FRAUD INHIBITION THROUGH INTERNAL CONTROLS AND CHECKS IN CROSS RIVER STATE, NIGERIA

Opue, Job Agba*
Okpa, Martina N.***

(*) Corresponding Author: Department of Economics, University of Calabar, PMB 1115, Calabar, Nigeria. Email: ngaji74@yahoo.com, Phone: +2347062522700
(*** ) Office of Auditor General, Cross river State, Nigeria

ABSTRACT

This work aims at providing an answer to the question: what should be the appropriate Internal Control measures in order to redress the problem of fraud? The Local Government Area Councils in Cross River State (CRS) are considered and examined with the aid of Simple percentages, using primary data generated from the administered questionnaires. However, the results obtained revealed that The Local Government staff were aware of the meaning of internal control; Internal control measures aimed at checking fraud existed in the LGA Councils of CRS. The staff were aware of the meaning of checks; Checks which is an internal control measure existed in the LGA Council of CRS. The staff were conscious of the meaning of fraud; Fraud which hinders growth and development of a given system existed in the LGA Council of Cross River State. Therefore, we recommended that in order to strengthen the weak monitoring networks and weak sanctions implementation aimed at redressing the problem of fraud, Internal Control measures such as segregation of duties, authorization and processing of disbursement, managing restricted funds, and check signing should be fully enforced as specified in section five.

1.1 INTRODUCTION

Fraud is very tropical in our society – major headlines appear almost weekly in our electronic and print media. The adverse effects of fraud in corporate organisations and even in public service are very well known. It is the misappropriation of assert and/or manipulation of records to show an incorrect position. Fraud is an irregularity that is possible in the conduct of the affairs of an organization when any of the following situations exist:

1. There is no proper system of internal control
2. Persons vested with authorizations and control power abuse them.
3. Staff who are expected to serve as check on each other collude.
4. Owing to incompetence on natural failings of some staff, other staff or individuals are able to take undue advantage to carry out irregular activities.

5. Critical documents and signatories are fogged without human beings detected.

The situation has continued to deteriorate over the years and has become more complex and devastating in recent years with the emergence of sophisticated systems, associated with the great advances in communication and information technologies. This has become even more pronounced in the wake of increasing globalization of financial markets and other economic institutions. In order to checkmate fraud prevention, reduction and control in an organization, internal control system is a good method of combating the prevalence of fraud, irregularity and errors in any organizations.

Internal control system is therefore, defined as a process affected by an organization’s structure, walk and authority flows. People and management information systems design to help the organizations accomplished sacrificial goals or objectives. “Internal control is simply a system of checks and balancing, design to provide assurance that: Asset are protected, Accounting data is accurate, Operations are efficient, Laws and policies are compiled with.

Internal control is also the means by which an organization’s resources are directed, monitored and measured and so plays an important role in preventing fraud and protecting the organizations resources.

The essence of internal control system is not so that fraud can be made impossible, as this has not been achieved yet any were around the globe. Internal controls are rather put in place in order to make fraud more difficult to commit, and where it has been committed, to make the chance of detection much greater. To that extend, they act as valuable moral checks.

This project is basically intended to look into the internal controls and general checks, and also look into the tools for fraud prevention, reduction and control of an organisation. Any organisation that does not put in place internal control is like a ship floundering in a stormy ocean. Without internal control, an organisation becomes very vulnerable to all manners of frauds, wastes and abuses. Internal control therefore, ensures efficient conduct of the business and prevents wastage. It also minimizes occurrence of fraud and error or irregularity, if not completely eliminated. Other advantages of internal control include: protection of an organisation’s assets against improper disbursement; assurance of high degree of accuracy and dependability of all financial and operating information; Highlighting weaknesses; and Assuring adherences to established policies of the organisation.

Against the above background, internal control is an essential prerequisite for efficient and effective management of any organisation. It is thus, a primary responsibility of every management
to establish and maintain an adequate system of internal control appropriate to the size and nature of the business entity. A number of theoretical models have been constructed in the past in an attempt to explain why people commit fraud. Some of the key characteristics of these are as follows:

- A perceived opportunity such as the absence of or circumvention of controls that enable fraud to be prevented or detected.
- An offender with a motivation to steal money, whether through cupidity, living beyond one’s means, the existence of debt sometimes associated with drug or gambling addiction, presences of a financial crisis or various related pressures:
- The presence of a rationalization for acting illegally, such as belief that the victim can afford the lost, that the funds stolen will be used for a good purpose by the offender: and finally
- The absence of a capable guidance, whether through proper business administration.
- Lack of fraud prevention resources or the absence of an effective police service or regulatory authority.

In the case of economic commerce related fraud, motivations and rationalizations remain much the same as in other case of conventional fraud. However, growth of e-commerce has created money opportunities sometimes due to fraud prevention measures being overlooked or flaws that exist in the technological framework that support these new business models. Furthermore, capable guardians are often absent or less effective in the online world whose transactions take place across borders. Police and regulators may be unfamiliar with the technology or inadequately funded to conduct investigations and sanctions rarely impossible (Nwoko, 1992).

