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INTERNAL CONTROLS, FRAUDS IN THE NIGERIAN BANKING INDUSTRY

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ABSTRACT: *The study examined the management of fraud and internal controls in the Nigerian banking industry. Two research hypotheses were raised. The study employed a descriptive survey method as the research design. Data used for this study were collected mainly from both primary sources. The data collected through the use of questionnaires were analyzed using the Pearson Chi-square contingency test with the SPSS statistical tool (SPSS version 22). The findings revealed that in most banking industries today, fraud is seen as a normal thing that cannot be avoided, prevented or even detected. Proper steps have been totally ignored. Fraudulent activities affect the organization, the employees, their families and subsequently the economy. It can be deduced that there are control measures that can greatly help if applied properly and effectively. This can help put fraud under control and even detect all fraudulent activities. The study recommended that banks should ensure that there should be appropriate authorization and approval by the opposite person of all transactions of the operations of the bank. Banks should make sure there are adequate supervisory controls by the management. These are the controls exercised by management outside the day-to-day routine of the system.*

KEYWORDS: Banking Industry, Fraudulent Activities, Adequate Supervision, Managerial Controls and Internal Control.

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INTRODUCTION

The banking industry occupies a central position in any nation's financial system and is important an agent in the development process of the economy. By intermediating between the surplus and deficit spending units, banks increase the quantum of national savings and investments and hence national output. By granting credits, banks create money, thus influencing the level of the money supply which is an essential item in the growth of national income as it determines the level of economic activities in the country (Etuk, 2021).

Banks are central to the payment system by facilitating economic transactions between various national and international economic units and by so doing, encourage and promote trade, commerce and industry. The banking sector plays a very significant role in the development of any economy (Adeyemo, 2012). Banks in most economies are the principal depositories of the public monetary savings, the nerve centre of the payment system, the vessel endowed with the ability of money creation and allocation of financial resources and conduct through which monetary and credit policies are implemented (Akindele, 2021). The success of monetary policy, to a large extent, depends on the health of the banking institutions through which the policies are implemented. Whatever problems militated against the proper functioning of the banks will invariably have a multiplier effect on the other sectors of the economy. For banks to be able to function effectively and contribute meaningfully to the development of a country it must be stable. For these conditions to be obtained, there must be a sound accounting system which is occasioned by an internal control system (Idolor, 2020). In view of the economic growth in companies' size and complexities proper management of modern business understandings is not possible unless they have an effective system of internal control.

Internal control, the strength of every organization, has become of paramount importance today in Nigerian banks. The reason is that the control systems in any organization are a pillar for an efficient accounting system. The need for internal control systems in organizations, 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 macroeconomic instability, slow growth in real economic activities, corruption and the risk of fraud. Fraud, which is the major reason for setting up an internal control system, has become a great pain in the neck of many Nigerian bank managers. It has also become an unfortunate staple in Nigeria's international reputation. Fraud is really eating deep into the Nigerian banking system and any bank with a weak internal control system, is dangerously exposed to bank fraud.

Over the years, it has been observed and discovered that due to a lack of internal control in the banking industry, several banks have defrauded their customers. Due to this, banks have decided to take extra security steps before clearing a cheque because of fraud occurrences and forgeries which have placed banks loss an average of one million naira each working day of the year in Nigeria. Due to this challenge, CBN issued a directive to banks of 25 billion naira. Management uses internal control as a tool to check and monitor the activities of the organization. The management, therefore, adopts internal control in such a way that the system is checked and any irregularity within the system is detected and corrected.

The banking industry in Nigeria has witnessed distress severally due to mismanagement resulting from either non-observance of laid down principles and policies (internal control systems) that were established by the management and regulatory authorities or the non-existence of such internal controls systems. Whatever the case is, every organisation, not only

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the bank, must install an efficient and effective internal control system in order to protect its assets from possible losses resulting from funds misapplication, misuse and vandalisation of the company's property, expropriation and errors made by inefficient and inexperienced personnel. According to Olusanya (2021)[18], internal controls can be likened to the central nervous system of a human being, the breakdown of which medical doctors state would result in the death of the culprit. In this wise, the collapse of the internal control system in any organisation leads to the extinction or distress of that organisation. Therefore, reasonable and proactive organisations spend a great proportion of their resources to ensure the existence of adequate and effective internal control systems.

