

The Effectiveness of Internal Control System in Safeguarding Assets in the Ghanaian Banking Industry

(The Case of Agricultural Development Bank)

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Abstract: The study assessed the effectiveness of internal control system in safeguarding assets against fraud in Agricultural Development Bank Ghana Limited (ADB). The study specifically highlighted the major causes of fraud; determined the extent of implementation of internal control systems; assessed the effectiveness of internal control system on fraud detection and prevention; and ascertained the effect of fraud on the bank in terms of its profitability, liquidity and operational efficiency. A structured questionnaire was used as a primary data collection instrument to select employees of ADB by purposive and convenient means. Items of the questionnaire were measured on the ranking scale. 37 employees from five branches of the bank were sampled. Data analysis was done using descriptive statistics. The study found that employees of the bank perceived that; poor internal control system, presence of unqualified staff, inadequate staffing, poor record-keeping practices, and inadequate training and re-training of staff among others were the main causes of fraud. All aspects of internal control system were strongly implemented and practiced by the bank. Internal control system was effective in controlling fraud in the bank in various forms. Fraud had negative and insignificant effect on the performance of the bank. The study recommends the continuous practice of the internal control system to ensure that fraud of any form is reduced to the barest minimum.

Keywords: Internal Control System, Ghana, Bank, Fraud, Assets.

1. INTRODUCTION

For banks to be able to function effectively and contribute meaningfully to the development of a country, the industry must be stable, safe and sound. And for these conditions to be obtained there must be a sound accounting system, which is occasioned by an internal control system. A system of effective internal controls is a critical component of bank management and a foundation for the safe and sound operations of banking organizations. Weak or ineffective internal control has caused losses in many banks and has contributed to the failure of others around the world.

According to the International Monetary Fund (IMF, 2009), Internal Control refers to the mechanism put in place on a permanent basis to control the activities in an organization, both at central and departmental/divisional level. A key component of effective internal control is the operation of a solid accounting and information system. Internal control is a

process that guides an organization towards achieving its objectives. These objectives include operational efficiency and effectiveness, reliability of financial reporting, and compliance with relevant laws and regulations (Committee of Sponsoring Organisation, 1992). Absence of these variables often results in organizational failure. The findings of the Tread Way Commission Report of 1987 in the United States of America (USA) confirmed the absence of or weak internal controls as the primary cause of many cases of fraudulent company financial reporting.

According to the International Organisation of the Supreme Audit Institutions (INTOSAI, 2001), internal control is an integral process that is affected by an entity's management and personnel and is designed to address risks and to provide reasonable assurance in pursuit of the entity's mission.

The implementation, assessment, and monitoring of effective internal control systems is a key determinant of financial reporting quality. Specifically, high-quality internal controls curtail the intentional manipulation of information reported to outsiders, reduce the risk of random procedural and estimation errors in reporting, and mitigate the inherent risks of business operations (Kinney, 2000).

From the above discussion, it is clear that internal control plays a vital role in the successful operations of businesses, and this study assesses how internal control systems aid in safeguarding assets against fraud in the Ghanaian banking industry using Agricultural Development Bank Limited as a case study. The study will highlight the major causes of fraud; determine the extent of implementation of internal control systems; assess the effectiveness of internal control system on fraud detection and prevention; and ascertain the effect of fraud on the bank in terms of its profitability, liquidity and operational efficiency.

2. LITERATURE REVIEW

2.1 Concept of Internal Control:

Control is broadly defined as a process designed to provide reasonable assurance regarding the effectiveness and efficiency of operations, reliability of reporting and compliance with applicable laws and regulations. Control can be subdivided into external and internal control. However, for the purpose of this study, we shall focus solely on internal controls.

There are many definitions of internal control, as it affects the various constituencies (stakeholders) of an organization in various ways and at different levels of aggregation.

According to Millichamp (2002), internal control is a whole system of controls, financial and otherwise, established by management in order to carry on the business of the enterprise in orderly and efficient manner, ensure adherence to management policies, safeguard its assets and secure as far as possible the completeness and accuracy of the records.

Under the COSO Internal Control-Integrated Framework, a widely-used framework in the United States, internal control is broadly defined as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operations; Reliability of financial reporting; and Compliance with laws and regulations.