### 1.2 STATEMENT OF THE PROBLEM

To most organisations, one of the primary aims is to put in place efficient and effective internal control system as much as possible to check irregularities, fraud and errors prevention. Unfortunately, as the system and the technologies are further developed, the criminals tend to become bolder and more advanced in their crimes or fraud. Apart from the losses suffered by the various organisations/individuals as well as loss of confidence in the system, the country’s image is seriously bartered both locally and internationally. Against the backdrop of the prevalence of frauds in our organizational system, it has become incumbent or pressing upon management of any organisation to put in place efficient internal control system to forestall this ugly development.
To date, there is no consensus amongst stakeholders with regards to the effectiveness or usefulness of Internal Control measures in preventing and reducing fraud, and on what should be done to create awareness on the importance of such measures. In CRS particularly, once there is fraud, it is quickly ignored, especially when the culprit is no longer in service. Due to these limitations/shortcomings, it is usually acclaimed that Internal Control measures are ineffective. In our society today, the major reason why most organisations are inefficiently run or attain less than their potentials are largely due to inadequate attention paid to maintenance of otherwise good controls designs, than any other reason. No compliance to internal controls in existence, sometimes, is deliberate in order to create opportunities for personal gains of officials. The responsibility for internal controls lies with management.

1.3 PURPOSE OF THE STUDY

The main purpose of this research is on general checks and internal control system as veritable mechanisms to prevent, control and/or eliminate irregularity (or fraud) and errors in an organization such as Cross River State Local Government Service.

Specifically, this work shall:

i. Assess the level of awareness of staff on the meaning of internal control and also investigate if there exists internal control in the organization.

ii. Assess the level of awareness of staff on the meaning of checks and investigate if there exists checks in the organization.

iii. Assess the level of awareness of staff on the meaning of fraud and investigate if there exists fraud in the organization and the possible causes of fraud.

iv. Suggest possible measures to redress incidence of fraud.

1.4 OPERATIONAL DEFINITION OF THE TERMS

1. Irregularity: is used to refer to intentional distortions of financial statements and accounting records, for whatever purpose, and to misappropriations of assets, whether or not accompanied by distortions of financial statements and records.

2. Fraud: is one type of irregularity and is used to refer to irregularities involving the use of criminal deception to obtain an unjust or illegal advantage.
3. **Error**: is used to refer to an unintentional mistake in financial statements and accounting records, whether of a mathematical or clerical nature, or whether in the application of accounting principles, or whether due to oversight or misinterpretation of relevant facts.

### 2.1 CONCEPTS OF INTERNAL CONTROL

An internal control means practically a continuous internal audit carried out by the staff itself, by means of which the work of each person or individual is independently checked by other members of the staff. The essence of internal control is not so that fraud can be made impossible, as this has not been achieved yet anywhere around the globe. Internal controls are rather put in place in order to make fraud more difficult to commit, and where it has been committed to make fraud more difficult to commit, and where it has been committed to make the chance of detection much greater. To that extent, they act as valuable moral checks, internal control therefore ensures efficient conduct of the business and prevents wastage. It minimizes occurrence of fraud and errors or irregularity, if not completely eliminated.

#### 2.1.1 Advantages of Internal Control:

The advantages of Internal Control Includes:

a. Protection of an organization’s assets against improper disbursement;

b. Assurance of high degree of accuracy and dependability of all financial and operating information.

c. Highlighting weaknesses and

d. Assuring adherence to established policies of the organization.

Against the above background, internal control and general checks is an essential prerequisite for efficient and effective management of any organization. It is thus, a primary responsibility of every management to establish and maintain adequate system of internal control and general check appreciate to the size and nature of the business entity.

#### 2.1.2 Meaning and Purpose of Internal Control System

Internal control according to International Standard of Auditing 400, is therefore, defined as 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, safeguard the assets and secure as far as possible the completeness and
accuracy of records. The individual components of an internal control system are known as control or internal controls.

This definition brings to the fore some key features of internal control: Promote operational efficiency and effectiveness; Ensure adherence to prescribed managerial policies; Safeguard the assets from all forms of misuse and error; Obtain accuracy and reliability of accounting records.

As the name suggests, this system of control is internal because it is designed and installed for or by management and regulated by it. It is not maintained by any external body or party. It is regulated from within and is unique to the enterprise for which it has been designed and installed. A good internal control system is usually tailor-made and therefore hardly transferable. Horngreen and Foster (1988) have established that effective internal control must consist of two complementary parts: Administrative controls and Financial controls.

Administrative controls consist of the plan of the organization and all those non-pecuniary and supportive measures, which ensure orderliness and procedure in the work environment. Examples include jobs description, annual holidays arrangements, etc. studies have shown that administrative controls are non-urgent in nature, and a flaw in them may not immediately result in fraud. Such flaws however, create cracks, which if unchecked may eventually weaken the system. For example, the fact that the administrative manager did not proceed on leave due to “work pressure” may not immediately create problems. However, a manager who avoids his annual holidays for many years consecutively, for whatever reasons, may easily cover up anything; errors and fraud not excepted.