Fraud has become an unfortunate staple on Nigeria's International reputation. It is really eating deep into the Nigerian banking system and any bank with a weak Internal Control system is dangerously exposed to bank fraud (Adeduro, 2019). Fraudulent acts have necessitated Internal Controls: (a whole system of control, financial and otherwise established by management in order to carry on the business of the enterprises in an orderly and efficient manner) in entities including the Deposit money banks. Frauds have led to the loss of large amounts of money in the economy as a whole and in the banking industry in particular. The acts have contributed significantly to the financial distress of some banks and the poor performance of others.

In the United States of America, many organisations have adopted the internal control concepts presented in the report of the Committee of Sponsoring Organisations of the Trade Way Commission (COSO) published in 1992. COSO report has expanded the definition of an internal control system beyond a mere mechanism for reducing instances of fraud, misappropriation and errors. It is now considered to be an integrated framework, with direct involvement of the board of directors, management and other key personnel to provide assurance that would pursue the achievement of the company's objective. By COSO's definition, internal control is 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

With this report, it is now recognised that a sound internal control process is critical to an entity's ability to meet its established goals and maintain its financial viability. The report identified five interrelated elements of the internal controls system and the problems observed in recent large losses in banks can be attributed to mismanagement of the stated five elements:

- Management oversight and control;
- Risk recognition and assessment;
- Control activities and segregation of duties;
- Information and communication and
- Monitoring activities and correcting deficiencies.

Proper coordination and effectiveness of the five elements would ensure the achievement of a bank's objective which is liquidity and profitability. Once there is a breakdown or failure of any of the elements, it must be reported promptly to senior management and the board of directors for them to take immediate corrective action, as delay can lead to final extinction

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(distress). To ensure coverage of all deficiency areas of the internal controls system, the management should establish a basis for tracking possible breakdowns in the internal controls system and actions taken to rectify them. It is important that banks have an internal audit department to ensure that the accounting system provides an efficient means of recording financial transactions, providing management information and protecting the company's assets from fraud and misappropriation (Achibong, 2019). In the detection of fraud, one of the most effective systems is the internal control system which defines and operates in the same environment as the fraud itself.

Fraud, on the other hand, can be defined as an act of deliberate deception with the aim of securing a personal benefit by taking advantage of others. There are different definitions of fraud. According to the Encyclopedia Britannica (2009), it is the deliberate misrepresentation of fact for the purpose of depriving someone of a valuable possession. ICAEW (2016) defines fraud as the intentional misrepresentation or omission of the truth for the purpose of deception or manipulation for the financial detriment of an individual or an organization(such as a bank) which also includes embezzlement, theft or any attempt to steal or unlawfully obtain, misuse or harm the assets of the bank. In terms of Adeniyi (2012), 'fraud refers to an intentional act by one or more individuals among management, employees or third parties, which results in a misrepresentation of financial statements'.

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. Fraud can be seen as the intention, deception, misrepresentation or omission of the truth for the purpose of obtaining unlawfully the assets of the bank, which is the main reason for setting up internal control, and has become a pain in the neck of bank managers. The Central Bank of Nigeria's half-year report for 2007, revealed a total of 741 cases of attempted fraud and forgery, involving N5.4 billion and €35,406,150 were reported in June 2007 which outshone what was recorded for the whole year 2006. The banking sector recorded N28.4 billion cases of fraud and forgeries in 2010, according to a report by the NDIC. The amount contained in the 2011 annual report and statement of account of the NDIC represents an increase of 33.4 per cent over N21.29bn recorded in 2010.

It says a total of 2,352 cases accounted for N28.4bn fraud, adding that the frequency of occurrence represented an increase of 53.5 per cent over that of 2010 fraud cases of 1532 reported. On the incidence of fraud, the NDIC said 10 out of the 20 banks that were in operation in 2011 accounted for 87.1 per cent of the banking industry fraud cases compared to 51.08 per cent in 2010. The report did not disclose the identities of the banks with the highest number of fraud cases. During the period, 498 were attributed to staff participation out of 2352 cases which showed an increase of 141 from 357 cases in 2010. The CBN also reported that the backward development was attributable to weakness in the internal control system of the bank which has clearly shown the picture of how it penetrated into the financial strength of banking sectors.

