to adjust their conceptions of themselves as Cressey focused his research on the circumstances that lead individuals to engage in fraudulent and unethical activity; the research later became known as the fraud triangle theory. The fraud triangle theory consists of three elements that are necessary for theft or fraud to occur: (a) perceived opportunities, (b) perceived pressures and (c) rationalizations. Although according to Ngalyuka (2013) argues that the term perceived is important in the context that the pressures, rationalizations, and opportunities may not necessary be real.

The study of Ewa and Udoayang (2012) found that internal control design influences staff attitude towards fraud such that a strong internal control mechanism is deterrence to staff fraud while a weak one exposes the system to fraud and creates opportunity for staff to commit fraud. Like fire, fraud is unlikely to exist in the absence of the three elements mentioned in the fraud triangle theory, and the severity of fraud depends on the strength of each element. In other words, for an individual to make any unethical decisions, perceived pressure, an opportunity, and

a way to rationalize the behaviours must exist. Hence, to forestall the occurrence of such fraud, the service of a trained and experienced investigator like the internal auditor is highly required.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides a discussion of the research methods and procedures that was employed in this study. It discusses the research design especially with respect to the choice of design. It also discusses the population of the study, sample and sampling techniques, data collection methods as well as data analysis and data presentation methods employed in the study and highlight the sources of information for the research and data validity and reliability so that the kinds of errors could be identified and eliminated during the analysis and interpretation.

3.2 Research Design

For the purpose of this study, cross sectional survey research design was adopted. Which aims at collecting information on certain variables in the study population and/or sample at one point in time. The reason for this is that it involves investigation of opinion of moderate number of people. It is suitable to utilize survey research design in this study because it's to establish the said relationship among the variables on small population which makes it easy to examine exact features of every population. further, it assists in original data collection on relationship between internal control system and fraud control.

3.3 Population of the Study

The population of this study strictly covers only Deposit Money Banks in Nigeria with particular focus on only the bank branches located in Kaduna metropolis. This could address the study of Okonkwo and Ezegbu (2015) which was limited to Anambra State and other States of the federation were sidelined. To generalize their findings that internal control system reduces and

control fraud, it is important or rather necessary to carry out the same study in other States. And also the reason for utilizing such is because it seems that every strategy of a banking business is always implemented at the branch offices. Presently, the banking sector consist of twenty-one banks (21) published by CBN on the month of June 2018.

Table 3.1

S/No	Population
1.	Access Bank Plc
2.	Diamond Bank (Access) Nigeria Limited
3.	Ecobank Nigeria Plc
4.	Fidelity Bank Plc
5.	First Bank Nigeria Plc
6.	First City Monument Bank (FCMB) Plc
7.	Globus Bank Ltd
8.	Guaranty Trust Bank plc
9.	Heritage Bank
10.	Keystone Bank Ltd
11.	Polaris Bank Ltd
12.	Providus Bank
13.	Stanbic IBTC Bank Ltd
14.	Standard Chartered Bank Nigeria Ltd
15.	Sterling Bank Nigeria Ltd
16.	SunTrust Bank Nigeria Ltd
17.	Union Bank Of Nigeria Plc
18.	United Bank For Africa Plc
19.	Unity Bank Plc
20.	Wema Bank Plc
21.	Zenith Bank Plc

Source: *Extracted by the researcher from CBN listed DMBs 2018*

3.4 Sample Size

In arriving at the sample size of the study, the study considered availability and accessibility of data for the period covered by the study 2018.

Table 3.2. Samples of the study

S/No	Sample Banks
1.	Access Bank Plc
2.	Diamond (Access) Bank Nigeria Limited
3.	Ecobank Nigeria Plc
4.	Fidelity Bank Plc
5.	First Bank Nigeria Plc
6.	First City Monument Bank (FCMB) Plc
7.	Guaranty Trust Bank plc
8.	Heritage Bank
9.	Keystone Bank Ltd
10.	Polaris Bank Ltd
11.	Stanbic IBTC Bank Ltd
12.	Sterling Bank Nigeria Ltd
13.	Union Bank Of Nigeria Plc
14.	United Bank For Africa Plc
15.	Unity Bank Plc
16.	Wema Bank Plc
17.	Zenith Bank Plc

Source: Researcher Compilation 2018

However some of the banks have more branches than the other but to make it even, two bank branches for each banks were randomly selected in order to have a good and better representation that is to say that the respondents have one representative from each bank branch selected.

Table 3.3 Bank Respondents

S/No	Bank Respondents	Number
1.	Branch Managers	2
2.	Operation Managers	2
3.	Cash Officers	2
4.	Internal Auditors	2
5.	Fund Transfer Officer	2
	Total	**10**

Source: *Researcher Compilation 2018*

The research targeted respondents for the study comprise of five groups with two respondents each. The interest of this population was driven by the fact that this category of the managers and other staffs are key custodian of the internal control systems and above all they have great knowledge and expertise on the working of internal control systems in the banks. Kaduna metropolis bank branches in the study area was selected in order to have good representation, that is, the researcher is of the opinion that those branches can serve as a reasonable representation of the entire branches without being biased as the same operating policies govern every branch nationwide. The justification for the choice of these groups is based on their inclusion in prior studies (Idowu & Adedokun, 2013; Okonkwo & Ezegbu (2015). Following this, the number for sample respondent in the study was calculated as follows: Number of banks sampled (17) * Total Number of Respondents (10) =170 or Total number of Bank branches (34) * Number of Respondents (5) = 170. For further clarity the appendix page is provided.

3.5 Variables Measurement

The measurement of the variables which include: Control Environment, Control Activities, Risk Assessment, Monitoring Activities and Fraud Control are presented in table 3.4;

Table 3.4: Variable Measurements are as follows below

Variables	Measurements
Independent Variables	
Control environment (CE)	The (CE) was used as a proxy for ICS and described in the questionnaire using 7 items: (Integrity and ethical values, Commitment to competence, Management philosophy and operating style, organizational structure**,** Assignment of authority and responsibility, Human resource policy and practices) adopted from literatures and measured using 5 point Likert scale. (Ofori, 2011; Gamage et al., 2014; Nyakarawa & Karwirwa , 2014; Kinyua, 2016).
Control activities (CA)	The (CA) was used as a proxy for ICS and described in the questionnaire using 7 item indicators adopted from literatures and measured using 5 point Likert scale. (Ofori, 2011; Gamage et al., 2014; Nyakarawa & Karwirwa , 2014; Kinyua, 2016).
Risk assessment (RA)	This was used as a proxy for ICS and described in the questionnaire using 6 item indicators adopted from literatures and measured using 5 point Likert scale. (Ofori, 2011; Gamage et al., 2014; Nyakarawa & Karwirwa , 2014; Kinyua, 2016).
Monitoring Activities (MA)	Used as a proxy for ICS and described in the questionnaire using 6 item indicators adopted from literatures and measured using 5 point Likert scale. (Gamage et al., 2014; Nyakarawa & Karwirwa , 2014; Amudo & Inanga, 2009).
Dependent Variable	
Fraud Control (FC)	The (FC) was described in the questionnaire using 8 item indicators adopted from literatures and measured using 5 point Likert scale. (Adetoso & Akinselure, 2016; and Anyim, 2017)

3.6 Instrument of Data Collection

In gathering empirical evidence in order to gain new insights about a situation and answer questions that prompt undertaking of the researches, the study intends to collect primary data and responses received from respondents were based on a five (5) point likert scale, ranging from strongly disagree to strongly agree, where 1 represented strongly disagree (SD) and 5 represented

strongly agree (SA). The likert scale was used to measure respondents knowledge and perception of banks internal control system components effectiveness. A likert scale was used because it is easy to read and complete by participants.