Financial controls are usually woven around pecuniary, non-pecuniary and physical matters – e.g. cash, stock, vehicles, etc. they are usually more urgent in nature because a slight fault in control can immediately be exploited to disadvantage. Improper safeguard of cash for a few minutes may result in loss. This explains the necessary emphasis paid to financial controls in practice and theory.

The best internal controls (checks and balances) are of limited value unless the individuals who run the group (that is, the board or council members) understand their roles in making them work effectively and consistently. Boards or Councils are only as useful as their training allows them to be (Snyder & Clifton, 2005).

2.1.3 Types of Internal Controls

Internal control-Auditing Guideline and Institute of Chartered Accountant of England and Wale (ICE&W) Statement U.4 in the appendix to the operational Auditing guidelines (Mallichamp, 2000) categorize the types of Internal Control according to the following sub-headings:
Organization: - An organization should have a plan which should define and allocate responsibilities. Every function should be in the charge of a specified person. The reporting line should also be clearly defined. In all cases the delegation of authority and responsibility should be clearly specified. An employee should always know the precise powers delegated to him, the extend of his authority and to whom he should report.

Segregation of Duties: - No one person should be responsible for the recording and processing of a complete transaction. The involvement of several people reduces the risk of intentional manipulation or accidental error or mistakes. Functions, which for a given transaction should be separated include initiation, authorization, execution, custody and recording.

Physical: - This concerns physical custody of assets and involves procedures designed to limit access to authorized personnel only. Access can be direct or indirect e.g. direct being able to enter the warehouse or indirect, by documentation. All these controls are very significant especially in case of valuable, portable, exchangeable, or desirable assets.

Authorization and Approval: - All transactions should require authorization or approval by an appropriate and responsible officer. The limits of these authorizations should be specified or stated example: All credits sales must be approved by the credit control department; All overtime must be approved by the operations manager.

Arithmetical and Accounting: These are controls within the recording functions which check that the transactions to be recorded and process have been authorized, that they are all included and they are correctly recorded and accurately processed. Such controls include checking the arithmetic accuracy of the record, the maintenance and checking of totals, reconciliation of control account and trial balance.

Personnel: There should be procedure to ensure that personnel have capability commensurate with their responsibilities that is competent and motivated to carry out the tasks assigned to them. The measures in this case include appropriate remuneration and promotion, career development prospects, selection of people with appropriate personal characteristics and training, assignment to tasks of the right level.

Supervision: Any system of internal control should include the supervision by responsible officials of the day to day transaction and recording thereof.

Management: These are the control exercise by management which are outside the day to day routine of the system. They include the overall supervisory control exercise by management, the review of management account and comparison there off with budget. The internal audit function and any other special review procedure.
2.1.4 Necessity for Internal Controls

Different people from varying backgrounds with experiences and world views are normally brought together in an organization. It is necessary to adopt uniform procedures to ensure that their different efforts will produce unity of action towards a common goal. A lot of waste may result from non-synergistic and out-rightly dysfunctional approaches, if no procedures exist. A good internal control system defines procedures for carrying out every activity in the enterprise. Recognition of the critical importance of internal control is evident in the key frameworks and guidelines on the subject. In the 1990s internal control frameworks such as the COSO (USA, 1992), Turnbull (UK, 1999) and CoCo (Canada, 1995) emerged, some of which have recently been reviewed and updated or supplemented. In addition, there are many other publications on the theory and benefits of internal control. Corporate governance and internal control became a highly pertinent and topical business issue at the beginning of the 21st century following a series of large corporate scandals and failures. These failures led to calls for enhanced corporate governance, risk management and internal control. Governments and legislators, regulators, and standard setting groups came under increasing pressure to take measures to assist in preventing similar shareholder losses from occurring in the future. Ayine&Mkpe, (2003) explains the necessity for internal controls: There must be separation of ownership from management. Owners pool resources together for purpose of increasing their wealth. The managers who are put in-charge of such resources have a moral (and perhaps legal) obligation to ensure the most effective use of these resources.

1. When an auditor issues a clean or favourable report, he certifies that assets have been safeguard, good controls are in place, procedures efficient, and the profit made or benefit derived, is the best in the circumstances. Reliance placed on this statement is on the assumption that there is a sound internal control system.

2. Delegation of Authority in Organizations: This is an indispensable aspect of modern management, but must be carried out, ensuring those avoidable mistakes and errors are not made. The more decentralized a unit is, therefore, the greater the need for internal controls.

3. Human System:Internal controls are necessity in any human system because genuine mistakes can occur. If such mistakes are allowed, may distort the procedure of affairs in an organization.