Establishment of Internal Control System:

Attwood and Stein (1986) argue that every business has some kind of accounting system by which transactions are processed, and records of those transactions maintained. Millichamp (2002) further stipulates that management establish internal control system, either directly or by means of external consultants, internal audit, or accounting personnel. It follows that management is responsible for designing controls in order to carry on the business of the enterprise in orderly and efficient manner, ensure adherence to management policies, safeguard its assets and secure as far as possible the completeness and accuracy of the records. The above responsibility stems from the fiduciary responsibility of management. Internal controls are designed to suit the purpose of management. It must be noted, however, that even though the establishment of internal control system is purely a managerial function and the internal audit department contributes significantly in the design of these controls. Since Internal Auditors are professionals who possess the necessary skill to evaluate the potential impact of any control system to be instituted, their input is vital in establishing effective internal controls.

Objectives of Internal Controls:

According to Howard (1984), increasing attention has been paid to the methods of internal control in recent years. He argues further that not only the complexity of modern business techniques but also the increased size of business units have encouraged the adoption of methods which, whilst increasing the efficiency of the business, also act as safeguards against error or fraud. The objectives that internal controls must meet to prevent errors and to be efficient so as to provide reasonable assurance are that:

- Recorded transactions are valid. The system should not permit the inclusion of fictitious or non-existent transactions in accounting records.
- The transactions are properly authorized. The system should ensure that transactions are properly authorized.
- Transactions are recorded. The procedures must provide controls to prevent omissions of transactions from the records.
- Transactions are properly valued. An adequate system must include procedures to avoid errors in calculating and recording transactions at various stages in the recording process.
- Transactions are properly classified. Proper account classification accounting to appropriate categories or divisions must be ensured by the system.
- Transactions are recorded at the proper time. The recording of transactions either before or after the time they took place increases the likelihood of failing to record transactions or recording them at the wrong amount. Therefore, effective control system should ensure timely recording of transactions.

Types of Internal Control Systems:

Internal controls are of different types and are grouped into preventive, detective and corrective control. However, different writers have come out with different types of Internal Control Systems. Milichamp (2002) indicates that the types of Internal Controls are safeguarding of assets, separation of duties, supervision, verification, approval and authorization, documentation and reporting. Other authors such as Lousteau (2006), the State University of New York and Dinapoli (2005) have agreed that the types of internal controls includes directive controls, preventive controls, compensating controls, detective controls, and corrective actions. These types of internal controls are explained below.

Preventive Control:

According to Lacotelli (2009), preventive controls are measures put in place by management to deter and prevent noncompliance with directives, policies and procedures. These preventive controls are intended to prevent risk of error, frauds and irregularities from occurring in transactions and prevention of loss. These preventive controls are in the form of segregation of duties, proper authorization and approval, establishment of organizational chart to allocate jobs to responsible officers, adequate documentation, physical control over assets and constant training of staff.

Detective Controls:

These are controls which are aimed at detecting and uncovering problems such as fraud, irregularities and errors after they have been committed. Although, detection is necessary prevention is more desirable. These controls are in the form of post-audits, exception reports and validation. They provide evidence that a loss has occurred but do not prevent a loss from occurring. Examples of detective controls are reviews, analyses, variance analyses, reconciliation, physical inventories and audits. However, detective controls play critical role in providing evidence that the preventive controls are functioning and preventing losses Wells (2006).

Corrective Controls:

According to Simmons (1995), the corrective controls are put in place to address anything which is foreign and every problem that has occurred in the system. Examples of corrective control are system re-design, follow-ups, post audits and application of punishments by management for wrong doing.

Directive Controls

Directive Controls refers to policies and procedures put in place by top management to promote compliance with independence rules. The policies and procedures from management that are important must pervade the organization and must be clear and consistent in order to ensure compliance Rittenberg *et al.* (2007).

Compensating Controls:

Compensating controls are put in place for lack of controls elsewhere in the system. For example, firms with an electronic database could maintain a hard copy of the client list in the office library. Such a list would compensate for downtime in electronic systems and difficulties in locating client names in an electronic system.

2.2 Empirical Literature:

Udoayang and Ewa (2012) determined the impact of internal control design on banks' ability to investigate staff fraud and staff life style and fraud detection in Nigeria. Data were collected from thirteen Nigerian banks using a Four Point Likert Scale questionnaire and analyses using percentages and ratios. Multiple regressions were used in testing the hypotheses. The study revealed that Internal control design influences staff attitude towards fraud, and that a strong internal control mechanism is deterrence to staff fraud while a weak internal control mechanism exposes the system to fraud and creates opportunity for staff to commit fraud. The study showed that most Nigerian banks do not pay serious attention to the life style of their staff and they are of the view that effective and efficient internal control design could detect employee fraud schemes in the banking sector. The study concluded that effective and efficient internal control system is necessary to stem the malaise in the banking sector. Based on the findings, the study recommend that banks in Nigeria should upgrade their internal control designs and pay serious attention to the life style of their staff members as this could be a red flag to identifying frauds.