The questionnaire was sub-divided into two (2) sections. The first section addressed the demographic characteristics of the respondents, while the second section addressed the research variables. The reason for choosing to use questionnaires is in eliciting the required data needed to test the formulated hypotheses. It is also considered most appropriate because it allows for collection of data from many respondents within a short time and provides a high degree of data standardization and adoption of generalized information amongst any population

3.7 Technique of Data Analysis

Collected data were analyzed through the Structural Equation Modelling statistical techniques (SEM) with the help of Smart PLS software. Muhammad, Sani & Farouk, (2017) reported that Smart PLS is widely used with greater interest as a technique of regression analysis. Smart PLS can help in developing a systematic and complete assessment while forming measures of solving some research problems. Smart PLS therefore will be suitable in this study due to its robustness and clearer display of interrelationship among tested variables of a study (Hair, Hult, Ringle & Sarstedt, 2014; Muhammad, Sani & Farouk, 2017).

3.8 Pilot Study

Pilot study enables the researcher to access the clarity of the instruments and its ease of use. The information collected during the pilot study will be used to undertake a preliminary analysis to enable the research questions to be answered. In order to minimize the possible instrumentation error and hence increase the reliability of the data collected, the reliability of the pre-test

observation schedule was tested using internal consistency technique. Which will be determined using scores obtained from individual staffs from some banks which did not form part of the respondents of this study. This is because pre-tests subjects do not need to comprise potential respondents but should be chosen from persons with similar characteristics as the respondents (Babbie, 2001).

The researcher tested the reliability of instrument by use of reliability values (Cronbach's Alpha values) in analyzing the alpha values for each variable under study which should not be less than 0.6 (Mohsen & Reg, 2011). The alpha values were derived by the use of Statistical Package for Social Sciences (SPSS) and are shown in table 3.2 below.

Table 3.5 Reliability Table

Construct	Cronbach Alpha Values
Control Activities	0.785
Control Environment	0.791
Fraud Control	0.629
Monitoring Activities	0.778
Risk Assessment	0.695

Table 3.5 reveals that all the variables have Cronbach Alpha Values above 0.6 mark recommended by Mohsen and Reg (2011). Therefore all the variables in the instrument are deemed reliable.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings. The purpose of the study is to analyse the relationship between internal control system and fraud control on Deposit Money Banks (DMBs). The findings intended on answering the study's research questions. Data collected were reported and summarized in form of tables and figures.

4.2 Response Rate

The study administered a total of 200 questionnaires, a total of 170 respondents filled and returned it, which represent an 85% response rate and 30 were not returned which represent a 15% response rate. This is a reliable response rate for analysis as Mugenda and Mugenda (2012) showed that 50% of a response rate is sufficient for analysis and presentation of the data, 60% is reliable and 70% of response rate and over is excellent.

Table 4.1. Response Rate

Response	**Frequency**	**Percentage (%)**
Returned Questionnaires	170	85
Not Returned Questionnaires	30	15
Total	**200**	**100**

Source: Research Findings (2018)

4.3 Demography Statistics of Respondents

As for the gender, the study requested the respondents to indicate their gender. according to the study findings majority (56%) of the respondents were male while the rest (44%) were female. This implies that majority of most of the employees in banks are male while their counterparts (females) occupies only small portion.

As for the age, the study further aimed to establish the age category of the respondent. Table 4.2 shows the results of the study from the study 3.5% of the respondents aged 18-24 years, 45.9% of the respondents aged 25-34 years, 44.7% of the respondents aged 35-44 years while 5.9% were aged between 45-54 years. This depicts that majority (90.6%) of the employees are youthful aged between 25-44 years.

Also for the working experience of the respondents in their respective organization, from the findings most (52.4%) of the respondents had worked in the bank a period of 7-Above years, 33.5% had worked for a period of 4-6years while 14.1% had worked for a period of 1-3years. This suggest that most of the respondents of this study had worked for adequate time within banks and therefore they were in a position to provide information that the study sought.

As for the educational qualification, respondents level of education was sought and majority (37.1%) of the respondents indicated that they have at least a B.Sc level of education, (24.7%) possess OND/HND and M.Sc/PhD level while OTHERS is at 13.5% as shown in the table below. This is expected since some of the respondents are at a senior management level where the skills knowledge and competencies is supposed to be high. This depicts that the respondents were well educated and informed and therefore furnished this study with better information which added value.

And also for marital status, Table 4.2 illustrates marital status of the respondents in their respective organization. From the findings most (77.6%) of the respondents are married in the bank, 21.2% are single while 1.2% are divorced. This suggest that most of the respondents of this study are single.

Table 4.2. Demography Statistics of Respondents

S/N	Demography	Frequency	Percentage
1	**Gender**		
	Male	95	56
	Female	75	44
2	**Working Experience**		
	Between 1 -3 years	24	14.1
	Between 4 -6 years	57	33.5
	Between 7 years - above	89	52.4
3	**Educational Qualification**		
	Ond/Hnd	42	24.7
	B.Sc	63	37.1
	M.Sc/Phd	42	24.7
	Others	23	13.5
4	**Marital Status**		
	Single	36	21.2
	Married	132	77.6
	Divorced	2	1.2

Source: Research Findings (2018)

4. 4 Non-response Bias Test

Non-response bias refers to "the differences in the answers between non-respondents and respondents" (Hair, 2014). Similarly, it was described as "the possible mistake made by researchers when evaluating a sample characteristic because some types of survey respondents are under-represented due to non-response" (Berg, 2002). However, the probability of non-response bias is commonly calculated through a time-trend extrapolation method, by way of comparing both the early and late respondents or non-respondents (Henseler, Ringle & Sinkovics, 2009) and also contended that the late respondents have the same characteristics with the non-respondents. Based on Henseler, et al., (2009) method, this study categorized the

respondents into two groups based on response time. That is, those who responded within the first 50 days are the early respondents while those who responded after 50 days are regarded as the late respondents.

Table 4.3

Result of Non-Response Bias Test

					Levene's Test for Equality of Variances	
Constructs	**Group**	**N**	**Mean**	**Std. Deviation**	**F**	**Sig.**
CE	Early response	124	-.042	1.021	.637	.425
	Late response	46	.146	.923		
CA	Early response	124	-.008	.990	.378	.539
	Late response	46	.028	1.048		
RA	Early response	124	-.040	.990	.162	.688
	Late response	46	.138	1.037		
MA	Early response	124	-.013	1.014	.508	.477
	Late response	46	.044	.962		
FC	Early response	124	.000	.947	2.489	.116
	Late response	46	.000	.866		

As shown in Table 4.5, the early respondents were 124 (73%) of the sample; while the late respondents were the 46 (27%) whom responded to the questionnaire after 60 days. Consequently, this study conducted an independent samples t-test to identify any likelihood of non-response bias by assessing Levene's test for equality of variances and also comparing the mean, standard deviation of the study constructs. This independent-samples t-test result is

displayed in Table 4.5. From the result of the table, the independent-samples t-test shown that the equal variance significance values for each of the five study constructs were all greater than the 0.05 significance level of Levene's test for equality of variances as opined by (Pallant, 2010). Therefore, there is no significant difference between the early and the late respondents and also the assumption of equality of variances between early and late respondents has been achieved. Conclusively, non-response bias problem has been defeated in this study. Additionally, non-response bias has been tackled in this study by achieving 73% response rate, which is above the 50% that was recommended by Lindner and Wingenbach's (2002).

4.5 Common Method Bias Test

Common method variance (CMV), otherwise known as common method bias, refers to "variance that is attributable to the measurement method rather than to the construct of interest" (Podsakoff, MacKenzie & Lee, 2003). It had been generally accepted by researchers that common method variance is a prospective problem in most behavioural research especially for scholars using self-report surveys. This is because CMV is one of the major sources of measurement error. Measurement error (random error and/or systematic errors) usually threatens the validity of the conclusions about the relationships between measures and have a serious confounding influence on empirical results, yielding potentially misleading conclusions (Podsakoff *et al*., 2003; Spector & Brannick, 2010). Apparently, common method bias are usually caused by factors that limit the capabilities of respondents and/or making the task of responding correctly more difficult (Viswanathan & Kayande, 2012). They elucidated a number of factors that can cause biased responding by reducing the respondent's ability to answer accurately such as "lack of verbal ability or education, complex or abstract questions, items

ambiguity, double-barrelled questions, questions that rely on retrospective recall, lengthy scales, forced participation, repetitiveness of the items etc." (Viswanathan & Kayande, 2012).