4. Fraudulent Tendencies: Some people are disposed to fraudulent tendencies. Persons of these characters need not be allowed opportunities to cheat. A good internal control system will seek, through rules, procedures, methods and techniques to minimize opportunities to errors and fraud.
2.1.5 Features of a Good Internal Control System

The features of a good internal control system are enumerated as follows: Staffing - honest, qualified and experienced personnel; Clear definition of functions and appropriate segregation of duties must be followed; Effective checks and counter checks must be instituted; Proper authorization of transactions should be followed accordingly; A good physical security system must be put in place; Effective and efficient procedures; Rotation of staff duties, where possible; Unbiased reporting system. Based on rules, procedures, etc.; A business and Ethical code of conduct; A good internal control system is impersonal not woven around; A compulsory annual leave system; Consideration for costs-benefits.

2.2 CONCEPT OF FRAUD

Many definitions in the literature exist, where the intention of the subscriber plays a central role. Johnson (1996) defines fraud as any transmission of voice or data across a telecommunications network where the intent of the sender is to avoid or reduce legitimate call charges. In similar vein, Davis and Goyal (1993) define fraud as obtaining unbillable services and undeserved fees. According to Johnson (1996), the serious fraudster sees himself as an entrepreneur, admittedly utilizing illegal methods, but motivated and directed by essentially the same issues of cost, marketing, pricing, network design and operations as any legitimate network operator. Hoath (1998) considers fraud as attractive from the fraudsters’ point of view, since detection risk is low, no special equipment is needed, and the product in question is easily converted to cash. Although the term fraud has a particular meaning in legislation, this established term is used broadly to mean misuse, dishonest intention or improper conduct without implying any legal consequences.

Following the definition of fraud, it is easy to state the losses caused by fraud as primary motivation for fraud detection. Industry suffers losses in the order of billions of US dollars annually due to fraud (Davis and Goyal 1993; Johnson 1996; Parker 1996; O’Shea 1997; Pequeno 1997; Hoath 1998). In addition to financial losses, fraud may cause distress, loss of service, and loss of customer confidence (Hoath 1998). The financial losses account for about 2 percent to 6 percent of the total revenue of network operators, thus playing a significant role in total earnings. However, as noted by Barson et al. (1996), it is difficult to provide precise estimates, since some fraud may be never detected, and the operators are reluctant to reveal figures on fraud losses. Since the operators are facing increasing competition and losses have been on the rise (Parker 1996), fraud has gone
from being a problem carriers were willing to tolerate to being one that dominates the front pages of both trade and general press (O’Shea 1997).

Historically, earlier types of fraud used technological means to acquire free access. Cloning of mobile phones by creating copies of mobile terminals with identification numbers from legitimate subscribers was used as a means of gaining free access (Davis and Goyal 1993). In the era of analog mobile terminals, identification numbers could be easily captured by eavesdropping with suitable receiver equipment in public places, where mobile phones were evidently used. One specific type of fraud, tumbling, was quite prevalent in the United States (Davis and Goyal 1993). It exploited deficiencies in the validation of subscriber identity when a mobile phone subscription was used outside of the subscriber’s home area. The fraudster kept tumbling (switching between) captured identification numbers to gain access. Davis and Goyal (1993) state that the tumbling and cloning fraud have been serious threats to operators’ revenues. First fraud detection systems examined whether two instances of one subscription were used at the same time (overlapping calls detection mechanism) or at locations far apart in temporal proximity (velocity trap). Both the overlapping calls and the velocity trap try to detect the existence of two mobile phones with identical identification codes, clearly evidencing cloning. As a counter-measure to these fraud types, technological improvements were introduced. However, new forms of fraud came into existence. A few years later, O’Shea (1997) reports the so-called subscription fraud to be the trendiest and the fastest-growing type of fraud. In similar spirit, Hoath (1998) characterizes subscription fraud as being probably the most significant and prevalent worldwide telecommunications fraud type. In subscription fraud, a fraudster obtains a subscription (possibly with false identification) and starts a fraudulent activity with no intention to pay the bill. It is indeed non-technical in nature and by call selling, the entrepreneur-minded fraud. From the above explanation it is evident that the detection mechanisms of the first generation soon became inadequate. The more advanced detection mechanisms must be based on the behavioral modeling of calling activity, which is also the subject of this work.

2.2.1 Fraud Symptoms

It is very necessary to note that in the absence of errors, fraud could be indicated by features which include, but are not restricted to one or more of the following: Evidence of falsified documents; Unauthorized transactions or incorrectly recorded transactions; Trends, figures or results, which do not accord with explanations; Unusual items on reconciliation or suspense account; Unusual investment of funds held in a fiduciary capacity; Payment by the organization of penalties or fines; Substantial payment of fees to consultants or advisers for unspecified services;
Deviation from established procedures; Unexplained lavish lifestyles by officers and employees; Differences between figures obtained by physical count / inspection and that shown in the records; Control account does not agree with subsidiary ledger; Failure of figures to agree with expectations; Evidence that the system of internal control is not operating as it was believed or intended to.

2.2.2 Responsibility for Prevention and Detection of Fraud

The primary responsibility for the prevention and detection of fraud rests squarely on the management of an organization. Accordingly, management should exercise their responsibility primarily by instituting and operating an appropriate system of internal control. Fraud prevention must therefore, be seen as an organizational, as well as individual, ethical responsibility. While fraud depends on individuals, it may be unwittingly encouraged or protected by certain features of an organization’s activities or structural deficiencies.