Atuk (2011) evaluated the effectiveness of internal control system in Nigerian banks, five (5) banks – Diamond Bank Plc, Ecobank Nigeria Plc, First Bank of Nigeria Plc, United Bank for Africa Plc and Zenith International Bank were chosen from the twenty four (24) existing banks in Nigeria. Data were obtained from the various departments/sub business units (SBUs) of the selected banks through the use of questionnaires, observation and personal interviews. The data obtained were subjected to extensive analysis. The study confirmed that the presence of Internal Control system in the banks has provided reasonable assurance regarding the effectiveness and efficiency of operations of banks in Nigeria, the reliability of financial and management reporting and guarantees compliance with applicable laws and regulations.

The importance of internal control mechanisms in dealing with counter work behaviour, specifically employee fraud, has also been investigated in other related studies such as O'Leary *et al.* (2006). Similar studies on employees' perceptions on both certainty and severity of organisational sanctions were found to be related to employee theft in (Hollinger and Clark, 2001). Holmes *et al.* (2002) found that whenever top management firmly supports internal control, internal perpetrators and fraud were less likely to occur. Another study found that access to various control mechanisms alone does not curb losses due to fraud (Holtfreter, 2004).

The role of control environment in controlling misappropriation and fraud has also been previously investigated by numerous researchers. Findings from D'Aquila, (1998), for example, support the control environment as having more influence on organisational members' behaviours than existing codes of conducts and additionally Kutz and Jadacki, (2006) further reported that scam and abuse of an organisations' property is a result of weak control environment.

The Committee of Sponsoring Organizations (COSO) maintains that fraud occurs in organisations especially due to weak control environment (Ziegenfuss, 2001). Within COSO's framework, control environment sets the overall tone of the organisation with regard to the importance of internal control (Geiger *et al.*, 2004). Respondent auditors in O'Leary *et al.* (2006) considered control environment as the most important element of internal control. Similarly, in Smith *et al.* (2005), auditors in Malaysia judged the control environment as one of the important fraud indicators in any organisational set up.

Asare-Bekoe (2010) on a Risk-Based Assessment of Ecobank Ghana Limited revealed that Ecobank Ghana Limited's has a good risk profile in the face of challenging global economic and business environment. The study also found that relevant tools and management information systems as well as effective controls were in place to ensure adequate and consistent identification, measurement, monitoring and controlling as well as reporting on the various risks the bank is exposed to.

3. METHODOLOGY

3.1 Research Design:

The researchers adopted a quantitative approach to evaluate the effectiveness of Internal Controls in safeguarding assets in Agricultural Development Bank (ADB). The study is both exploratory and explanatory in nature. The study used a structured-questionnaire as the primary data collection instrument to gather data. Only employees of the selected bank were sampled. Data analysis was done quantitatively using descriptive statistics such frequency distribution, mean and standard deviation.

3.2 Population and Sampling:

3.2.1 Target population:

The study focused on employees of ADB in the National Headquarters as well as four other branches of the bank in the Greater Accra region. Only employees who had been working in the bank for at least one year were considered by the researchers.

3.2.2 Sample Size and Sampling Method:

According to Saunders *et al.* (2007), the size of the sample and the way in which it is selected will definitely have implication for the confidence you can have in your data and the extent to which you can generalize. Generally, larger samples result in more precise statistical findings (Terre Blanche *et al.*, 2006). A total sample size of 50 respondents was sampled, 10 respondents from each of the five selected branches of bank. Convenient sampling technique was adopted because only employees of the selected bank who were present at the time of the study and willing to participate in the study were selected.

3.2.3 Data Collection Instrument:

According to Burns and Grove (1999), data collection is a process of gathering information using questionnaires, interviews or observation. According to Talbot (1995), if a researcher wants to obtain information about attitudes, feelings, beliefs and perceptions which are not immediately observable, the value of structured questionnaires cannot be overemphasized. Therefore, the data for this research was collected using structured questionnaires as a primary data collection tool.

3.2.4 Data Analysis:

Karmal (1999) refers to data analysis as the computation of certain measures along with searching for some patterns of relation that exists among data groups. In analyzing the data obtained from the administration of the questionnaire, descriptive statistics was used. Descriptive statistics such as frequency distribution was used to assess the demographic profile of the respondents. Also, measures such as mean and standard deviation were used to present the causes of fraud to the bank, the extent of implementation of internal control system, the effect of fraud on the bank. Data analysis was done with the statistical software of Statistical Package for Social Sciences (Version, 18). Findings of the study were presented pictorially via frequency tables.

4. DATA ANALYSIS AND DISCUSSION

This section presents the results obtained from the analysis of the data obtained from the field study.