In this study, many procedural remedies were adopted to reduce the effects of CMV as suggested by MacKenzie and Podsakoff (2012), Podsakoff *et al*., (2003), Podsakoff, MacKenzie, and Podsakoff (2012), Viswanathan and Kayande (2012). Firstly, all the items in the questionnaire were well structured, clearly stated, simply worded and ambiguity free. Secondly, all the questions were not repetitive, and not retrospectively joined, and not double-barrelled. Thirdly, the items scale is not lengthy as five (5) point Likert was adopted to ease respondents. Fourthly, the respondents were not forced to participate in the survey and they were assured of confidentiality of their response. To further ease comprehension, the respondents were enlighten that there is no right or wrong answer to the items in the questionnaire.

Lastly, despite all the above mentioned procedural remedies, this study also tested CMV using the Harman's single factor test suggested by (Podsakoff and Organ, 1986). In this method, all the study's constructs are analysed with exploratory factor analysis from which the results of the unrotated factor solution will then be observed to determine the number of factors that are required to account for the variance in the variables (Podsakoff & Organ, 1986). Based on this method, all items in this study were subjected to a principal components factor analysis. Result from this analysis brought five factors, from which the first (largest) factor explains 14.4% of the total variance, which is less than 50%. Furthermore, this results confirms that no single factor accounted for the majority of covariance in the predictor and criterion variables. Therefore, this study has no problem of common method bias and no relationships between variables measured could be inflated (Podsakoff *et al.*, 2012).

4.6 Descriptive Statistics of Latent Constructs

This study consists of 5 latent constructs (four independent constructs and a dependent constructs). After the overall data entry and preliminary data screening, these latent constructs were however analysed descriptively to determine the various statistical values such as means, standard deviation for the constructs in the study. The Table 4.5 below displays these clearly.

Table 4.4. Descriptive Statistic

Variable	N	Mean	Std. Deviation
Control Activities	170	3.930252	0.43908
Control Environment	170	3.994120	0.45795
Monitoring Activities	170	4.188240	0.48805
Risk Assessment	170	4.071570	0.41457
Fraud Control	170	3.837500	0.40769

Source: Computed by the researcher from field survey Data, 2018

From Table 4.4, it could be seen that the total number of valid observation in the data is 170 represented by N. The mean scores ranges from 3.83 to 4.18 while the standard deviation ranges from 0.40 to 0.48. Monitoring Activities has the highest standard deviation of 0.48 with the highest mean value of 4.18. Control Environment with standard deviation of 0.45 and mean value of 3.99, followed by Control Activities, Risk Assessment and lastly Fraud Control.

From table 4.4, it could be deduced that the respondents has an average response of 3.93 for Control Activities and the response varied from one respondent to another by 43%. Similarly, Control Environment had an average of 3.99 with a variation of 45%, the Monitoring Activities and Risk Assessment were on 4.18 and 4.07 average response respectively, with a 48% and 41% variation in response to the questions. This means that most of the respondents agree with the questions with a moderate deviation of 0.43, 0.45, 0.48 and 0.41.

while Fraud Control, also has a mean value 3.83, indicating that respondents average response agrees with the conducts of Fraud Control implemented within the banking sector. And a moderate responses 40% as shown in the value of the standard deviation above.

However, another descriptive statistics for all items is also provided for more information. This might be of a guide regarding the diverse response for all the constructs of this study. See Appendix page.

4.7 Evaluation of PLS-SEM Path Model

In this study, PLS-SEM is solely utilized in analyzing the data for testing the hypotheses. The first step in PLS-SEM analysis, is to evaluate the measurement model otherwise known as outer model. Goodness of measures are determined through the measurement model by revealing the relationships between the items that measures each construct and other constructs in the model (Hair, et al., 2014). The second step is the evaluation of the structural model (inner model) which mainly measures the interrelationship among all the constructs in the model. It is in the structural model that the hypotheses of a study are being tested by assessing their significance.

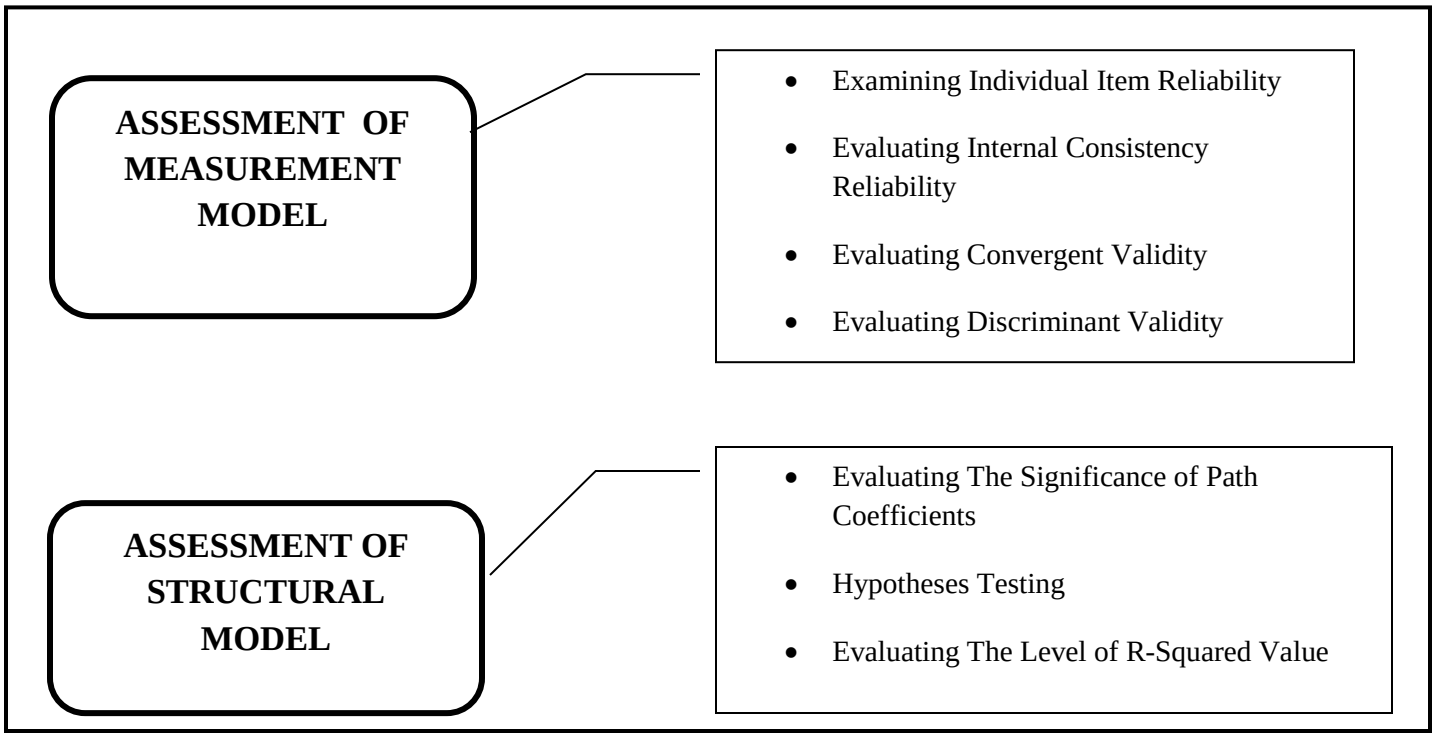


Figure 4.1.

Two-step PLS-SEM Path Model Evaluation

4.7.1 Assessment of Measurement Model

In PLS SEM, there are two main criteria of evaluating the measurement model of a study namely validity and reliability. The Reliability test evaluates how consistently measuring instruments measures the what it is meant to measure, while validity tests evaluates how well an instrument measures an exact concept it is designed to measure (Hair, Black, Babin & Anderson, 2010; Sekaran & Bougie, 2010).