1. Many problems can be traced back to poor controls exercised by senior management. An organization can lift some of the burdens from individuals, not only by placing greater emphasis on teams and shared decision-making, but also by adopting effective fraud preventive practices. Prevention however, involves more than risk assessment and the introduction of monitoring and supervisory reviews. It requires the development of an ethical culture reinforced by a code of conduct to deal with specific issues faced by staff.

2. **Electronic Business:** Any business transactions on the internet or any digital equipment for that matter should not involve signatures. This is because anybody can cut out your signature, and paste it on something else and then use it for some ulterior motive.

3. **Formulation of a Fraud Preventive Strategy:** Fraud prevention must be a collective responsibility of every member of staff and must be enforced by management. Fraud preventive strategy can be strengthened in an organization by evolving the following issues: The main components are shared values on fraud throughout the organization; Involvement of all key senior management officers, effective style of management and effective strategy; Management must ensure implementation of effective systems for managing or combating fraud; There should be orientation or training of managers and staff in the basic skills that are necessary for effective fraud prevention; Staff must perceive clearly a strong belief by management in ethical behavior; Effective physical control must be put in place; Systematic responses to offenses, offenders should be established.

4. **Anti-Corruption Techniques:** The institution of anti-corruption techniques is to restrict the discretionary role of certain officers, who may likely abuse this discretion. For instance, with
regards to procurement, there should be: Open advertisement; Prequalification exercises; Formalized list of suppliers and contractors; Adoption of objective selection criteria with advance notice to bidders; Detailed tendering and evaluation procedures; Balance selection panel; Full documentation.

Procurement is number one area that is easily prone to fraud. In the cause of analyzing procurement systems, the objectives should be to ensure the best possible value for money outcomes, and the reinforcement of all legal requirements and ethical standards by incorporating guidelines and contractual conditions relating to best practices. It must also demonstrate the necessary elements of business and impartiality to survive full disclosure and critical public scrutiny.

5. **Areas of Best Practice in Fraud Prevention:** The issues stated below represent some of the highlights of the best practice in fraud prevention: Fraud awareness and education; Management of Fraud control; Personnel monitoring; Transaction Monitoring; Improvement in Personnel identification; Counterfeit prevention; Computer system Monitoring; Physical security, and Legally based deterrence.

6. **Legal Deterrence:** The deterrent effects of prosecution and punishment represent the final means of deterring fraud, though the quantifying extent of success is problematic, to say the least. Individual who are aware, for example, that their assets may be confiscated following a criminal conviction, may consider that the benefits to be derived or gotten from offending are not worthwhile. Unfortunately, however, cases of fraud against organisation go unreported and while the stigma attached to admitting fraud is one reason this occurs, empirical evidence has also indicated that this is a sign of organisations’ belief that the police can do little to either retrieve funds.

7. **The System of Internal Check:** Internal check is the check on day to day transaction which operates continuously as part of the routine system whereby the work of one person is proved independently or complimentary to the work of another, the object being prevention or early detection of errors and frauds. It includes matters such as delegation and allocation of authority and division of work, the method of recording transaction and the use of independently ascertained totals against which in large number of individuals items can be proved.

8. **Internal Audit:** This constitutes an element of internal control system established by the management. The members of internal audit who are employees of the business devote their time to reviewing the operations and the records of undertakings and cause of their duties, check much
detail work among other things, the internal audit is responsible for ascertaining that there is effective system of internal check to prevent or detect errors or frauds.

9. **The use of Machine:** It is believed that a person cannot easily alter a machine entry. The alteration of machine record is more difficult than in hand written record.

10. **Personnel Management:** The two most important points are enforcement and holidays for all staff and careful control of clerical overtime.

11. **Examination of Comparative Figure:** This is extremely useful for detection and prevention of fraud or genuine errors which have been completely in principle but correct in detail.

### 3.1 RESEARCH DESIGN

The research design adopted for this study is survey inferential design. This design was chosen over other research designs such as comparative and experimental designs, essentially because it is preoccupied with describing what is, and establishing the relationship that exist among variables. This design is also concerned with whether the study population is a representation of the population to which the researcher wishes to generalize and whether they have accurately measured the characteristic which they wish to report.

### 3.2 POPULATION OF STUDY

The research is limited to the Auditor General for Local Governments with regards to the following Local Governments Councils: Akamkpa, Abi, Yakurr, Calabar Municipality, Calabar South, Biase, Odukpani, Akpabuyo and Bakassi respectively. A total of 160 respondents will be used for this study, 20 persons (respondents) each per Council.

### 3.3 SAMPLING PROCEDURE

The sample technique used in determining the sample is simple random sampling. This is because all the members of the population are identical in the sense that they experience the same problem irrespective of the size and therefore have equal chance of being selected. That is to say, that the population is homogenous.

