

Internal control and fraud detection in banks essay sample

[Literature](#), [Russian Literature](#)



ABSTRACT

The Central Bank of Nigeria reported that the backward development of Nigeria was attributable to weakness in the internal control systems of the banks. This has clearly pointed out the picture of how fraud is being penetrated in the financial strength of Nigerian banks. In a nut-shell , the damage which the menace, called fraud has done to the banks is innumerable and needs urgent attention. Internal control are measures established by directors relating to the accounting systems in order to check if all transactions made are recorded using the correct figures and if they were executed in accordance with proper general or specific authorisation. Internal Control and Fraud Detection covers the essential tools you need to perform internal control related services. It will take you through your clients responsibility to design and implement programs and controls to prevent , deter and detect fraud. It touches on internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act “ Enhanced Financial Disclosures, Management Assessment of Internal Control” which mandates changes.

This work covers ways by which internal control can be useful in detecting of fraud in organisations. A section of this work also deals with a little of forensic accounting, a specialty requiring the integration of investigative, accounting and auditing skills. The forensic accountant looks at documents and financial and other data in a critical manner in order to draw conclusions. As experts in this area, forensic accountants understand the fraud risk areas and have extensive fraud knowledge and experience of dealing with the application of accounting facts gathered through auditing

methods and procedures to resolve legal problems. They do not merely look at the numbers but, rather, look critically behind the numbers in search of significant patterns.

Chapter one

1. 0 Introduction

This chapter presents the background of the study, purpose, statement of the problem, objectives, research questions , significance of the study.

Background of the study Internal control, the strength of every organisation has become of paramount importance today in Nigerian banks. The reason being that, the control systems in any organisation is a pillar for an efficient accounting system. The need for the internal control systems in the organisations especially banks cannot be undermined due to the fact that the banking sector which has a crucial role to play in the economic development of a nation is now being characterized by macro economic instability, slow growth in real economic activities, corruption and the risk of fraud. Fraud, which is the major reason for setting up on internal control system has become a great pain in the neck of many Nigerian bank managers. It has also become an unfortunate staple in Nigerians international reputation. Fraud is really eating deep into the Nigerian banking system and that any bank with a weak internal control system is dangerously exposed to bank fraud.

In a nut-shell, the damage which this menace, called fraud has done to the banks is innumerable and needs urgent attention. Therefore, the attempt to put an end to this economic degradation gave rise to the topic of this

research study “ the impact of internal control in fraud detection in banks”. However, this study is 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. The questions are: what can be said to be the cause or causes of the increasing rate of fraud in banks? What are the effects or damage has fraud caused banks, her customers? What is the impact of internal control in the prevention and detection of fraud in banks.

purpose of the study

The study seeks to establish the relationship between internal control and fraud detection and also how internal control can help in the reduction of fraud.

1. 3 statement of the problem

The regularity of fraud and misappropriation of funds is creating fear, anxiety, and a loss of confidence in the minds of bank customers. Also, poor internal control system leads to increase in bank losses. Management is required to set up an internal control system but this system varies significantly from one organization to the next, depending on such factors as their size, nature of operations, and objectives. Since internal controls operate in an environment which influences its operations, proper care must be exerted into the implementation of these systems in other to achieve the utmost aim of the bank. 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. Every organization has to face the problem of fraud, however not all fraud occurs can be prevented. Besides, organizations have not cost-effective to try. A business may determine it is more cost-effective to design its controls to detect, rather than prevent, certain fraud schemes. It is important that organizations must consider both preventing fraud and detecting fraud.

objectives

The objective of this study is to determine the impact of internal control, on the overall management of Nigerian banks. Also, to examine the effect of the internal control systems, when it comes to fraud prevention and detection. Summarily, the specific objectives are: to examine the effectiveness of internal control in banks.

Providing an understanding why an organization should have internal control and the impact of not having adequate control. Understanding the key components of internal control. To find out effective internal control systems influence in prevention and detection of fraud. To find out the problem of fraud and how to curb.