Statement of the Problem

In relation to the recent upsurge in the banking system sustainability, and its increasing level of activities, banks are faced with numerous problems among which is trying to prevent various fraudulent intentions of both staff and customers. The insurgency of fraud and misappropriation of funds is bringing about a loss of confidence in the minds of customers. A recent survey

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shows that fraud is perpetrated or committed every day in the banking sector either by staff, customers or staff conniving with customers (CBN 2014 Bulletin). Poor internal control brings about high bank losses. Management, are, therefore, required to set up strong internal control but this system depends on the size, nature of operations and as well, the objectives. An empirical analysis of the problems related to these losses shows that if the internal control system was properly maintained and monitored, the losses could have probably been reduced which would have prevented or enabled the detection of such problems which would thereby reduce the problems faced by the banking system. It is important that banks consider detective and preventive controls which would reduce the possibility of errors, irregularities and fraud.

Objectives of the Study

The main objective of this study is to examine the management of frauds and internal controls in the Nigerian banking industry. The specific objectives are to:

1. Examine if internal control is significant in the management of fraud in Nigerian banking industry.
2. Examine if internal control is significant in detecting fraud in the Nigerian banking industry.

Hypothesis

For the purpose of this study, the following hypotheses were formulated:

H0$_1$: Internal control is not significant in the management of fraud in the banking industry.

H0$_2$: Internal control is not significant in detecting fraud in the banking industry

LITERATURE REVIEW

By nature, businesses are owned by shareholders including banks, who entrust the day-to-day running of the operations in the hands of appointed independent managers. These independent managers are in return, expected to fulfil their stewardship obligations in line with the directives laid down by the owners (shareholders). Normally, the shareholders expect to have detailed accurate reports on the manager's stewardship, but this is not always the case as pointed out by Millichamp (2020), that problems often exist when managers’ reports to owners contain errors, inadvertently misleading, deliberately misleading or fail to disclose relevant information or fail to conform to regulations. The only solution to resolve this problem is by appointing an independent person, called an internal controller or internal auditor, to investigate the report and bring out his findings. According to Walter and John (2019) to help the independent auditor to be able to carry out his work in an orderly and efficient manner, he must be guided by some rules and regulations, which serve as the benchmark of practice in the company. These rules, which shall be established by the management, are to ensure that records are kept properly and can be relied upon so as to prevent or detect fraud and other anomalies that can derail operations or even bring an end to the business. Olusanya (2021) posits that these rules are what can be regarded as internal control systems and the independent internal auditor acts as the eye and ear of the management towards ensuring that the internal control systems are efficient and effective at all times. Therefore the internal controller or auditor is the master controller that controls other controls in the business.

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Theoretical Framework

There are different ways in which authorities have classified fraud depending on their perspectives and the criteria used. Fraud has been classified according to management and employee fraud; the nature and perpetrator (i.e. whether the fraudster is one of the entire staff or involves outsiders; and whether the staff fraudsters are in top management position or non-management position). The former can be divided into: “internal, external and mixed fraud” while the latter according to Nwankwo (2019) gives rise to: “management and employee fraud.” According to Jenfa (2019), internal fraud consists of the following classes: Unofficial borrowing; over invoicing; unauthorized stamps; fictitious transactions; fraudulent use of documents; Cash on hand converted to personal use; premature writing off of assets; Ghost workers; and figures falsification.

There are three types of fraud committed wholly by persons and organizations external to the bank, namely, over-invoicing; Advance fee fraud by Schemes ostensibly for the disbursement of money for mills, Contract frauds, purchase of real estate and transfer of funds; Loan Fraud; Mixed Fraud; Management Fraud including top management level staffs that are aimed largely at deceiving the shareholders and to a considerate extent, auditors and the regulatory authorities through deliberate presentation of false financial statement (Jat, 2022). Employee Fraud (examples of employee fraud are the conversions of cash or other assets of the employer to the fraudster’s immediate benefit. Like their management counterpart, quite a number of employee’s fraudulent acts occur after having gained a position of trust and responsibility. A considerably higher proportion of bank frauds are usually committed by employees in non-management positions majority of who are cashiers, clerks, and accountants (Holtfreter, 2014).