The result of the measurement model basically interprets the goodness of the measures through the reliability and validity to be shown in subsequent tables. According to Chen (2011), three quality evaluation criteria are three namely (1) the significance level of factor loadings of all items, then (2) the Composite Reliability (CR) of the items should be at least 0.7 and above, and (3) the Average Variance Extracted (AVE) should be at least 0.5 and above. In this study, the model is a reflective measurement model and therefore the quality criteria used comprises the

composite reliability (CR) which examines the internal consistency, Average Variance Extracted (AVE) which examines the convergence validity, then Fornell-Larcker criterion, and Loadings/Cross-loadings which examines discriminant validity.

The goodness of the outer model's measures was confirmed by assessing the individual items' internal consistency reliability, convergent and discriminant validity as established by Fornell and Larcker (1981) in order to ensure that the measurement model is valid and reliable. Consistent with the rules of thumb, the items outer loading were considered to be a minimum of 0.5 and above, while the Average Variance Extracted (AVE) must also be 0.5 and above. Although in this study one AVE with 0.40 was considered as it has a composite reliability of 0.77. Consequently, all the items with outer loading below 0.5 were deleted starting with the one that has the lowest value. This method is the best appropriate way of improving data quality (Hair, Sarstedt, Pieper & Ringle, 2012). An evaluation of the items loadings and cross loadings was done in order to check any problem with the items as well as determining the convergent and discriminant validity as shown in Table 4.6. The Figure 4.3 displays the goodness of the measurement model.

4.7.1.1 Reliability Analysis (Internal Consistencies)

To confirm the goodness of the measurement model, internal consistency reliability was firstly analysed. Basically, it is determined with either Cronbach's alpha or composite reliability. Although, there exist some debate concerning the best method of calculating reliability, the Cronbach's alpha is traditionally used but now being challenged for its deficiency of over/underestimating or miscalculating construct's reliability (Hair, et al., 2014; Hair et al., 2010; Sekaran & Bougie, 2010). Additionally, Cronbach's alpha coefficient assumes that all

items contribute equally to its construct disregarding the real contribution of each item's loadings (Gotz, Liehr-Gobbers, & Krafft, 2010).

Therefore, this study used CR because in PLS-SEM, the CR is more important, stronger and commonly used because, it is inbuilt with PLS-SEM analysis, derived together with the AVE and is widely considered more vigorous and gives much less biased estimate of reliability robust than Cronbach's alpha (Fornell & Larcker, 1981). In this study, despite that the reliability had been determined earlier at the pilot study showing a very good Cronbach's alpha, the PLS still re-examines this through the means of composite reliability (CR).

As a rule of thumb, CR values ranging from 0.60 to 0.70 are considered as acceptable while 0.70 to 0.90 are considered excellent in an advance stage of research while values of less than 0.60 denotes lack of internal consistency reliability (Hair et al., 2014; Hair et al., 2010). As shown in the Table 4.6 the CR of all the constructs in the model are ranging from 0.77 to 0.85 which exceeds the value of 0.70, and thus confirming that all the measures/constructs are highly reliable.

4.7.1.2 Convergent Validity

Convergent validity is the degree to which items measuring a construct correlates with other items of the same construct and also shows the level of their true representation of that latent construct (Hair, Money, Samouel & Page, 2007). The common measure of establishing convergent validity on the construct level is the average variance extracted (AVE) which is defined as the grand mean value of the squared loadings of the items associated with the construct (Hair et al., 2014). According to Hair et al. (2010), convergent validity could be attained by assessing the factor lodgings, and the Average Variance Extracted (AVE). Thus, if an

items load higher ranging from 0.5 to 0.70, shows an indication of association among items while any item with less than 0.40 should be deleted from the model in order to achieve AVE.

Therefore, convergent validity is attained when indicators/items load highly 0.50 or more (i.e.,> .5) on their related constructs and none of the items loads more highly on a different construct than the one it intends to measure (Hair et al., 2010). However, to achieve AVE of 0.50 or more, items may be deleted as much as possible leaving a minimum of two items for every construct.

This study assessed the convergent validity by examining the AVE of each construct, as recommended by Fornell and Larcker (1981). Items with lower loadings were deleted beginning with the lowest values, in order to achieve the AVE of 0.50 and above as well as the CR of 0.70 and above. The Figure 4.3 and Table 4.6 below shows that the AVE values of all the constructs ranges from 0.40 to 0.56 moderately signifying loadings above (> .50) therefore confirming that adequate convergent validity is attained. The following Figure 4.3 and Table 4.6 below describes the measurement model and its results.

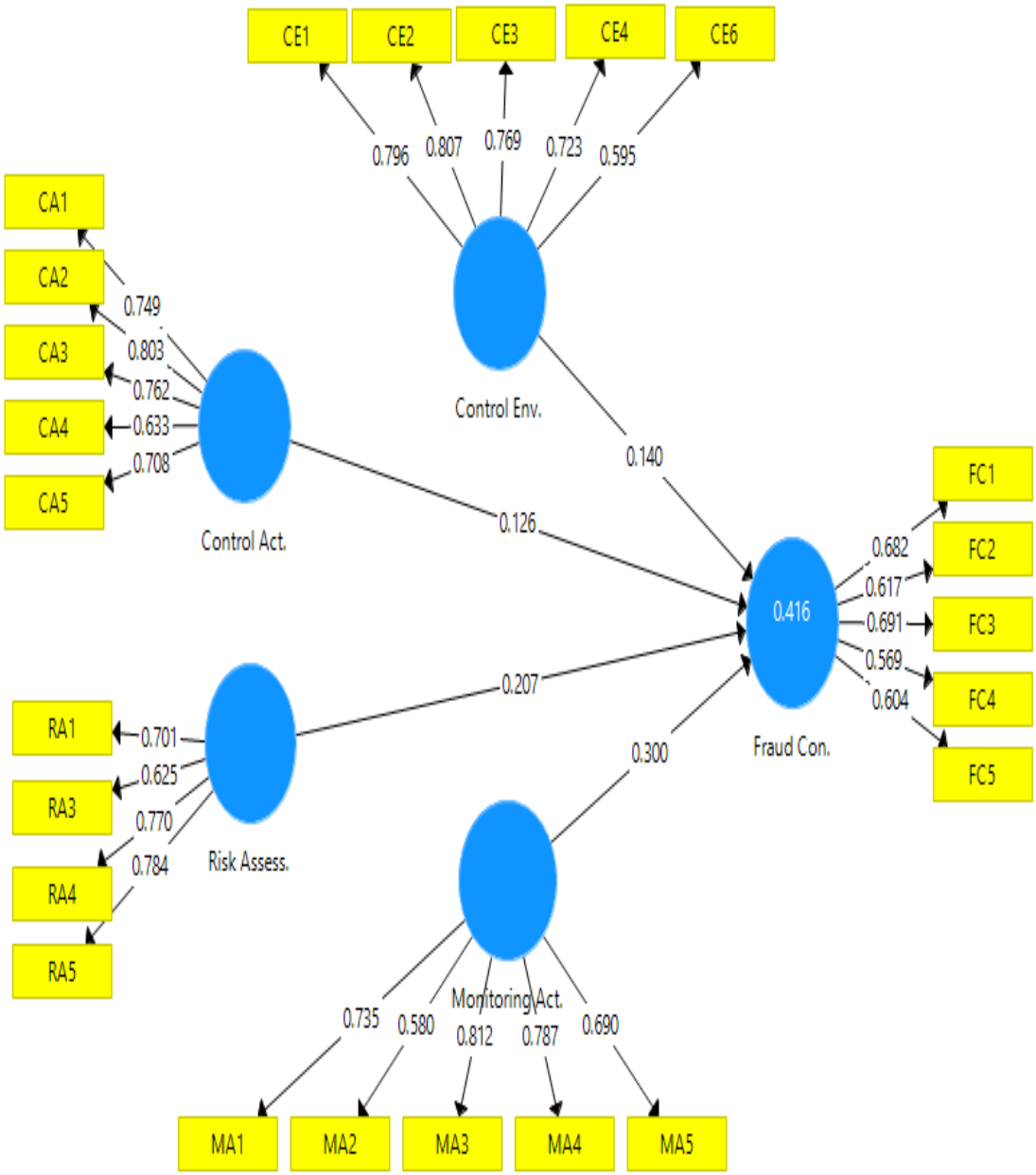


Figure 4.2. ***Measurement Model***

Source: *Researcher's Smart PLS result, 2018.*

CA: Control Activities **CE:** Control Environment **RA:** Risk Assessment

MA: Monitoring Activities **FC:** Fraud Control

Table 4.5: Item Loadings Average Variance Extraction, Composite Reliability And Cronbachs' Alpha