1. 5 research questions

Do banks have internal control systems ? if yes, how effective is it? Can

banks with effective internal control systems prevent the menace of fraud? What kind of relationship exists between the prevention and detection of fraud and internal control systems? Is lack of good internal control the major cause of fraud in banks? What other major causes exist?

1. 6 significance of 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 audit 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 organisation. Reference for other research topic.

Chapter two

Review of related study

2. 0 introduction

This chapter provides a critical review of related literature on the study variables, definition and understanding of internal controls. A usual adage says prevention is better than cure; so also, people say that one should look before one leaps. These statements are more or less the equivalents of an internal control system. It is very important to state that the success of the

operations of banks world wide is strictly guided and dependent among other things, on the existing quality of their internal control system.

DEFINITION AND UNDERSTANDING OF INTERNAL CONTROL.

Internal control is a process effected by an entity's board of directors management and other persons designed to provide reasonable assurance regarding the achievements of objectives in the following categories; efficiency and effectiveness of operations, reliability of financial reporting and compliance with applicable laws and regulations (Lower, 1998). Internal controls are policies, procedures, practices and organizational structures implemented to provide reasonable assurance that an organization's business objectives will be achieved and undesired risk events will be prevented or detected and corrected, based on either compliance or management initiated concerns (Awe, 2005).

The Institute of Chartered Accountants of England and Wales (ICAEW), defined internal control as the whole system of controls, financial or otherwise, established by management in order to carry on the business of an enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible, the completeness and accuracy of the records. Mayo and BPP (1988), defined it as the measures taken by an organization for the purpose of protecting its resources against wastes, fraud, inefficiency; ensuring accuracy and reliability in accounting and operating data; Securing compliance with organization policies and evaluating the level of performances in all divisions of the organizations.

Internal Controls (IC) are to be an integral part of any organization's financial and business policies and procedures. They are adopted by management to ensure that the organization conducts business in an orderly and efficient manner (KPMG Forensic, 2004). From these definitions, it can be deduced that internal control comprises the plan of an organization and all of the coordinate methods and measures adopted within it, to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies. Internal control objectives are channeled towards ensuring adherence to managerial policies and achieving organizational goals in general. ICAN (2006a, b) categorized controls into three major classifications: Preventive controls: These are controls that predict potential problems before they occur and make adjustments. They also prevent an error, omission or malicious act from occurring. Examples of preventive controls includes: Using well-designed documents to prevent errors. Establishing suitable procedures for authorization of transactions. Employ only qualified personnel. Segregation of duties.

Detective controls: These controls are designed to detect and report the occurrence of an omission, an error or a malicious act. Examples of detective controls includes: duplicate checking of calculations. Periodic performance reporting with variance error message over tape labels. Hash totals counter cheques post-due account reports. Corrective controls: These controls help to minimize the impact of a threat, identify the cause of a problem, correct errors arising from the problem. They also correct problems discovered by

detective controls and modify the processing system (s) to minimize future occurrence of the problem. Examples of corrective controls are: contingency planning back up procedures rerun procedure

Control activities are policies and procedures that help ensure that management directives are carried out. They help ensure that necessary activities are taken to address risks to achievements of the entity's objectives. Control activities occur throughout the organization at all levels and all functions (Junner, 1993). They include arrange of activities; authorization, verifications, reconciliations, review of operating performance security of assets and segregation of duties (Ernst and Yong, 1995).

Information flow is essential to effecting control, information about an organization's plan, control environment, risks, control activities and performance must be communicated up, and access an organization (Ruttrman Working Group, 1994). Reliable and relevant information flow both internal and external sources must be identified, captured, processed and communicated to the people who need it in a form and time frame that is useful (Chambers 1995). Information systems produce reports, containing operational financial and compliance - related information that makes it possible to run and control an organization (Coseo, 1992).

COMPONENTS OF INTERNAL CONTROL

Control environment encompasses integrity and ethical values, management philosophy and operating style, accountability and human resource practices and is considered to be an important control element. Ethical environment

can be enhanced by leadership and or management's firm adherence to punishing those who violate the code of ethics (COSO, 1994). Control activities are top down reviews, functional or activity management, information processing, performance indicators, segregation of duties and physical controls (COSO, 1994).