4.1 Demographic Profile of Respondents:

Table 4.1 represents the demographic characteristics of the respondents who are employees of Agricultural Development Bank.

Table 4.1: Demographic Profile of Respondents

Profile	Category	Number	%Freq.
Gender	Male	19	51.4
	Female	18	48.6
	Total	37	100.0

	20-34 yrs.	16	43.2
Age(years)	35-49yrs	21	56.8
	Total	37	100.0
Educational background	First Degree	21	56.8
	Masters/PhD	16	43.2
	Total	37	100.0
Job Position	HR Management	5	13.5
	Finance management	5	13.5
	Internal Audit	10	27.1
	Tellers/Cashier	17	45.9
	Total	37	100.0
Job Tenure	Less than 6yrs	9	24.3
	6-10 yrs.	12	32.4
	11-15yrs	9	24.3
	16 and above	7	18.9
	Total	37	100.0

Source: Field Survey Data, 2013

4.1.1 Gender Distribution of Respondents:

Regarding the gender distribution of the employees of the selected bank included in the study, more than half of the respondents, 51.4% (19 out of 37) were males and the remaining proportion, 48.6% (18 out of 37) representing females respondents. This may imply that male respondents were slightly more willing to respond to the questionnaire than female respondents.

4.1.2 Age Distribution:

Concerning the age distribution of the respondents from the bank, more than half of the respondent, 56.8% (21 out of 37) were within the age group of 35-49 years and the remaining respondents constituting 43.2% (16 out of 37) of the total valid respondents were within the age group of 20-34 years. No respondent was found to be less than 20 years and above 49 years. Overall, all the respondents were more than 20 years but less than 50 years of age.

4.1.3 Educational Qualification of Respondents:

Regarding the educational background of the respondents, slightly more than half, 56.8% (21 out of 37) of the respondents had First Degree qualification and the remaining 43.2% (16 out of 37) of respondents who were found to have Masters/PhD Degree qualification. This implies that at least the respondents were capable of understanding the issues in the questionnaire.

4.1.4 Position Held by Respondents:

With regards to the position held by respondents in the bank, 13.5% (5 out of 37) were employees of HR department, 13.5% (5 out of 37) were involvement in Financial management, 27.1% (10 out of 37) were employees of internal audit and the remaining 45.9% (17 out of 37), other category of employees who were mostly Tellers/ Cashier.

4.1.5 Job Tenure of Respondents:

Concerning the duration of work of the respondents in the bank, 24.3% (9 out of 37) had less than 6 years working experience with the organization, 32.4% (12 out of 37) had between 6-10 years of working experience with bank, 24.3% (9 out of 37) of the respondents had been working with the organization for 11-15 years, and finally the remaining 18.9% (7 out of 37) was found to have been working with the bank for 16 years and above. On the average, all the respondents had at least 6-10 years working experience with the organization. It is the researcher's belief that this duration of working experience with the organization is enough for the employees to be conversant with the practice of internal control system.

4.2 Causes of Fraud in Agricultural Development Bank:

The first objective of the study was to highlight the major causes of fraud in ADB as perceived by the employees. Means and standard deviations were used to present the findings. The means value represents the average respondents of all respondents while the standard deviation denoting the spread of the response. The mean values on the scales are interpreted as: 1.00-2.49-disagree; 2.50-3.49-Neutral; and 3.50-5.00-agree. The findings are summarized below. This was done using a Five-point Likert Scale and the findings summarized in Table 4.2 below.

The findings indicate that the respondents, who were employees of the Agricultural Development Bank (ADB), agreed (Mean: 3.50-5.00) with all the assertions relating to the causes of fraud in ADB. Refusal of employees to comply with laid-down procedures without any penalty or sanction (Mean=4.18, Stdev=0.61) was major cause of fraud identified. This is followed by: Poor internal control system (Mean=4.13, Stdev= 1.77), lack of improved information Technology track fraudsters (Mean=4.05, Stdev=0.85); inadequate staffing (Mean=4.03, Stdev=0.64); inadequacy of fraud detection and prevention strategies (Mean=4.03, Stdev=0.79); inadequate training and re-training of staff (Mean=4.03, Stdev=0.69); inadequate staff compensation (Mean=4.00, Stdev=0.71); presence of unqualified staff (Mean=3.97, Stdev=0.73); ineffective internal auditing (Mean=3.97, Stdev=0.68); greed on the part of employees (Mean=3.95, Stdev=0.85); conspiracy between interacting agents incharge with the responsibility of protecting the assets and other interest of the bank (Mean=3.92, Stdev=0.55); poor record-keeping practices (Mean=3.89, Stdev=0.70); poverty and infidelity on the part employees (Mean=3.73, Stdev=0.56). The implication is that all the above were identified as major causes of fraud in the Agricultural Development Bank.