### 3.4 INSTRUMENTATION
Questionnaire designed for this purpose will be administered to the respondents. The researcher intends to use oral interviews and written questionnaires. Questionnaires are designed to reflect the various areas of concentration.

3.5 DATA ANALYSIS TECHNIQUES

The collection of data is not complete if data analysis techniques are not presented. The researcher’s data analysis technique is based on the responses from the questionnaire administered. Descriptive statistic such as simple percentages will be introduced and used for the analysis.

4.1 RESULTS, ANALYSIS AND FINDINGS

This section is concerned with the general description of data; presentation and interpretation, and then the discussion of findings.

4.2 RESPONSE RATE:

The Response rate for this study is 100%. This is so because, out of 160 questionnaires administered, 160 were obtained. This is due to the fact that the questionnaires were administered and obtained at the spot.

4.3 INTERPRETATION OF QUESTIONNAIRE QUESTIONS, RESEARCH HYPOTHESES AND ANALYSIS OF RESULTS

4.3.1 Interpretation of each Questionnaire Questions

From the tally generated from the questionnaires, it was discovered that:

1. On what is Internal Control, 10 out of 160 respondents agreed that it is promotion of operational efficiency and effectiveness; 20 out of 160 respondents agreed that it is ensuring adherence to prescribed managerial policies; 10 out of 160 respondents agreed that it is a method of checks and balances; while 120 out of 160 respondents agreed that it is all of the above.
2. On what are the methods used to effectively ensure that internal control is implemented in your organization, 42 respondents agreed on Administration control; while 118 out of 160 respondents agreed on Financial Control.

3. On Who establish organizational internal controls, 92 respondents agreed that it is the Management; 38 are of the view that it is the Chairman; while 30 out of 160 respondents are of the view that it is the Director of Finance and supply.

4. On how are internal controls monitored in your organization, 30 respondents agreed that it is by use of time book/movement book; 20 agreed that it is by Servicom Implementation; while 110 out of 160 respondents agree that internal control is monitored by the use of store receipt voucher or store issue voucher.

5. On who are the Users of Internal Control in your organization, 30 respondents agree that it is the Management; 112 are of the view that it is the employees or Staff; while 18 out of 160 respondents agreed that it is the Outsiders.

6. On what are General Checks, 10 agreed that it is Checks put in place to ensure implementation of internal control system; 5 respondents agreed that it is the Method of enforcing internal control Implementation; 5 respondents agreed that it is a Check on day-to-day transactions which operates continuously as a routine system whereby the work of one person is proved independently or complementary to the work of another in order to prevent fraud and error; 9 out of 160 respondents agreed that it is a way of monitoring employee’s activities and performance; while 131 agreed that it is all of the above.

7. On the purpose why General checks exist in organization, 12 agreed that it is for Checks and balances; 11 respondents agreed that it is for Cutting down Employees excesses; while 137 out of 160 respondents agreed that it is for Preventing fraud.

8. On how will you define Fraud, 19 respondents agreed that Fraud is deceitful and dissolute act; 21 out of 160 respondents agreed that Fraud is any act of commission or omission perpetrated to hinder organization performance; while 120 respondents are of the view that it is all of the above.

9. On what are the causes of fraud in your organization, 12 respondents agreed that it is Greed; 13 respondents agreed that it is Insatiability; 13 out of 160 respondents agreed that it is as a result of the urge for Fast acquisition of wealth; while 122 are of the view that it is all of the above.

10. On how do you prevent fraud in your organization, 20 respondents agreed that it is through the system of internal check; 26 respondents agreed that it is through the system of internal
audit; 19 out of 160 respondents agreed that it is by enforcement of holidays for all staff and careful control of clerical overtime; while 95 respondents agreed that it is (a) and (b) above.

11. On who are the perpetrators of fraud in your organization, 20 respondents agreed that it is Management; 20 agreed that it is the Employees; 21 out of 160 respondents agreed that it is the Board of Directors; while 99 respondents agreed that it is (a) and (b) above.

4.3.2 Presentation and Analyses of Results

Table 4.1.1
Sample distribution on the level of staff awareness with respect to the meaning of internal control by simple percentages.

<table>
<thead>
<tr>
<th>Level of Awareness</th>
<th>No. of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aware (Yes)</td>
<td>110</td>
<td>68.75</td>
</tr>
<tr>
<td>Unaware (No)</td>
<td>50</td>
<td>31.25</td>
</tr>
<tr>
<td>Total</td>
<td>160</td>
<td>100.00</td>
</tr>
</tbody>
</table>

(Source: Field survey data from questionnaire, 2017).

Table 4.1.1 above shows a sample distribution on the level of awareness of staff with respect to the meaning of internal control by simple percentages. It reveals that 68.75 percent of the respondents are aware of the meaning of internal control, while 31.25 percent are not.

Table 4.1.2
Sample Distribution of the respondents’ opinion on the existence of internal control by simple percentages.