Monitoring or authorization as control activities are portrayed as being of reducing importance. Risk control involves systematic procedures put in place to identify and measure risk associated with the institution's continuity and strategies for controlling and monitoring it. Risk assessment focuses on cost versus benefit approach to control and is not just the risk of fraud or misstatement of reports (COSO, 1995 and Mills, 1997). COSO (1994) recognizes information and communication as separate control environment. Information sharing enables employees to get right and timely information thus developing a feedback Davis and Militello (1994), organizations where information sharing is encouraged decision making and performance is highly enabled. Employees take ownership of information and can easily identify and put right their own and their team's faults.

common weakness of internal control

Albrecht (1984), outlines most common internal control weaknesses, in order of frequency ;

- Too much trust in employees
- lack of proper procedure for authorization
- lack of personal financial information disclosure (for bank frauds)
- lack of separation of transaction authority from custodian of assets

- absence of independent checks on performance
- lack of adequate attention to detail
- failure to separate asset custody from accounting for assets
- failure to separate accounting duties, absence of clear lines of authority - relaxed or absence of audit activities or reviews
- no conflict of interest statement required and lack of adequate documents and records. The conditions for fraud to occur include an incentive to commit fraud (pressure), good reason for justifying fraudulent behavior (attitude) and an opportunity to commit fraud Albrecht et al (1984), it is pointed out that opportunity is easy to control by establishing strong internal system unlike pressure and attitude which are human factors that are usually beyond direct influence of management.

Fraud: definition and concept

What is fraud? Fraud has been widely defined in literature by scholars and experts. Hornby (1998) defines Fraud as an action or an instance of checking somebody in order to make money or obtain goods illegally. The same dictionary defines the perpetrators of frauds as fraudsters. According to the ICAN study Pack (2006a, b) Fraud consists of both the use of deception to obtain an unjust or illegal financial advantage and intentional misrepresentations, affecting the financial statements by the one or more individuals among management, employees, or third parties. Archibong (1992) describes Fraud as a predetermined and well planned tricky process or device usually undertaken by a person or group of persons, with the sole aim of checking another person or organization, to gain ill-gotten

advantages, be it monetary or otherwise, which would not have accrued in the absence of such deceitful procedure. From the above the term fraud may be said to be as an intentional misrepresentation of financial information by one or more individuals among management, employees or third parties.

Fraud may involve: .

- Falsification or alteration of accounting records or other documents
- Misappropriation of assets or theft
- Suppression or omission of the effect of transaction from records or documents
- Recording of transactions without substances
- Intentional misapplication of accounting policies
- Willful misrepresentation of transactions of the entity's state of affairs

From whichever perspective, fraud is looked at, it is simply a deceitful and dishonest act, which involves taking a property unlawfully from its owner, without his/her knowledge, permission or consent, or to misstate a situation knowingly or by negligence. This issue of fraud is a conventional phenomenon in the national life. In the government and private sectors, it is the order of the day. In the banks, fraud is on the increase. Companies are failing every day, through the activities of fraudsters.

Classification of fraud: Within the scope of this study, attempts shall be made to critically examine the two broad schemes of frauds. Fraud is classified into two and are:

- Management fraud

- Employee fraud

- Management fraud

According to Fakunle (2006), management fraud often involves the manipulation of the records and the account, typically by the enterprise's senior officers with a view to benefiting in some indirect way. An example is, obtaining finance under false pretences, or concealing a material, worsening off the company's true position, i. e., window dressing. Robertson (1996) defines management fraud as a deliberate fraud, committed by management that injures investors and creditors, through materially misleading financial statements. Management fraud is sometimes called Fraudulent financial reporting. Management fraud is usually perpetrated by the management staff of an organization, which includes directors, general managers, managing directors etc.