Table 4.2: Causes of Fraud in Agricultural Development Bank

Causes of fraud	N	Mean	Stdev
Refusal of employees to comply with laid-down procedures without any penalty or sanction	37	4.18	0.61
Poor internal control system	37	4.13	1.77
Lack of improved information Technology track fraudsters	37	4.05	0.85
Inadequate staffing	37	4.03	0.64
Inadequacy of fraud detection and prevention strategies	37	4.03	0.79
Inadequate training and re-training of staff	37	4.03	0.69
Inadequate staff compensation	37	4.00	0.71
Presence of unqualified staff	37	3.97	0.73
Ineffective internal auditing	37	3.97	0.68
Greed on the part of employees	37	3.95	0.85
Conspiracy between interacting agents incharge with the responsibility of protecting the assets and other interest of the bank	37	3.92	0.55
Poor record-keeping practices	37	3.89	0.70
Poverty and infidelity on the part employees	37	3.73	0.56

Field Survey data, 2013

Scale: 1= “Strongly disagree”; 2= “Disagree”; 3 = “Neutral”; 4= “Agree”; 5= “Strongly disagree”.

4.3 Extent of implementation of Internal Control System in ADB:

The second specific objective of the study was to determine the extent of implementation of internal control systems in ADB bank. This was achieved by asking the selected employees of the organization to statement relating to the Five components of the Internal Control System as prescribed by COSO Framework (1992) using a Five-Point Likert Scale.

4.3.1 The Control Environment:

Regarding the control environment, the respondents agreed (Mean: 3.50-5.00) with all the aspects relating to the control environment as being implemented and practiced by the bank. The agreed with the each of the following assertions that; The bank has a very sound control environment to safeguard assets against abuse (Mean=4.41, Stdev=0.76); the bank has put in place codes of conduct or ethics policies (Mean=4.32, Stdev=0.71); the bank has clear objectives and these have

been communicated so as to provide effective direction to employees on risk assessment and control issues (Mean=4.32, Stdev= 0.58), staff members of the bank are competent and knowledgeable to manage the organization’s activities (Mean=4.22, Stdev=0.71); the organization has put in place human resource management policies and practices (e.g employment in the organization follow laid down procedures) (Mean=4.16, Stdev=0.73); management of the bank leads the fight against resource misappropriation by example (tone at the top) (Mean=4.16, Stdev= 0.73), and that the bank has put in place separation of powers/checks and balances in its outfit to control its activities (Mean=4.14, Stdev=0.63). The implication is that the bank has strong control environment policies and practices.

Table 4.3: The Control Environment

	Number	Mean	Stdev
The bank has a very sound control environment to safeguard assets against abuse	37	4.41	0.76
The organization has put in place codes of conduct or ethics policies	37	4.32	0.71
The bank has clear objectives and these have been communicated so as to provide effective direction to employees on risk assessment and control issues.	37	4.32	0.58
Staff members of the bank are competent and knowledgeable to manage the organization’s activities	37	4.22	0.71
The organization has put in place human resource management policies and practices (e.g employment in the organization follow laid down procedures)	37	4.16	0.73
Management of the bank leads the fight against resource misappropriation by example (tone at the top)	37	4.16	0.73
The bank has put in place separation of powers/checks and balances in its outfit to control its activities	37	4.14	0.63
ADB has employees with high personal and professional integrity as well as the ethical values to handle resources in the organization	37	4.11	0.61

Field Survey data, 2013

Scale: 1= “Strongly disagree”; 2= “Disagree”; 3 = “Neutral”; 4= “Agree”; 5= “Strongly disagree”.

4.3.2 Risk Assessment

Concerning risk assessment practices of the Agricultural Development Bank, the study found that this practice is strong. That is, the respondents agreed (Mean;3.50-5.00) with all the aspects pertaining to risk assessment in ADB. The respondents agreed that: Overall the bank frequently undertakes risk assessment (Mean=4.22, Stdev=0.67); The bank periodically identifies both external and internal factors which could cause financial fraud (Risk identification) (Mean=4.05, Stdev=0.47); the bank responds to risk factors when they appear and treat them comprehensively (Risk response) (Mean= 4.00, Stdev= 0.75); and that the bank estimates the significance of the risk factors and assesses the likelihood of the risk occurrence (Risk evaluation) (Mean=3.95, Stdev=0.66). The implication is that risks assessment practice was strong in Agricultural Development Bank.