The consequences of successful fraudulent practices include Denial to the genuine owners of their assets, property and money. Entire loss in some instances goes to the bank. The bank staff that are implicated sometimes lose their jobs. The banks mostly reimburse the customer the funds stolen where large amounts are involved, the reputation of the bank could be in jeopardy, and the customer’s confidence in the bank will be shaken (Ekechi, 2019). Other consequences are: Long queues, delays and frustration. Every document is subjected to double and triple scrutiny, this is why banking services are declining in quality as no one can be trusted, neither customers nor staff (Sani, 2022). The adverse effect of police and management enquiries creates an atmosphere of distrust and disruption of normal workflow. Staff are frightened of normal work decisions and processing normal work for fear of being implicated in a transaction. It is still the customer who suffers during the description of normal workflow for they have to wait for long periods (Chizea, 2021).

Definition of internal controls

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 (Awe, 2015). As regards the bank's internal control, according to banking literature (Nitu, 2022; Dedu, 2013; Nagy, 2015), it consists of a collection of measures at management's disposal intended to ensure the bank's proper functioning, correct management of the bank's assets and liabilities, and a true recording in accounting pieces of evidence. This definition expresses the striking feature of internal control and the participants to this process.

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From these definitions; it can be deduced that internal control comprises the plan of an organization and all of the coordinated methods and measures adopted within it, to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and adhere to prescribed managerial policies.

ICAN (2016) categorized controls into three major classifications as follows:

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 include using well-designed documents to prevent errors.

Detective Control: These controls are designed to detect and report the occurrence of an omission, an error or a malicious act. An example of detective controls includes; duplicate checking of calculations.

Corrective Control: this control helps to minimize the impact of the threat, identify the cause of a problem, and correct errors arising from the problem. They also correct problems discovered by detective controls and modify the problem.

Examples of corrective controls are contingency planning, backup procedures, and rerun procedures.

Concept of Fraud

Fraud is a global challenge threatening the continued existence of organizations, governments, and countries (Enofe & Egbe, 2016). As age age-long phenomenon, fraud risk management has been at the centre of discourse and will linger until its ravaging impact is reduced or mitigated. Holding the same opinion, the report of the global survey conducted by the Association of Certified Fraud Examiners (ACFE, 2012) in 2014 estimated fraud losses at 5% of organizations' total annual revenue. Thus, managing fraud risk is a great concern to regulators, institutions, investors, and the public at large. According to Enofe et al., 2018) fraud risk management is an organized process that assists organizations to understand the inevitable risks and enables them to establish procedures that will first prevent the fraud from occurring, detect as soon as a fraud occurs and respond effectively to the incident as it occurs.

Over the years, the incidence of bank fraud has been a deep-rooted problem with adverse financial consequences for the banking sector, economic development, and growth across the globe (Odukoya et al., 2018). Having persisted in the Nigeria banking system for a long, and on the increasing trend (Taiwo, Agwu, Babajide, Okafor & Isibor, 2016), the incidence of fraud has attracted a good number of studies from both empirical and theoretical perspectives with consistent results of adverse consequences on banks performance and the economy by an extension (Odukoya et al., 2018; Iyodo et al., 2016; Samuel et al., 2018; Imagbe et al., 2019). Previous studies such as Wolfe and Harmanson (2014) and (Odukoya et al., (2018) have suggested that understanding the capability component of fraud theory is vital in the assessment of the inherent weaknesses in the security defence system and crucial in the forensic arena. The capability component of fraud theory suggests that fraud can only be successful when the right persons with sufficient knowledge to bypass or circumvent controls are involved.

Different definitions of fraud have been given by various people. Fraud is seen as any intentional deception with the design of securing something by taking unfair advantage of

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others' loss (private and public) by means of cheating dishonestly duplication or imposition. In its broadest terms, fraud means obtaining something of value or avoiding an obligation by means of deception. According to the ICAN study pack (2016a,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 one or more individuals among management, employees, or third parties.