<table>
<thead>
<tr>
<th>Level of Existence</th>
<th>No. of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exists (Yes)</td>
<td>111</td>
<td>69.38</td>
</tr>
<tr>
<td>Not Exist (No)</td>
<td>49</td>
<td>30.62</td>
</tr>
<tr>
<td>Total</td>
<td>160</td>
<td>100.00</td>
</tr>
</tbody>
</table>

(Source: Field survey data from questionnaire, 2017).
Table 4.1.2 above shows a sample distribution of the respondents’ opinion on the existence of internal control in the respective Local Government Areas by simple percentages. It reveals that 69.38 percent of the respondents are of the view that internal control exists in the L.G.As of the State, while the remaining 30.62 per cent are of the view that internal control does not exist.

Table 4.1.3
Sample distribution on the level of staff awareness with respect to the meaning of checks by simple percentages.

<table>
<thead>
<tr>
<th>Level awareness</th>
<th>No. of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aware (Yes)</td>
<td>131</td>
<td>81.88</td>
</tr>
<tr>
<td>Unaware (No)</td>
<td>29</td>
<td>18.12</td>
</tr>
<tr>
<td>Total</td>
<td>160</td>
<td>100.00</td>
</tr>
</tbody>
</table>

(Source: Field survey data from questionnaire 2017).

Table 4.1.3 above shows a sample distribution on the level of staff awareness with respect to the meaning of checks by simple percentages. It reveals that 81.88 percent of the staff are aware of the meaning of checks, while 18.12 percent are not.

Table 4.1.4
Sample distribution of the respondents opinion on the existence of checks by simple percentages.

<table>
<thead>
<tr>
<th>Level of existence</th>
<th>No. of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exists (Yes)</td>
<td>137</td>
<td>85.63</td>
</tr>
<tr>
<td>Not Exist (No)</td>
<td>23</td>
<td>14.38</td>
</tr>
<tr>
<td>Total</td>
<td>160</td>
<td>100.00</td>
</tr>
</tbody>
</table>

(Source: field survey data from questionnaire, 2017.)

Table 4.1.4 shows a sample distribution of the respondents’ opinion on the existence of checks by simple percentages. It reveals that 85.63 percent of the respondents are of the view that checks exists in the Local Government Councils in Cross River State, while 14.38 per cent are of the opinion that checks do not exist.
Sample distribution on the level of staff awareness with respect to the meaning of fraud by simple percentages.

<table>
<thead>
<tr>
<th>Level of awareness</th>
<th>No. of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aware (Yes)</td>
<td>121</td>
<td>75.6</td>
</tr>
<tr>
<td>Unaware (No)</td>
<td>39</td>
<td>24.4</td>
</tr>
<tr>
<td>Total</td>
<td>160</td>
<td>100.00</td>
</tr>
</tbody>
</table>

(Source: field survey data from questionnaire, 2017)

Table 4.1.5 shows a sample distribution on the level of staff awareness with respect to the meaning of fraud by simple percentages. It reveals that 75.6 percent of the respondents are aware of the meaning of fraud, while 24.4 are not aware.

Table 4.1.6
Sample distribution of the respondents’ opinion on the existence of fraud by simple percentages.

<table>
<thead>
<tr>
<th>Level of existence</th>
<th>No. of respondents</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exist (Yes)</td>
<td>97</td>
<td>60.6</td>
</tr>
<tr>
<td>Not Exist (No)</td>
<td>63</td>
<td>39.4</td>
</tr>
<tr>
<td>Total</td>
<td>160</td>
<td>100.00</td>
</tr>
</tbody>
</table>

(Source: field survey data from questionnaire, 2017)

Table 4.1.6 above shows a sample distribution on the respondents’ opinion on the existence of fraud in the respective L.G.As in Cross River State by simple percentages. It reveals that 60.6 percent of the staff are of the opinion that fraud exists in the L.G.A Council, while 39.4 percent are of the view that fraud does not exist in the Local Government Council.

4.3 SUMMARY OF FINDINGS:

The results analysed in section 4.2 above reveals that:

i. On the level of awareness of staff with respect to the meaning of internal control; 68.75 percent of the staff are aware of the meaning of internal control.

ii. On the level of existence of internal control in the L.G.As of Cross River State; 69.38 percent of the respondents agree that internal control measures exist in the State.

iii. On the level of awareness of staff with respect to the meaning of checks; 81.88 percent of the staff are aware of the meaning of checks.
iv. On the level of existence of checks in the LGAs of cross river State; 85.63 percent of the respondents are of the view that checks exists in the LGAs.

v. On the level of awareness of staff with respect to the meaning of fraud; 75.6 percent of the staff are aware of the meaning of fraud.

vi. On the level of existence of fraud in the LGAs of Cross River State; 60.6 percent of the respondents are of the opinion that fraud exists in the LGAs of the State.