The class of victims of management frauds are investors and creditors and the instrument of perpetration is financial statement. The essence of management fraud most times is to attract more shareholders to come and invest in the organization. It is also perpetrated, so that organization will be in better position of obtaining loans from banks, because, a good statement will show a healthy look, hence it will be a good collateral security. Fraud is the intentional distortion of financial statements or other records by persons internal or external to the authority, carried out to conceal the misappropriation of assets or otherwise for gain. It is a generic term to describe a variety of offences under either the Theft Act 1968 or the Criminal

Justice Act 1987. This definition does not include other irregularities which may result in loss to the Council (e. g. theft). Therefore, for the purpose of this Strategy fraud has a wider meaning to include other irregularities.

Pollick (n. d.) defines fraud as white - collar criminals, business professionals with specialized knowledge and criminal intent. Employee fraud: Also known as non-management fraud: These are frauds that are perpetrated by the employees of an organization. Robertson (1996) defines it as the use of fraudulent means to take money or other property from an employer. It usually involves falsification of some kind, like false documents, lying, exceeding authority, or violating an employer's policies, embezzlement of company's funds, usually in form of cash or other assets. It consists of three phases, which are:

- The fraudulent act
- The conversion of the money or property to the fraudsters us
- The cover up

Employee frauds are more likely to be encountered where internal controls are weak: other types of employees frauds according to Awe (2005) are as follows:

- Fictitious payment of suppliers:
- Alteration of invoices
- Double payment of invoices

- Suppression of credit notes received
- Missing returned cheques (so that it appears that bills are paid)
- Missing invoices
- Wages Fraud (Payroll Fraud)
- Payment for hours not worked for
- Payment of an incorrect wage rate
- Fictitious employees (ghost workers) on wage sheet
- Deliberate errors in wage sheet
- Misappropriated cash taking
- Actual theft of cash balance
- Misappropriated cash from credit sales

It is important to note that all these form of employee fraud are perpetrated, so that the perpetrators will have an undue benefit from all the irregularities made, as embedded in the definition of fraud. Type of bank's common fraudulent practices: Ovuakporia (1994) gave account of thirty-three types of bank frauds in the banking sector. These includes theft, embezzlement, defalcations, forgeries, substitution, suppression, payment against unclear effects, unauthorized lending, lending to 'ghost' borrowers, kite flying and cross firing, unofficial borrowing, foreign exchange malpractice,

impersonation, over-involving, manipulation of vouchers, fictitious accounts, over and under valuation of properties, false declaration of cash shortages, falsification of status reports, duplication of cheque books, mail transfer, interception of clearing cheques, computer frauds, fake payments, teeming and lading, robbers and others.

The above numerous types of fraudulent practices in banks, serve as threats to the success of many banks. If adequate preventive and detective measures are not put into action, it could lead to the complete failure of financial institutions especially banks in Nigeria. Causes of bank frauds: There are many identified causes of fraud in banks. They vary from institutional to economical, social, psychological, legal and even infrastructural causes. The immediate causative agents of frauds in general as provided by Ogbunka (2002) are as follows:

- Availability of opportunities to perpetrate frauds and forgeries
- Human greed, avarice, instability
- Poverty and the widening gap between the rich and the poor
- Prevailing misplaced social values, moral and spiritual decadence
- Increasing incidence of unemployment
- Increasing financial burden on individuals
- Misapplied intelligence-say for adventure

- Job insecurity

- Social misconceptions that banks' money is nobody's money property and therefore can be defrauded

- Societal expectations

- Inadequate training of personnel

- Unhealthy comparison and competition

- Revenge

- Peer group pressure

- Non-adherence to ethical standards

- Leadership by bad example

- Poor/weak recruitment policies

- Over ambition/frustrations of staff

- Increasing and changing sophistication in technological equipment

- Inadequate training of manpower

- Societal indiscipline, especially with money

- Risk on the fraudsters may be low or none

- Possibility of identifying or stopping a fraud may be very little

- Lack of effective machinery that guarantee sever punishment for fraudsters and forgers
- Poor/weak management control, monitoring and supervision
- Weak internal control system of the bank