Adeleke (2016) stated that fraud means an act or cause of deception deliberately practised to gain unlawful or unfair advantage; such deception is directed to the detriment of another. Benjamin (2021), defined fraud as simply conscience and premeditated action taken by a person or group of people to the truth or fact with a view to deriving selfish personal monetary gain. It involved the use of deceit and tricks to forge or falsify documents and signatures in order to steal. He contrived by highlighting incidences of where fraud will manifest, which among others over unauthorized overdraft presentation of forged cheques, posting of fictitious credit, suppressions of cheques and a host of others. He further remarked that experience has shown that the name of the above type of fraud can succeed without insider connivance and or collaboration. Insider collaboration may be intentional or unintentional. This is why sometimes, innocent staff when fraud occurs collaborate deliberately or not deliberately ranging from lack of adherence to laid down procedures to deliberate distortion, defection, interception, misappropriation and diversion of assets. He gave a few instances of fraudulent practices to enable his audience to differentiate between collaboration that is international and one that is unintentional.

From the view of Adewunmi (2016), fraud is the conscious premeditated action of a group of people or a person with the intention of altering the truth or the fact for selfish personal monetary gain. It involves the use of deceit or trick and sometimes highly intelligent cunning and know-how. The action usually takes the form of forgery, falsification of documents and authorizing signatures and outright theft. Fraud, according to Fagbemi (2019), is perceived as 'the act of depriving a person dishonestly of something which is his or something to which he is or would or might but for the perpetration of fraud, be entitled'.

Adeleke (2016), observed that fraud has eaten deep into every aspect of society to the extent that a three-year-old child talks about 419neers, the discovered sobriquets for an advance fees fraud (a section in Nigerian constitution) that is hunting as a nation. He described further that it is deceit or tricking deliberately practiced in other to gain some advantage dishonestly. He stated that there must be a dishonest intention and the action must be intended to another person. Adewunmi (2017) in his explanation of fraud identifies socio–economic lapses in society such as the misplacement of social values in the source of wealth and the use of society's expectations from bank staff and the subsequent desire of the staff to live up to such expectations as contributory factor to fraud. Another theory of fraud states that banks have become persistent targets of men of the underworld mainly because banks are seen as the richest organization in any country.

Ojigbede (2016) like Adewunmi (2017) said the main cause of fraud in banks in Nigeria is traceable to the general dishonesty in the society. Since there is corruption in all facets of Nigerian life, banks cannot be an exception. He also mentioned other factors such as lack of call over the system, lack of regular and non – notified relations, clerks doing more than a job which are incompatible and many more.

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Classification of Fraud

Basically, two broad schemes of fraud have been identified, they include: i) Management fraud and ii) Employee fraud.

Management fraud: According to Fakunle (2016), management fraud often involves the manipulation of the records and the account, typically by the enterprise's senior officers with a view to benefitting in some way. An example is obtaining finance under false pretences, or concealing a material item, i.e. window dressing. Robertson (2019) 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. It is usually perpetrated by the management staff of an organization, which includes directors, general managers and managing directors. The classes of victims of management fraud are investors and creditors and the instrument of perpetration is a financial statement. The essence of management fraud most times is to attract more shareholders to come and invest in the organization.

Employee fraud: These are frauds that are perpetrated by the employees of the organization. Robertson (2016) 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, violating an employer's policy, or embezzlement of a company's funds. Employee fraud is more likely to be encountered where internal controls are weak.

Causes of Bank Fraud

There are many identified causes of fraud in banks. They vary from institutional to economic, social, psychological, legal and even infrastructural causes. The immediate causative agents of fraud in general as provided by Ogbunka (2012) 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

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- 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 guarantees severe punishment for fraudsters and forgers
- Poor/weak management control, monitoring and supervision
- Weak internal control system of the bank

Common Fraudulent Practices in Banks

Ovuakpona (2014) gave an account of thirty-three types of bank frauds in the banking sector. These include 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 undervaluation 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