5.1 IMPLICATIONS OF THE STUDY:

From the summary of findings of the previous section, we raise our implications as follows:

i. That majority of the staff (68.75) percent are conscious of the meaning of internal control.

ii. Internal control aimed at checking fraud exists in the LGA Councils of Cross River State. This is so because, the study reveals that 69.83 percent of the respondents are of the opinion that internal control measures exist.

iii. That 81.88 percent of the respondents are aware of the meaning of checks. This implies that majority of the Local Government Area Council staff are conscious of the meaning of checks.

iv. Checks which is an internal control measure exists in the LGA Council of Cross River State. This is so because the study reveals that 85.63 per cent of the staff are of the opinion that checks exist.

v. On the level of awareness of staff with respect to the meaning of fraud, 75.6 percent of the staff constituting a majority are conscious of the meaning of fraud.

vi. Fraud which hinders growth and development of a given system exists in the LGA Council of Cross River State. This is so because the study reveals that 60.6 percent of the staff admits that fraud exists in the LGA Council.

5.2 RECOMMENDATIONS:

In spite of the fact that internal control and checks exists in the LGA Councils of Cross River State, and in spite of the fact that the staff are conscious of the meanings of internal control, checks, and even fraud, “fraud” still exists in the Council. The reason for this could be as a result of the weak monitoring networks and weak sanctions implementation aimed at redressing this problem.
Therefore, from our findings we proffer the following recommendations.

(1.) Segregation of duties: this means that no financial transaction is handled by only one person from beginning to end. For cash disbursements, this might mean that different people authorize payments, sign checks, record payments in the books, and reconcile the bank statements.

(2.) Authorization and Processing of Disbursements: However, unbudgeted purchases would require additional approval. It is important to agree and formally define what constitutes a significant expenditure and how these purchases will be handled. All disbursements should be accompanied by adequate documentation, in the form of receipts or an invoice. Cash withdrawals should never be made via Automatic Teller Machine (ATM) cards.

(3.) Managing Restricted Funds: Restricted contributions are a form of revenue unique to the nonprofit sector. Money which has been restricted by the donor for a specific use (such as buying a new building, starting a new program, building an endowment, etc.) should only be used for the purpose for which it has been given. However, most nonprofits find themselves tempted to borrow against restricted monies when facing a cash shortage. In cases where the funder clearly prohibits such borrowing, such action clearly violates the funder's trust and instructions and may lead to revocation of the grant. In other cases, donors allow temporary borrowing as long as the money is replaced within a certain period of time, usually within the grant year. Ultimately, it is the role of the Local Government Council to ensure that the organization fulfills its obligations to donors. Therefore, in cases where borrowing against restricted funds is permitted, the Council should establish policies which describe the circumstances under which such borrowing is allowed. These policies might include how often borrowing may occur, who may authorize the inter-fund loan, and how much can be borrowed (such as a percentage of the total grant). In addition, a repayment plan should be established and the Council should be advised regularly on the status of any inter-fund loans.

(4.) Check-Signing: There is some debate regarding the number of signatures required on a check. In many cases, it is useful to require two signatures on checks, especially for purchases over a certain amount. This amount will vary with the Council's budget; the accountant may be able to help determine how much is significant. Even though checks require two signatures, three or four people might have check signing authority to ensure that two signers are available to make disbursements. The number of authorized
signers should be kept to a minimum, while ensuring that daily business is not unnecessarily hampered. The check signer is allowed to pay bills until that amount is substantially depleted. At that time, the treasurer or other Council members may review the disbursements and make sure that they are within the guidelines established by the Council. Once these disbursements have been reviewed and accepted, the authorized Council representative then transfers enough money to bring the imprest account back to its maximum balance. Councils must seek to balance their internal accounting control in such a way as to ensure public confidence and maintain the integrity of her financial systems and assets, without unduly inhibiting her ability to get on with her work.

5.3 CONCLUSION

The era of relying absolutely on the traditional internal control measures has been overtaken by the recent advances in communications technology, which have altered the profile of frauds. There is now therefore the need to constantly subject operating procedures to scrutiny. This proactive measure is substantially different from the essentially fire brigade function that many organisations adopt. There is the need for all organisations to integrate the scrutiny systems and controls with each other. It is of absolute necessity for organisations to actively promote awareness concerning the new dimensions of fraud and the security problems thus created. This is because employee support is central to any successful preventive strategy. Each employee should be made to understand his or her personal responsibilities and still more, subscribe to the values and principles underlying the organisation’s policy. With the changing work patterns and increasing globalization, the principles of individual and organizational integrity and accountability would need to be further reinforced. This is simply because everybody is ultimately affected by fraud, either directly, by being the victim of a scam or indirectly by having to pay more for goods as businesses recoup their losses.

A Sound or good control system is therefore, a key to successful management. While it is acknowledge that internal controls do not make fraud impossible by any means, existence of good controls make fraud more difficult to occur and the chance of detection much greater, hence they act as a valuable moral check. Therefore, in order to reduce fraud, we suggest an active internal control monitoring network and sanctions/penalty in line with the policy prescriptions above.
REFERENCES


Guidance on Control (1995), Canadian Institute of Chartered Accountants, Canada.


Internal Control—Integrated Framework (1992), Committee of Sponsoring Organizations.


Neural Network World 6(4), 477–484.