Variable	Loading	AVE	Composite Reliability	Cronbachs Alpha
CA1	0.749	0.537	0.852	0.785
CA2	0.803			
CA3	0.762			
CA4	0.633			
CE1	0.796	0.551	0.858	0.791
CE2	0.807			
CE3	0.769			
CE4	0.723			
CE5	0.595			
CE6	0.796			
FC1	0.682	0.402	0.770	0.629
FC2	0.616			
FC3	0.691			
FC4	0.569			
FC5	0.604			
MA1	0.735	0.526	0.846	0.778
MA2	0.579			
MA3	0.812			
MA4	0.787			
MA5	0.691			
MA6	0.735			
RA1	0.701	0.523	0.813	0.695
RA3	0.625			
RA4	0.771			
RA5	0.784			
RA6	0.701			

Source: *Researcher's Smart PLS result, 2018.*

4.7.1.3 Discriminant Validity

Discriminant validity is the extent to which a construct is truly distinct from other constructs by empirical standards. Therefore, establishing discriminant validity indicates that a construct is absolutely unique and also captures phenomena not represented by other constructs in the model

(Hair et al., 2014). Basically, there are two measures of discriminant validity namely; the cross loadings of the indicators and the Fornell-Larcker criterion. In this study, discriminant validity was determined by the both criterion as suggested where the first criterion is liberal and the second is conservative criterion (Hair et al., 2014)

Firstly, by using item loadings and cross loadings based on (Chin, 1998) criterion the items outer loading on a construct were compared with others to see if they are greater than all of its loadings on other constructs (i.e., the cross loadings). However, the presence of cross loadings that exceed the item's outer loadings signifies a discriminant validity problem. As displayed in Table 4.7, all the indicators loaded effectively on their respective constructs ranging from a lower bound of 0.5 to a higher bound of 0.8 indicating that they exceeds 0.50 as suggested. Also, all the indicators loadings were greater than the cross- loadings, signifying its fulfilment of acceptable discriminant validity.

The Fornell-Larcker criterion is the second and more conservative approach to assessing discriminant validity which is determined by comparing the square root of the AVE values with the latent variable correlations. Specifically, as a rule of thumb, the square root of each construct's AVE should be greater than its highest correlation with any other construct (Byrne, 2010; Hair et al., 2014; Hair et al., 2010). In this study, the square root of the average variances extracted (AVE) were compared with the correlations among the latent constructs to establish the discriminant validity.

Table 4.6: Discriminant Validity (Square Root of AVE and correlations of latent variables) for the first-order constructs

Latent Variable	1	2	3	4	5
1. Control Activity	**0.733**				
2. Control Environment	0.620	**0.742**			
3. Fraud Control	0.482	0.475	**0.634**		
4. Monitoring Activities	0.516	0.445	0.572	**0.725**	
5. Risk Assessment	0.554	0.598	0.570	0.701	**0.723**

Note: Diagonal elements (figures in bold) are the square root of the variance (AVE) shared between the constructs and their measures. Off diagonal elements are the correlations among constructs.

Source: Researcher's Smart PLS result, 2018.

The Table 4.8 presents the squared AVE for all the constructs along the diagonal with bold values while the correlations among the latent constructs in the off- diagonal rows and columns with un-bolded values. It is also displays that the square root of the AVE were all greater than the correlations among constructs, signifying that there is acceptable discriminant validity (Fornell & Larcker, 1981).

4.7.2 Assessment of the Structural Model

Having examined the measurement model in the previous sub-sections, this section will now evaluates the structural model. Structural model explains the dependence of relationship in the hypothesized model (Hair et al. (2007). Therefore, the structural model in PLS is aimed at testing the hypothesized relationships among all the constructs i.e. the directional relationship between the constructs and their path coefficient, standard error and t-values. This structural model evaluation begins firstly with the examining the direct relationships among exogenous and endogenous constructs. However, the structural model is run in full which include the total effect. In achieving this, it is run using the standard bootstrapping method with 5000 bootstrap

samples and 170 cases to evaluate the significance of the path coefficients (Hair et al., 2014; Hair et al., 2012; Henseler, Ringle, & Sinkovics, 2009).

The structural model shown in figure 4.4 displays the direct path relationship thereby revealing the direct effect of every latent construct on the dependent variable. The estimates shown on the full structural model in figure 4.4 comprises all the direct relationships (i.e., Fraud control).