Management Fraud

Management fraud is frequently committed by the management staff of a reporting entity, which comprises the director, general managers, and managing directors to mention but a few. The category of victims of management fraud are investors and creditors, and the medium for perpetrating the fraud is financial statements. The predilection for management fraud in most cases is to pull in more investment from both existing and potential shareholders to the organization. Another motivation for management fraud is to paint the bank in good light in the eyes of the regulatory authorities such as the Central Bank of Nigeria (CBN), Nigerian Deposit Insurance Corporation (NDIC), and Nigerian Accounting Standards Board (NASB) etc. Additionally, management fraud can also be effectuated to secure tax advantage from tax authorities. According to Fakunle (2016:173), management fraud is the manipulation of records and accounts, typically by the enterprise’s senior staff with a view to benefiting in some indirect ways. Deception and Deprivation are the two elements of fraud and management fraud meets the criteria. According to Ajisebutu (2016:6), the key elements of management fraud are:

a) A material false statement;

b) Knowledge of its (statement) falsification;

c) Reliance on the false statement by the victim; and

d) Damage suffered by the victim.

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Though management fraud manifests itself through overstatement of assets or revenues, and understatement of liabilities and expenses, the Association of Certified Fraud Examiners (ACFE) believes it is carried out through the under-listed five methods:

i) Fictitious Revenues

ii) Timing Differences

iii) Improper Asset Valuation

iv) Concealed Liabilities and Expenses

v) Improper and /or Inadequate Disclosure

According to Ola (2021), the primary responsibility for the prevention and detection of errors and irregularities rests 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. Izedomi (2015) also said that the responsibility for the prevention or detection of fraud and errors, within an enterprise, rests with the management. This responsibility is discharged by management, through the establishment of an adequate system of internal controls, including internal checks and internal Audits. 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 system. The overall success of a system of internal control is dependent on how effective each of these elements functions and how well they are coordinated and integrated with each other (DiNapoli, 2018).

 Control Environment: This refers to all factors which are effective in determining increasing or decreasing the effectiveness of policies, procedures and methods specific to a process. The control environment stands out with the basic understanding adopted by senior management of the corporation to control the organization, its attitude towards problems and approach to solving problems and its perspective of the importance of moral values. The control environment sets the tone for the organization. This means that it provides discipline and structure for the whole system. According to Kaval (2015), a controlled environment can be perceived as a consciousness of the senior management of the corporation to control the organization and its employees.

 Risk Assessment: This is the identification of factors or conditions that threaten the achievement of an entity’s objectives and goals. It is the identification of analysis of potential errors and implements control, policies and procedures in order to reveal those errors and prevent them. Because internal control is a dynamic system (economic and operating conditions are continuously changing), mechanisms of risk assessment are also subject to changes and adjustments. Proper setting of objectives is a necessary precondition to effective risk assessment. Risk assessment looks at both internal and external threats. An organization basically establishes an early warning system to determine remote risks or risks with low probability, and take the necessary actions to remove and minimize such risks (Summers & Sweeney, 2018).

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 Control Activities: Control activities refer to the policies and procedures designed by an organization to ensure management directives are carried out. They include a range of activities such as "approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties." This is only possible if the management information system and its sub-systems are arranged in a disciplined and responsive manner. Control activities are the most visible element of internal control and arguably the most important in preventing wrong actions from occurring (Green & Choi, 2017)

 Information and Communication: Information and communication can reduce the risk of fraud in two ways. First, the possibility of fraud concealment is reduced by means of the integrity and the accuracy of information. To put it differently, a person who commits fraud can't have the opportunity of hiding it for a long time. Secondly, open and effective communication fostered in an organization helps in detecting the possibility of fraud in advance (Cecchini, Aytug, Koehler, & Pathak, 2020)). The executive summary to COSO states, "Pertinent information must be identified, captured and communicated in a form and timeframe that enables people to carry out their responsibilities. Information systems produce reports containing operational, financial and compliance-related information that makes it possible to run and control the business".

 Monitoring: Monitoring determines whether or not policies and procedures designed and implemented by management are being conducted effectively by employees. Monitoring also helps ensure that significant control deficiencies are identified timely and rectified. Monitoring internal control requires a process. This process assesses the quality of internal control over the course of time (Summers & Sweeney, 2018). Monitoring can occur through self-assessments, external audits or through direct testing of a control. By monitoring, internal control activities are constantly kept under surveillance and their performance is assessed.