Of a truth, there are many causes of bank frauds, but, weak internal control system stands as the major cause of frauds in banks. It is therefore, expedient that adequate, efficient and effective internal control system be installed in every bank in order to reduce this disaster called fraud. Factors influencing the existence of fraud in banks: Despite the numerous cause of bank frauds, there exist some other factors that influences the risk of fraud within the bank and accordingly steps ought to be taken to minimize them. According to Izedonmi (2000), these factors includes:

- Where authority is concentrated in a few hands within the bank
- Where, management continually fails to implement internal control recommendations, made by an external auditor
- Where, there is a high rate of turnover in key accounting functions
- Where the accounting system is inadequate and the books of accounts cannot be reconciled with the financial statements
- Where transactions occurring during the year are reversed after the year end

- Where fees paid to legal advisers appear to be out of proportion with the actual services rendered
- Where there are material transactions during and around the year end date
- Where the bank is experiencing slovenly problems.
- Where it is difficult to obtain explanations from management and staff of the banks during the audit.
- Where documentation supporting transactions are generally non-existent

Other factors that could influence the risk of fraud in banks, according to Raji (1997) includes: Experience: When too much confidence is reposed on a staff because of his apparent ability to work with minimum supervision due to his experience, it could degenerated into a situation that could breed an opportunity for committing fraud. Understaffing: Most banks today, strive that strenuous efforts be made to cut down cost. This idea is however, overstretched that at times result to entrusting too many sensitive function to a staff. No matter how good a staff is, carrying out its functions efficiently may not be easy to sustain. Understaffing will create opportunity for fraud, as there will be no room for any form of supervision. It can be deduced from these factors that management needs to do a good job by installing an effective internal control system to reduce the exposure of the banks to frauds.

EFFECTS OF FRAUD

As a consequence, the activities of fraudsters have negative and grave effect on the affected banks. Some of the effect of frauds on banks according to the provision of the NDIC published report (1996). The distress syndrome: Bank frauds tend to jeopardize the industrial growth of the Nation. Bank frauds have made some banks to wind up, while some are still battling with the distress syndrome. Bank failure in Nigeria have gulped > 40 billion so far from innocent depositors, who end up losing their hard earned money and their confidence in these banks. Loss of bank funds: Frauds had caused hardship in banks, especially those whose liquidity stated was already in doubt. As fraud cases in banks, continue to rise, bank's losses in terms of money also rises.

Bank staff involvement: According to the NDIC publication, about 1914 bank staff of various ranks were involved in fraud between 1994 and 1996. The obvious effect is possible termination of appointment, dismissal and suspension, which would certainly affect their homes adversely. Illiquidity: When banks experience fraud, some amount of money is being lost, which in turn affects the banks liquidity position, thus leading to their inability to meet their re-capitalization requirements.

Bad name: According to the BBC News on Nigerian bank frauds (2007) Nigeria has become synonymous with fraud as some of its citizens use the boom in the internet cafes to send Spam mails, promising millions in exchange for the gullible recipient's bank details. This has proved to us that fraud has become an unfortunate staple in Nigeria's international reputation, thus, giving us a bad name. From the above effects, it can be clearly seen

that fraud is really a destructive force on a mission to spoil the name of financial institutions, render so many employers of labour jobless, close down banks and erase the confidence of the people in the country's banks. This should not be permitted hence efficient internal control systems must be fully effected.

Management's responsibilities towards fraud prevention and detection: According to Ola (2001), Primary responsibility for the prevention and detection of errors and irregularities rest with management. This responsibility arises out of a contractual duty of care by directors and managers and also because directors and other managers act in a stewardship capacity with regard to the property entrusted to them by the shareholders or other owners. Izedonmi (2000) also said that the responsibility for the prevention or detection of fraud and errors, within an enterprise, rest with the management. This responsibility is discharged by management, through the establishment of an adequate system of internal controls, including internal check and internal Audit. It is therefore, pronounced that the management of any banking organization is totally responsible for the prevention and detection of fraud, majorly by the establishment of an adequate, efficient and effective internal control relationship between internal control and fraud detection

Coso (1992), provided a criteria against which effectiveness of internal controls can be assessed. Internal control can be judged effective if the entity's operations objectives are being achieved; published financial statements are being prepared, reliable and applicable laws and regulations

are being complied with. While internal control is a process, its effectiveness is a state or condition of the process at a point in time. Accordingly, the effective functioning of components of internal control provides a reasonable assurance regarding achievement of one or more of the stated categories of objectives to ensure high levels of organizational performance. Thus, the company's criteria for effective internal control and success of the entire organization.