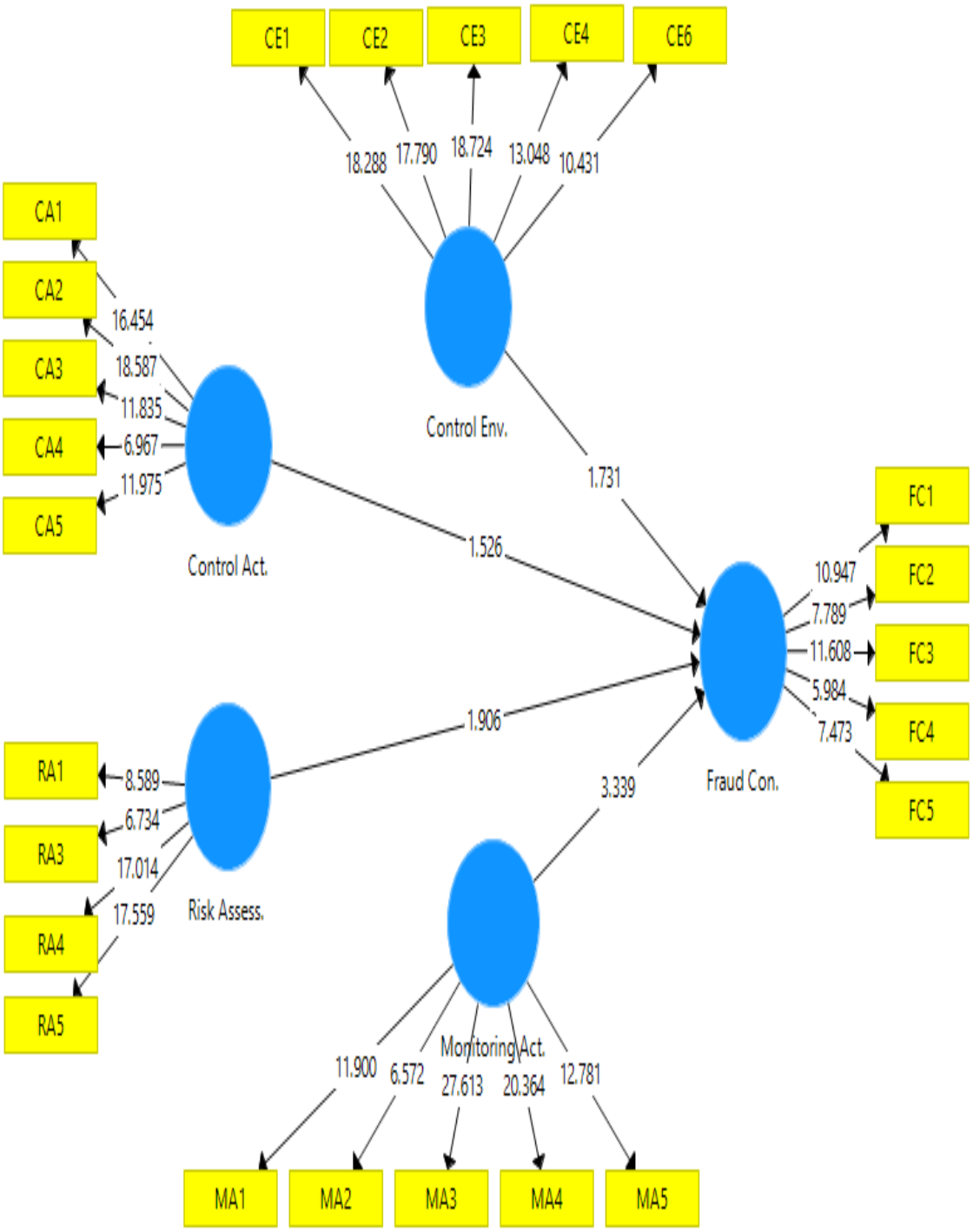


Figure 4.3. Structural Model

Source: *Researcher's Smart PLS result, 2018.*

4.7.2.1 Hypotheses Testing

This section indicates the test results on the relationship between components of ICS i.e Control Activities, Control Environment, Risk Assessment and Monitoring Activities and Fraud Control is hereby shown.

Table 4.7: Hypotheses Test

Hypotheses	Relationship	Beta value	Standard Error	T Statistic	P value	Decision
H1	Control Activities -> Fraud Control	0.126	0.122	1.526	0.127	Not Reject
H2	Control Environment -> Fraud Control	0.140	0.140	1.731	0.084	Reject
H3	Monitoring Activities -> Fraud Control	0.300	0.309	3.339	0.001	Reject
H4	Risk Assessment -> Fraud Control	0.207	0.217	1.906	0.057	Reject

Note: T-values are calculated using PLS bootstrapping routine with 170 cases and 5000 samples. Significance level are: p<0.1, p<0.05, P<0.01.

*Source**:** Researcher's Smart PLS result, 2018.*

Based on the results from the Figure 4.4 and Table 4.7, it is confirmed that: Hypothesis 1 predicted that there is no significant relationship between control activities and fraud control, the test statistics of control activities are t = 1.526 and p value = 0.127 which is greater than critical p = 0.05. Therefore, the null hypothesis is not rejected and it is concluded that there is no significant relationship between control activities and fraud control.

Hypothesis 2 findings on table 4.4 shows that control environment has a t-value of 1.731 and a p-value of 0.084 which is less than the critical p-value of 0.10 meaning that it is significant at 10%. The t-value is 1.731 which is above the minmum threshold and falls in rejection region. Therefore, the null hypothesis was rejected and it is concluded that there is significant relationship between control environment and fraud control.

Hypothesis 3 findings pertaining to monitoring of activities shows a t-value of 3.339 which is greater than the critical value of 1.694 and p value of 0.001 which is less than critical value of 0.05 therefore the null hypotheses falls in rejection region. This is because the t-value is above the minmum threshold and the p-value is above 5%. Therefore we accept alternate hypothesis and conclude that there is significant relationship between monitoring activities and fraud control in DMBs.

Similarly, the observed value of risk assessment hypotheses 4 testing (β=0.207, t-statistic=1.906, P=0.057) was statistically significant, hence the null hypotheses that there is no significant relationship between risk assessment and fraud control in DMBs is rejected. This is because the t-value is slightly above 5% but less than 10%. So its significant at 10% Therefore we accept alternate hypothesis and conclude that there is significant relationship between risk assessment and fraud control in DMBs. This is in line with the findings of Tunji (2013) who concluded that proper risk assessments can be used to reduce financial distress in banking industry brought about by errors and fraud.

4.7.2.2 Assessing the Level of R^2 in the Model

After the assessment of the path models, the next significant criterion for evaluating the structural model in PLS-SEM is the estimation of R^2 value, alternatively referred to as the coefficient of determination (Hair et al., 2012; Henseler et al., 2009). R^2 value signifies the amount of variation in the dependent variable(s) that can be explained by one or more predictor construct (Hair et al., 2014; Hair et al., 2010). Even though the minimum acceptable level of R^2 value is subject to the context of a research, an R^2 value of 0.10 was still suggested as a minimum. However, another rating was recommended by (Cohen, 1988) that in PLS-SEM, the R^2 values of 0.26, 0.13, and 0.02 could be regarded as substantial, moderate, and weak,

respectively. In this study, the endogenous constructs is fraud control which have the following R^2 values as shown in Table 5.0.

Table .4.8: Coefficients of Determination (R2)

Construct	R Square (R2)
Fraud Control	0.416

The table 4.8 clearly displays that the model explains only 41% of the total variance on the control of fraud which is regarded as substantial (Cohen, 1988). Therefore, it can be concluded that all the four exogenous latent constructs (i.e., Control Activities, Control Environment, Risk Assessment and Monitoring Activities) altogether can account for 41% of the variance in the controlling of fraud which can also be seen in figure 4.3.

Figure 4.4. Normality Graph of the Residuals

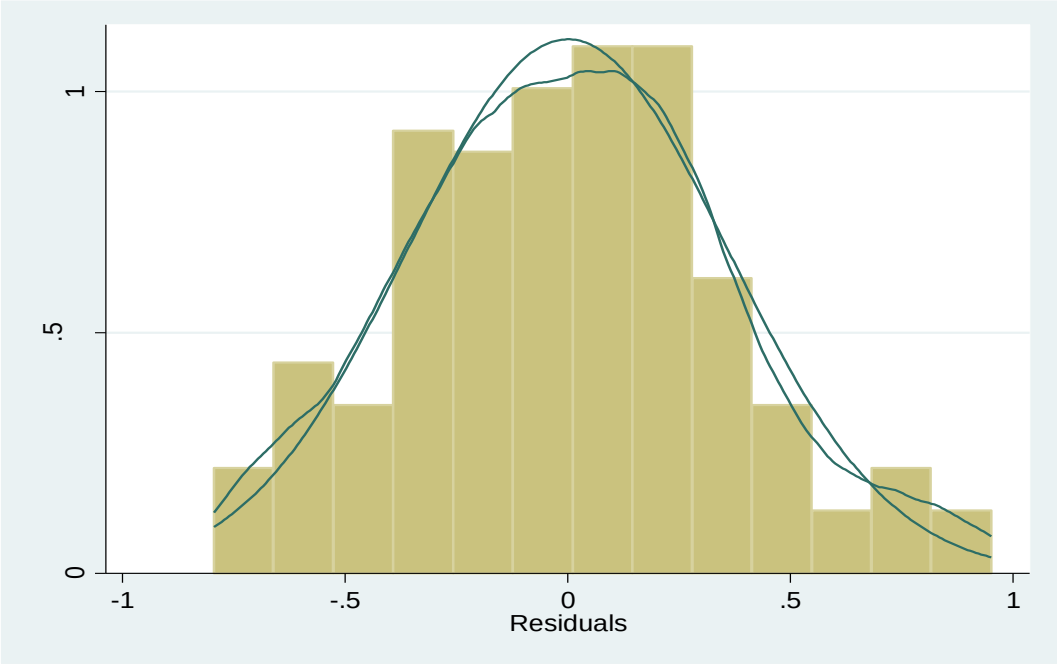


Figure 4.4

The histogram is a frequency plot obtained by placing the data in regular cells and plotting each cell frequency versus the center of the cell. In the figure above, it illustrates an approximately

normal distribution of residuals produced by the models for calibration process and judging by the observation above, there is a superimposed normal density function on the normality of the distribution of the residuals.

4.8 Summary of Findings

In this chapter a detailed description of the data collection as well as descriptive statistics of the variables were all elucidated. In PLS-SEM analysis, results from the measurement model confirmed that the research model has achieved reliability, convergent and discriminant validity. The research models (measurement and structural) were all evaluated using Smart-PLS 2.0 M3 (Henseler, et al., 2009) and research hypotheses were tested. Four null hypotheses were tested, three were rejected while one was not rejected.