Table 4.4: Risk Assessment

	Number	Mean	Stdev
Overall the bank frequently undertakes risk assessment	37	4.22	0.67
The bank periodically identifies both external and internal factors which could cause financial fraud (Risk identification)	37	4.05	0.47
The bank responds to risk factors when they appear and treat them comprehensively (Risk response)	37	4.00	0.75
The organization estimates the significance of the risk factors and assesses the likelihood of the risk occurrence (Risk evaluation)	37	3.95	0.66

Field Survey data, 2013

Scale: 1= “Strongly disagree”; 2= “Disagree”; 3 = “Neutral”; 4= “Agree”; 5= “Strongly disagree”.

4.3.3 Control Activities:

With regard to the control activities component of the internal control system in ADB, the respondent ‘agreed’ (Mean: 3.50-5.00). The respondent agreed that: Overall, the bank is effective in controlling its activities (Mean=4.24, Stdev=0.68); the organization reviews its operational performance periodically (Mean=4.22, Stdev=0.62); the bank has put in place authorization and approval procedures for resource utilization (Mean=4.16, Stdev=0.68); the bank supervises its operations and activities (Supervision) (Mean=4.16, Stdev=0.65); the bank has control over its resources and records (Mean=4.13, Stdev=0.58); and that the bank verifies and reconciles claims of resource application (Verifications and Reconciliations) (Mean=4.00, Stdev=0.67). The implication is that these aspects of the control activities in ADB were implemented and frequently observed in the bank.

Table 4.5: Control Activities

	Number	Mean	Stdev
Overall, the bank is effective in controlling its activities	37	4.24	0.68
The organization reviews its operational performance periodically	37	4.22	0.62
The bank has put in place authorization and approval procedures for resource utilization	37	4.16	0.68
The bank supervises its operations and activities (Supervision)	37	4.16	0.65
The bank has control over its resources and records	37	4.13	0.58
The bank verifies and reconciles claims of resource application (Verifications and Reconciliations)	37	4.00	0.67

Field Survey data, 2013

Scale: 1= “Strongly disagree”; 2= “Disagree”; 3 = “Neutral”; 4= “Agree”; 5= “Strongly disagree”

4.3.4 Information and Communication:

Regarding information and communication in the bank, the respondents again ‘agreed’ (Mean: 3.50-5.00) all the assertion relating to the information and communication in the selected bank. The respondents agreed that: The bank is effective in communicating information within and between departments (Mean=4.32, Stdev=0.62); The bank makes information about the operations of each department/unit within its jurisdiction available (Mean=4.29, Stdev=0.57); the bank has information systems that produce reports that contain operational, financial and non-financial and compliance-related information about its operations (Mean=4.18, Stdev=0.56); and that the bank has put in place effective reporting procedures in communicating a balanced and understandable account of the organization’s position and procedures (Mean=4.10, Stdev=0.65). This is again indication information and communication component of the internal control system in the bank is frequently practiced.

Table 4.6: Information and Communication

	Number	Mean	Stdev
The bank is effective in communicating information within and between departments	37	4.32	0.62
The bank makes information about the operations of each department/unit within its jurisdiction available	37	4.29	0.57
The bank has information systems that produce reports that contain operational, financial and non-financial and compliance-related information about its operations	37	4.18	0.56
The bank has put in place effective reporting procedures in communicating a balanced and understandable account of the organization’s position and procedures	37	4.10	0.65

Field Survey data, 2013

Scale: 1= “Strongly disagree”; 2= “Disagree”; 3 = “Neutral”; 4= “Agree”; 5= “Strongly disagree”.

4.3.5 Monitoring and Evaluation:

Concerning monitoring and evaluation aspect of internal control system in the bank, the sampled employees' agreed' (Mean: 3.50-5.00) that: ADB undertakes monitoring to ensure that audit findings and recommendations are adequately and promptly resolved (Mean=4.54, Stdev=0.60); the bank makes separate evaluations of operating projects (Mean=4.32, Stdev=0.62); the bank monitors ongoing operations (Mean=4.32, Stdev=0.57); and that the bank audits its accounts periodically to ensure compliance (Mean=4.27, Stdev=0.65). The implication is that ADB has strong monitoring and evaluation system in its outfit.