One of the five interrelated components of an internal control system is a control environment factor. It refers to the integrity, ethical values and competence of the entity's people (COSO, 1994). Internal control should be viewed in a broader context for example it should as well be reorganized as a function of people's ethical values as it is of standards and compliancy mechanisms (CoCo, 1995). Wells (2001), illustrate practical fraud occurrences discovered by competent accountants within organizations and what the accountants say about how they detect fraudulent transactions. Internal control system helps an organization to achieve its objectives such as its efficiency and effectiveness, reliable financial reporting, prevention of fraudulent activities and compliance with regulations COSO (1994). Controls serve the systems goals, they interact with the system and its environment thus directing the energy of the system toward fulfillment, in the same way changes in the environment are easily noticed and adapted to (CoCo, 1995).

ACMAD (1994), recognizes that internal controls can enhance the productivity and competitiveness as well as the security of organizations against fraud. The establishment of a strong internal control environment

where written policies and procedures are enforced, internal controls are appropriately implemented and employees are educated about fraud and its consequences is one of the best deterrent and methods of curtailing fraud. For internal controls to be effective, they must be constantly evaluated for effectiveness and changed as business processes are changed or altered.

The responsibility for the implementation of internal controls rest with management of each banks. The impact that strong internal controls has in deterring fraud and limiting exposure if fraud does occur is irrefutable, however, a strong system of internal controls is no absolute guarantee that all cases of fraud will be prevented. Why? Because the best system of internal control cannot prevent collusion between two or more people who are in positions to circumvent the internal control mechanisms, or prevent managers in key leadership capacities from unduly influencing those responsible for the internal control activities. Therefore, it is important for employees to recognize fraud when it is occurring and report the fraudulent activities to the appropriate authority.

Chapter three

Empirical review

Pollick (n. d.) defines fraud as white - collar criminals, business professionals with specialized knowledge and criminal intent. . Robertson (1996) defines employee fraud as the use of fraudulent means to take money or other property from an employer. According to Fakunle (2006), management fraud often involves the manipulation of the records and the account, typically by

the enterprise's senior officers with a view to benefiting in some indirect way. An example is, obtaining finance under false pretences, or concealing a material, worsening off the company's true position, i. e., window dressing. Izedonmi (2000) also said that the responsibility for the prevention or detection of fraud and errors, within an enterprise, rest with the management. This responsibility is discharged by management, through the establishment of an adequate system of internal controls, including internal check and internal Audit.

Internal controls are policies, procedures, practices and organizational structures implemented to provide reasonable assurance that an organization's business objectives will be achieved and undesired risk events will be prevented or detected and corrected, based on either compliance or management initiated concerns (Awe, 2005). Mayo and BPP (1988), defined it as the measures taken by an organization for the purpose of protecting its resources against wastes, fraud, inefficiency; ensuring accuracy and reliability in accounting and operating data; Securing compliance with organization policies and evaluating the level of performances in all divisions of the organizations. Reliable and relevant information flow both internal and external sources must be identified, captured, processed and communicated to the people who need it in a form and time frame that is useful (Chambers 1995). Davis and Militello (1994), organizations where information sharing is encouraged decision making and performance is highly enabled. Employees take ownership of information and can easily identify and put right their own and their team's faults.