Details of the results from the hypotheses testing showed that control activities has no statistical significant relationship. We therefore not reject the null hypothesis and reject the alternative hypothesis and conclude that there is no significant relationship between control activities and fraud control in DMBs. The findings imply that the laws and regulations provided by bank managements needs to be effective in ensuring clear control activities for the various financial function and at the same time strengthened and seal all loopholes that might be capitalized on by fraudsters to commit fraud.

While the three remaining components (control environment, monitoring activities and risk assessment) of ICS have significant relationship with fraud control. So the null hypotheses were therefore rejected and alternate hypothesis is accepted. Control environment results imply that the laws provided by the bank management regulating authorities and government do affect the

organization culture and operations which on the other hand contribute in controlling fraud in banks.

Monitoring activities findings imply that bank managements and government regulations in place are able to enhance monitoring activities to work properly in ensuring that the mechanisms put in place to address fraud menace are tight and operational. It may also indicate that the regulations by government pertaining to proper monitoring are considered or are taken seriously by the concerned individuals as they should.

And the risk assessment implies that bank managements and government legislations put in place do help in assessing and preventing risks of fraud or the organizations do consider the legislative and regulatory framework to be important to be used in organizations to assess and act on risk of fraud.

Also it was found that some components of internal control systems had a significant relationship with fraud control after computing the coefficients of determination. In that, all the identified factors are predictors of fraud control. Based on the research findings it can be concluded that internal control system is a positive significant predictor of controlling fraud. The findings of the study suggested that internal control systems is a significant area management of banks should give great attention to in order to improve the control of fraud, this is in support of the findings Ajala, et al., (2013); Adetoso and Akinselure (2016); Akani and Akaninyene (2015) and Oguda et al (2015).

The findings from this study are of interest to policy makers, as they have implications to policy directions in financial institutions in Nigeria. For instance, the findings implied that to improve on having an efficent and effective internal control systems in the Nigerian Banks, control

activities should be given attention ensuring clear activities for the various financial function and at the same time strengthened and seal all loopholes that might be capitalized on by fraudsters to commit fraud.

On the other hand, policy makers need to consider the remaining three internal control system (control environment, monitoring activities and risk assessment) that the organization culture and operations which on the other hand contribute in controlling fraud in banks, to enhance monitoring activities to work properly in ensuring that the mechanisms put in place to address fraud menace are tight and operational and also the regulatory framework is important by using it in organizations to assess and act on risk of fraud.

SECTION FIVE

SUMMARY, CONCUSION AND RECOMENDATION

5.1 Introduction

This chapter presents a summary of major findings of this study, sets out the relevant conclusions and makes recommendations for practice and suggestions for further research based on the findings of this study. The study sought to examine the relationship between internal control systems and fraud control on deposit money banks in Nigeria.

5.2 Summary

The study examined how ICS can be used to control fraud in DMBs. The researcher set study objectives and hypotheses that assisted in establishing the relationship sort. This study used a survey research design. The study sought to establish the relationship between internal control systems and fraud control on deposit money banks. Specifically the study was guided by the following objectives; to investigate the relationships between control environment, control activities, risk assessment, monitoring activities and fraud control.

Relevant concept were reviewed such as fraud, fraud in Banks, internal control system and types of inter control system. Relevant theories such as agency theory, system theory and Fraud triangle theory. The study also reviewed relevant empirical studies.

The study adopted survey research design which aims at obtaining the relationship between independent variables and dependent variables. The population is 170 management and staffs of 17 deposit money banks (DMBs) in Nigeria from a target population of 21 DMBs. The data obtained was analysed by using Partial Least Squares (Smart PLS) in analyzing the collected data.

Based on the research findings, it was found that internal control system is a positive significant predictor of controlling fraud. The findings of the study suggested that internal control systems is a significant area, management of banks should give great attention to in order to improve the control of fraud

5.4 Conclusion

Based on the findings of this study, it concludes that conclude that there is no significant relationship between control activities and fraud control in DMBs. These should be given more attention in ensuring clear activities for the various financial function and at the same time strengthened and seal all loopholes that might be capitalized on by fraudsters to commit fraud.

Also the study concludes that there is significant relationship between the remaining three components and fraud control. This study elicits the key determinants of internal control systems, which can be nurtured by the management staffs of deposit money banks to better their banking activities. Therefore banks need to invest more in establishing strong internal control systems to realize more adequate measures of fraud control.

5.5 Recommendations

Consistent with the results and findings from this research, the study offer some recommendations for bank management, policy makers and regulators on DMBs in Nigeria to consider measures or in bringing out policies that will mitigate or controlling fraud. The following specific recommendations are also offered:

i. Inspections by bank managements and regulators should be taken, so as to be able to notice loopholes in the laws that are used in order to manipulate the financial statements

ii. The study recommends that the board of directors of DMBs in Nigeria should boost their supervision and compliance in ensuring that comprehensive and effective internal control systems put in place minimize the incidence of frauds.

iii. The study recommends that the banks management should subsequently adopt a dynamic approach to fraud risk assessment and institute fraud policies and effectively identify controls to handling risks and assess security controls in their systems.

iv. The study also recommends that established government legislations and regulations that can be used i.e. ones that need to be amended or abolished in order to improve and strengthen the ICS to protect the investors' investments and grow the economy, so as to attract investors confidence.

5.5 Limitation and Suggestion for Future Research

Like any other research, the result of this study is subject to some limitations due to some factors. There are 21 DMBs in Nigeria, but this study is restricted 17 DMBs branch located in Kaduna metropolis. Therefore, the generalization of the findings to other sectors is subject to research findings in the future.

Future studies may try to expand on the whole of deposit money banks in Nigeria. Subsequent future research also may attempt to replicate the study in different economies to confirm the role of internal control systems and fraud control on Nigerian banking sectors.

Despite the contributions made by this study, it highlights a few aspects to be considered by future researchers. The propositions put forward in this study emphasize the importance of having efficient and effective internal control systems in banks. monitoring activities, risk assessment and control environment seemed to have much effect on fraud control than control

activities. This means that if these key determinants of fraud control are fixed in financial institutions there will be much decline on fraud which will lead to enhancement of banks financial activities.

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DEPARTMENT OF ACCOUNTING
FACULTY OF ADMINISTRATION

AHMADU BELLO UNIVERSITY, ZARIA. NIGERIA

SURVEY ON INTERNAL CONTROL SYSTEM ON FRAUD CONTROL IN DEPOSIT MONEY BANKS (DMBs)

Dear Sir/Madam,

TO WHOM IT MAY CONCERN

I am a postgraduate student of Ahmadu Bello University Zaria Nigeria, and currently conducting a survey on "Internal Control System On Fraud Control In Deposit Money Banks (DMBs**)**". It is part of the requirements for the award of M.Sc. degree for student to conduct academic research in his/her field of study.

Kindly, help by completing this questionnaire as accurately as possible. Please note that your responses will be treated with utmost confidentiality and would be used purely for academic purposes. We highly appreciate your co-operations.

Thanking you in anticipation of your response.

Yours sincerely,

Hudu Abubakar Sadiq
M.Sc. Student

APPENDIX A

Questionnaire

This research work is intended to explore the general overview of internal control system and fraud control in the DMBs. Please provide answers to the following questions against the most suitable alternative or by giving narrative responses in the spaces provided. (Responses will be treated with utmost confidentiality).

Questionnaire Number……

Date……...