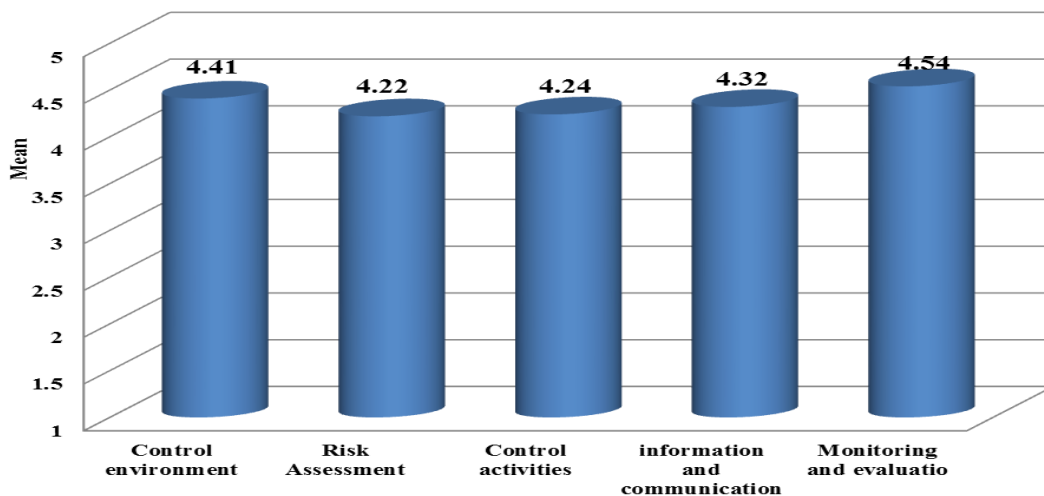
Table 4.7: Monitoring and evaluation

	Number	Mean	Stdev
ADB undertakes monitoring to ensure that audit findings and recommendations are adequately and promptly resolved	37	4.54	0.60
The bank makes separate evaluations of operating projects	37	4.32	0.62
The bank monitors ongoing operations	37	4.32	0.57
The bank audits its accounts periodically to ensure compliance	37	4.27	0.65

Field Survey data, 2013

Scale: 1= "Strongly disagree"; 2= "Disagree"; 3 = "Neutral"; 4= "Agree"; 5= "Strongly agree".

As shown in Figure 4.2, the means of all five components of internal control system: the control environment, risk assessment, control activities, information and communication and monitoring & evaluation; were found to be above 3.50 indicating the that overall, internal control systems in the bank were strongly implemented and frequently practiced in the organization.



Field Survey data, 2013

Figure 4.1: Component of Internal control system

4.4 Effectiveness of ADB in detecting and preventing fraud:

The third specific objective of the study was to assess the effectiveness of internal control system on fraud detection and prevention in the bank. The ability of the bank to detect and prevent fraud of various forms was assessed and the outcome presented in Table 4.8 below.

In descending order of means, the bank, overall, was effective (Mean: 3.50-5.00) in detecting and preventing fraud in general (Mean=4.45, Stdev=0.64). Also, the bank was effective in the detection and prevention of the following type of fraud: Fraudulent money transfer (Mean=4.27, Stdev=0.65); computer frauds (improper input system, virus, program manipulations, transaction manipulations and cyber thefts) (Mean=4.24, Stdev=0.64); manipulation of vouchers (Mean=4.16, Stdev=0.55); account-opening fraud (opening account with fake identification) (Mean=4.05, Stdev=0.57); Theft and embezzlement (illegal collection of financial items such as cash, travellers' cheque and foreign currencies)

(Mean=4.03, Stdev=0.68); defalcation: which involves the misappropriation of funds that are held in trust by bankers on behalf of their customers (Mean=4.03, Stdev=0.64); impersonation (Mean=4.00, Stdev=0.71); forgeries (Mean=3.92, Stdev=0.55); and unofficial borrowing (Mean=3.83; Stdev=0.69). The implication is that the bank was effective in detecting and preventing fraud of any form.

Table 4.8: Effectiveness of the ADB in detecting and preventing fraud

detection and prevention of fraud due to:	Number	Mean	Stdev
Overall ability of the bank to detect and prevent fraud of any form	37	4.45	0.64
Fraudulent money transfer	37	4.27	0.65
Computer frauds (improper input system, virus, program manipulations, transaction manipulations and cyber thefts)	37	4.24	0.64
Manipulation of vouchers	37	4.16	0.55
Account-opening fraud (opening account with fake identification)	37	4.05	0.57
Theft and embezzlement (illegal collection of financial items such as cash, travellers' cheque and foreign currencies)	37	4.03	0.68
Defalcation: which involves the misappropriation of funds that are held in trust by bankers on behalf of their customers	37	4.03	0.64
Impersonation	37	4.00	0.71
Forgeries	37	3.92	0.55
Unofficial borrowing	37	3.83	0.69

Field Survey data, 2013

Scale: 1= Very ineffective; 2=Ineffective; 3=Neutral; 4= Effective; 5= Very effective

4.5 Effect of Fraud on ADB:

The fourth specific objective of the study was to ascertain the effect of fraud on the bank in terms of its profitability, liquidity and operational efficiency. This was done quantitatively using a Five-Point Likert Scale. The findings are summarized in Table 4.9 below.