DISCUSSION OF FINDINGS

in the research work done, we have been able to deduce that though banks have good internal control but that still has not been able to stop the fraud activities. After looking at all the facts, it is seen that mostly what causes fraud in banks today is peoples greed, pressure from their families, opportunity they have by wanting to live above their means and also rationalization. This sums up to what Cressey gave in his Cressey's triangle , which says for fraud to occur, three things must be present.

Opportunity

Pressurerationalisation

Pressure is the financial need that is often unwilling to be shared, rationalisation is when a person has the ability to justify their actions and opportunity is the act of an employee to commit fraud when he sees the internal control is weak. Also, fraud occurrence today in banks could be the cause the management neglecting to make adequate checks on the employees and their said duties. In order to have an internal control that could be said to be good, management must see fit to separate employees duties.

As said by Izedonmi (2000), that the responsibility for the prevention or detection of fraud and errors, within an enterprise, rest with the management. This responsibility is discharged by management, through the establishment of an adequate system of internal controls, including internal check and internal Audit. Also, the success of the internal control is on the

employees. If they are trustworthy and honest, the control environment will be good and less fraud will occur. But, auditors find it difficult to relate with honest and trustworthy employees, because when a fraud is committed no one believes the honest employee can commit it. So it is left for the auditors and management to implement a sound internal control environment in the prevention and detecting of fraud in these banks.

CONCLUSION

Bank Fraud are now becoming a global phenomenon. Fraud in general, inflicts untold hardship on bank owners, customers and their family members, as most bank failures are associated with large scale frauds. The prevention and detection of frauds are basically the responsibility of the management, through the establishment of an effective and efficient internal control system. Conclusively the importance of the internal control department/unit of any organization, especially banks cannot be undermined. Since the lack of an effective internal control system, according to the findings is the major cause of bank frauds. It is then concluded that the management of every bank should create and establish a standard internal control system, strong enough to stand against the wiles of fraud in order to promote continuity of operations and to ensure the liquidity, solvency and going concern concept of the bank.

RECOMMENDATIONS

The functions of fraud prevention, detection and control are interwoven, as the three work together to eliminate fraud and fraudulent tendencies. The

knowledge of the possible causes of a disease will assist a medical doctor to give adequate prescription and panacea, for the prevention and cure of the disease. Similarly, it is pertinent to recommend the following preventive, detective and curative measures to control fraud in the banking sector.

Adequate internal control system: Internal control which has been earlier mentioned and defined as all types of checks and balances, both operational and financial, should be employed by the management of every bank, to ensure that the bank's assets are safeguarded, of which cash is one. This would go a long way in reducing and curbing fraud in banks. **Effective internal audit department:** Banks should try as much as possible to have an effective internal Audit department, which should be headed by a qualified accountant.

In addition, the accountant should be responsible to the managing director or a higher authority in the bank. Proper attention should be paid to cash: From the findings, it is observed that cash is the most vulnerable asset to theft, as it can be seen that cash accounted 64. 52% of fraud committed in banks. The study also reveals that cashiers are the major culprits in perpetrating fraud, hence, their recruitment must be thorough, proper guarantee should be requested from the applicant, before given the post of a cashier. Banks should also arrange for a cash in transit insurance cover in order to prevent the risk of loss of any cash in transit. **Attractive pay packages:** The maintenance of a rewarding workmen compensation scheme, will enable, an average banker live above poverty level. Hence, he will shun

the temptation to defraud his/her employer. Formulation of good personnel and recruitment policies: This is alike with No. 3 above.

Recruitment not based on sentiment but on personal knowledge, guarantee and reference from people of high integrity will go a long way in preventing the recruitment of kleptomaniac, greedy and ungodly individuals in the banking sector. Good management: Management by example, should be the watch word of every banker, be it director, manager, officer or messenger. Every one should comply with the laid down policies and procedures in the performance of any banking function. Other measures includes: Keeping of adequate records, putting operating procedures manual in writing, observing the attitude of the staff towards work and their spending habit, whether amount spent is commensurate with income earned etc. If the aforementioned measures are strictly adhered to, the ever increasing menace of fraud, which has ruined many Nigerian banks, will be drastically reduced to its barest minimum and eventually eradicated.

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