SECTION A: **Demographic Characteristics**

1) Age- 18-24 [ ] 25-34[ ] 35- 44[ ] 45-54 [ ]

2) Educational Qualification: OND/ HND [ ] B.Sc [ ] M.Sc/Phd [ ]

Others professional [ ]

3) Gender- Male [ ] Female [ ]

4) Marital Status - Single [ ] Married [ ] Divorced [ ]

5) Working Experience: 1-3yrs [ ] 4-6yrs [ ] 7-Above [ ]

SECTION B:

(a) Control Environment

The following is to determine the relationship between control environment and fraud control in DMBs in Nigeria. To what extent do you agree with the following statements as ways that control environment is effective on controlling fraud in the bank? Rate your agreement with the following statements using the likert scale below: (Please tick appropriately)

Key:1- Strongly Disagree, 2- Disagree, 3-Undecided, 4-Agree, 5-Strongly Agree

No	Description	1	2	3	4	5

1	Management closely monitors implementation of internal control system					
2	Management is committed to the operation of the system					
3	Ethical values are upheld in all management decisions					
4	Management analyses the risks of a venture before making a decision					
5	There is adequate monitoring of decentralized operations					
6	Managers possess adequate knowledge to discharge their responsibilities.					
7	Bank control measures have not been able to significantly reduce fraud					

(b) Control Activities

The following is to evaluate the relationship between control activities and fraud control in DMBs in Nigeria. Using the table below, rate your agreement with the following statements which best describe your opinion on control activities in your organization.

Key: 1- Strongly Disagree, 2- Disagree, 3-Undecided, 4- Agree, 5-Strongly Agree

No	Description	1	2	3	4	5
8	Physical control					
9	The bank has well established supervisory control units					
10	The bank has developed effective policies on information and communication					
11	Information and communications policy provide established mechanisms to address non-compliance in financial matters					
12	The company has clear segregation of duties for the various financial function					
13	Management staff members of most DMBs usually have a part to play in most cases of fraud in banks					
14	Investors confidence and shareholders in the banking sector have been seriously affected					

(c) Risk Assessment

The following is also to examine the relationship between risk assessment and fraud control in DMBs in Nigeria. Using the table below, rate your agreement with the following statements which best describe your opinion on risk assessment in your organization.

Key: 1- Strongly Disagree, 2- Disagree, 3-Undecided, 4- Agree, 5-Strongly Agree

No	Description	1	2	3	4	5
15	Bank management encourage reporting of events in order to identify					

	the risks					
16	Most fraud in Nigerian banks are usually perpetrated by internal staff rather that external staff					
17	The bank has a monitoring system that identifies potential risks					
18	The bank has a risk review process after implementation of the mitigation measures/control for identification of risks					
19	Risks identified are reviewed by risk management committee					
20	Recommendations by the risk management committee are reported directly to top management					

(d) Monitoring Activities

The following is to evaluate the relationship between monitoring activities and fraud control in DMBs in Nigeria. Using the table below, rate your agreement with the following statements which best describe your opinion on monitoring activities in your organization.

Key: 1- Strongly Disagree, 2- Disagree, 3-Undecided, 4- Agree, 5-Strongly Agree

No	Description	1	2	3	4	5
21	Management assesses systems of control from time to time					
22	The bank has an independent monitoring unit					
23	Appropriate communication to the management on the effectiveness of ongoing monitoring process on risk and control matters					
24	The management of the bank reviews the result of the audit					
25	Adequate monitoring of decentralized operations					
26	Periodically, internal control system are in place					

(e) Fraud Control

Using the table below, rate your agreement with the following statements which best describe your opinion on fraud control variables (internal audits and whistle blowing) in your organization.

Key: 1- Strongly Disagree, 2- Disagree, 3-Undecided, 4- Agree, 5-Strongly Agree

No	Description	1	2	3	4	5
27	Bank internal audits provide effective managerial control					
28	The bank should developed an internal audit manual that guides audit operations					

29	Assessment of internal control framework					
30	Bank clearly communicate the whistle blower policy to employees					
31	Whistleblower results are periodically reported for timely review by management					
32	Whistle blowing continues to be effective in controlling fraud					
33	Whistle blowing is only efficient when it's done by someone in the institution who has been officially delegated to do so					
34	External factors have strong impact on the efficient operations in your institution leading to override of controls by management					

Designation……

Thank you for taking the time to complete the questionnaire

APPENDIX B

LIST OF BANK BRANCHES

S/No	Banks	Branches
1.	Access Bank Plc	2
2.	Diamond (Access) Bank Nigeria Limited	2
3.	Ecobank Nigeria Plc	2
4.	Fidelity Bank Plc	2
5.	First Bank Nigeria Plc	2
6.	First City Monument Bank (FCMB) Plc	2
7.	Guaranty Trust Bank plc	2
8.	Heritage Bank	2
9.	Keystone Bank Ltd	2
10.	Polaris Bank Ltd	2
11.	Stanbic IBTC Bank Ltd	2
12.	Sterling Bank Nigeria Ltd	2
13.	Union Bank Of Nigeria Plc	2
14.	United Bank For Africa Plc	2
15.	Unity Bank Plc	2
16.	Wema Bank Plc	2
17.	Zenith Bank Plc	2
	Total	34

Note: Total number of Bank branches (34) * Number of Respondents (5) = 170

or

Number of banks to be sampled (17) * Total Number of Respondents (10) =170. That is to say that one hundred and seventy (170) management and staffs of the banks are to be sampled.

APPENDIX C

Descriptive Statistics of Latent Constructs

Labels Item	Items Statement	N	Mean	Std. Deviation
	Control Environment			
CE1	Management closely monitors implementation of internal control system	170	4.25	0.76
CE2	Management is committed to the operation of the system	170	4.34	0.64
CE3	Ethical values are upheld in all management decisions	170	4.25	0.75
CE4	Management analyses the risks of a venture before making a decision	170	4.18	0.75
CE5	There is adequate monitoring of decentralized operations	170	3.97	0.78
CE6	Managers possess adequate knowledge to discharge their responsibilities.	170	4.15	0.77
CE7	Bank control measures have not been able to significantly reduce fraud	170	2.79	1.26
	Control Activities			
CA1	Physical control	170	3.88	0.80
CA2	The bank has well established supervisory control units	170	4.25	0.64
CA3	The bank has developed effective policies on information and communication	170	4.24	0.58
CA4	Information and communications policy provide established mechanisms to address non-compliance in financial matters	170	4.18	0.64
CA5	The company has clear segregation of duties for the various financial function	170	4.25	0.63
CA6	Management staff members of most DMBs usually have a part to play in most cases of fraud in banks	170	3.19	1.09
CA7	Investors confidence and shareholders in the banking sector have been seriously affected	170	3.51	1.06
	Risk Assessment			
RA1	Bank management encourage reporting of events in order to identify the risks	170	4.27	0.64
RA2	Most fraud in Nigerian banks are usually perpetrated by internal staff rather that external staff	170	3.38	1.13
RA3	The bank has a monitoring system that identifies potential risks	170	4.09	0.62
RA4	The bank has a risk review process after implementation of the mitigation measures/control for identification of risks	170	4.15	0.66
RA5	Risks identified are reviewed by risk management committee	170	4.24	0.62
RA6	Recommendations by the risk management committee are reported directly to top management	170	4.28	0.71
	Monitoring Activities			
MA1	Management assesses systems of control from time to time	170	4.28	0.61
MA2	The bank has an independent monitoring unit	170	4.16	0.75
MA3	Appropriate communication to the management on the effectiveness of ongoing monitoring process on risk and control matters	170	4.15	0.73
MA4	The management of the bank reviews the result of the audit	170	4.25	0.65

MA5	Adequate monitoring of decentralized operations	170	3.98	0.81
MA6	Periodically, internal control system are in place	170	4.27	0.68
	Fraud Control			
FC1	Bank internal audits provide effective managerial control	170	4.33	0.59
FC2	The bank should developed an internal audit manual that guides audit operations	170	4.28	0.66
FC3	Assessment of internal control framework	170	4.29	0.53
FC4	Bank clearly communicate the whistle blower policy to employees	170	4.01	0.75
FC5	Whistleblower results are periodically reported for timely review by management	170	3.84	0.75
FC6	Whistle blowing continues to be effective in controlling fraud	170	3.61	1.05
FC7	Whistle blowing is only efficient when it's done by someone in the institution who has been officially delegated to do so	170	2.54	1.19
FC8	External factors have strong impact on the efficient operations in your institution leading to override of controls by management	170	3.79	1.09
Valid N		**170**		