METHODOLOGY

The research design of the study is descriptive survey method. Due to the fact that the entire population in all banks cannot be tested because of large size, cost and time, a random bank-Zenith Bank Plc among other banks in Nigeria is used. Forty (40) questionnaires were administered to staffs of the bank. Data used for this study were collected mainly from both primary sources. The data collected through the use of questionnaires were analysed using Chi-square method. A sample size of forty (40) respondents was chosen through judgmental sampling technique. A total of 40 questions were answered by the respondents as contained in the questionnaire.

The formula of chi-square is given below:

X2= E.(Oi-ei)

ei

where:

X2 = Chi-square value

E = summation of frequencies

Oi = observed frequencies

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Ei = expected frequencies

The criteria for the rejection of the hypothesis are the degree of freedom and the required level of significance. The hypotheses were tested by comparing the calculated value with the tabulated value at a 5% significant level.

A chi-square statistical test was used to test the research hypothesis. This was done by ensuring connected answers from the questionnaire fit into each formulated hypothesis which is being tested below:

Hypothesis One

H0$_1$: Internal control is not significant in the management of fraud in the banking industry.

Chi-Square Tests

	Value	Df	Asymp, Sig. (2 sided)
Pearson Chi-Square	35.771[a]	12	.000
Likelihood Ratio	23.747	12	.022
Linear-by-linear association	6.677	1	.010
N of Valid Cases	40		
X^2 Tabulated	21.026		
Significant level	5%		

Source: output data

Decision: Since the p-value is less than 0.05 as shown in the test statistics table, the alternate hypothesis is accepted. Similarly, the X^2 calculated is greater than the X^2 tabulated. It therefore means that internal control is significant in the management of frauds in the banking industry.

Hypothesis Two

H0$_2$: Internal control is not significant in detecting fraud in the banking industry

Chi-Square Tests

	Value	Df	Asymp, Sig. (2 sided)
Pearson Chi-Square	28.745[a]	16	.025
Likelihood Ratio	17.674	16	.343
Linear-by-linear association	.274	1	.597

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N of Valid Cases	40
X^2 Tabulated	26.294
Significant level	5%

Source: output data

Decision: Since the p-value is less than 0.05, we accept the alternate hypothesis. Similarly, the X^2 calculated is greater than the X^2 tabulated. This therefore means that internal control is significant in detecting fraud in the banking industry.

DISCUSSION OF FINDINGS

It was found in the study that internal control is significant in the management of fraud in the Nigerian banking industry. Most of the works reviewed point out the obvious fact that there is a link between internal control and the management of fraud in banks. Therefore, since the tabulated value is less than the calculated value, we reject the null hypothesis which says that internal control is not significant in detecting fraud in the banking industry. This finding is in line with Olusanya (2021) that the principle of internal checks holds that no single official controls two or more functional responsibilities and that each officer should serve to check the other. This is also in agreement with Ola (2021) who posits that the primary responsibility for the prevention and detection of errors and irregularities rests 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 and there is still a need for improving internal controls for fraud management in banks.

CONCLUSION

It can be deduced from this study that there are control measures that can greatly help if applied properly and effectively. This can help put fraud under control and even detect all fraudulent activities. It has been tested that ineffective internal control is the main source of fraud in the banking industry and also that internal control is momentous in detecting fraud. In conclusion, internal control should not just be established, but an effective internal control system that will greatly contribute to the effectiveness and efficiency of the bank's operations.

RECOMMENDATIONS

From the findings of the study following recommendations were made:

- Banks should ensure that there should be appropriate authorization and approval by the opposite person of all transactions of the operations of the bank.
- Banks should make sure there are adequate supervisory controls by the management. These are the controls exercised by management outside the day-to-day routine of the system. They include the overall supervisory controls exercised by management, the review of management accounts, comparison thereof with budget internal audit

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function and other special review procedures. The management should review the internal control from time to time in order to accommodate changes in the financial management operations.

- Banks should not neglect the fact that staff also contribute to fraud so scrutinized training programs should be organized constantly to test their integrity.

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