The outcome shows that the respondents indicated that fraud had negative effect on the bank but the effect is insignificantly low (Mean: 2.00-2.99) on the following indicators of the bank: Overall corporate image of the bank (Mean=2.62, Stdev= 0.68); customer satisfaction of the bank (Mean=2.43, Stdev=0.69); the continued existence of the bank (liquidity) (Mean=2.30, Stdev=0.52); Overall profitability of the bank (Mean=2.27, Stdev= 0.56); the market shares of the bank (Mean=2.22, Stdev=0.58); The operational efficiency of the bank (Mean=2.13, Stdev=0.79); and investors' confidence of the bank (Mean=2.00, Stdev=0.58).

Table 4.9: Effect of Fraud on ADB

	Number	Mean	Stdev
Overall corporate image of the bank	37	2.62	0.68
Customer satisfaction of the bank	37	2.43	0.69
The continued existence of the bank (liquidity)	37	2.30	0.52
Overall profitability of the bank	37	2.27	0.56
The market shares of the bank	37	2.22	0.58
The operational efficiency of the bank	37	2.13	0.79
Investors' confidence of the bank	37	2.00	0.58

Field Survey data, 2013

Scale: 1= "Not effect"; 2= "Low negative effect"; 3 = "Moderate negative effect"; 4= "Negative effect"; 5= "Significant negative effect".

4.6 Discussion of Results:

Causes of fraud:

The findings of the study confirm that reported by Asukwo (1999) and Idowu, (2009), who identified some of the immediate and remote causes of frauds in banks to include: poor internal control system, presence of unqualified staff, greed on the part of employees Inadequate staffing, poor record-keeping practices, and inadequate training and re-training of staff among others. The current study also found that these elements constituted the causes of fraud in Agricultural Development Bank as perceived by the employees of the bank.

Implementation of internal control system:

Asare-Bekoe (2010) on a risk-based assessment of Ecobank Ghana Limited revealed that Ecobank Ghana Limited's has relevant tools and management information systems as well as effective controls to ensure adequate and consistent identification, measurement, monitoring and controlling as well as reporting on the various risks the bank is exposed to. The current study also found that Agricultural Development Bank has strong internal control system and practices; in the area of the control environment, risk assessment, control activities, information and communication, and monitoring.

Effectiveness of internal control system in detecting and preventing fraud:

The current study found that internal control system in ADB was effective to controlling fraud in various forms. This finding is consistent with the finding of Udoayang and Ewa (2012) who in determining the impact of internal control design on banks' ability to investigate staff fraud and staff life style and fraud detection in Nigeria banks found that internal control design influences staff attitude towards fraud. That a strong internal control mechanism is deterrence to staff fraud while a weak internal control mechanism exposes the system to fraud and creates opportunity for staff to commit fraud.

5. CONCLUSION AND RECOMMENDATIONS

Based on the findings of the study, it can be concluded that:

- Poor internal control system, presence of unqualified staff, greed on the part of employees inadequate staffing, poor record-keeping practices, and inadequate training and re-training of staff among others were identified as the main causes of fraud in the selected bank.
- All aspects of internal control system; the control environment, risk assessment, control activities, information and communication; and monitoring; were strongly practiced by the bank.
- Internal control system in ADB was effective in controlling fraud in various in the form of: computer frauds, manipulation of vouchers; account-opening; theft and embezzlement; defalcation; impersonation; forgeries; and unofficial borrowing.
- Fraud had negative and insignificant effect on: the corporate image of the bank; customer satisfaction of the bank; the continued existence of the bank (liquidity); profitability of the bank; market shares of the bank; the operational efficiency of the bank; and investors' confidence of the bank..

Based on the findings of the study, the following recommendations are deemed appropriated by the researchers.

- Regarding to causes of fraud in the bank, it is recommended that the bank should consider eliminating poor internal control system, unqualified staff, inadequate staffing, poor record-keeping practices, and inadequate training and re-training of staff among others through frequent supervision. Training and re-training programs can be organized for employees regarding the practices of internal control system.
- Internal control system was found to be implemented by the bank. The study recommends the continuous practice of the internal control system to ensure that fraud of any form is reduced to the barest minimum.
- Fraud had negative by insignificant effect on some of the performance dimensions of the bank. The bank is advised to find innovative ways of handling fraud as it changes with changing conditions. The control environment, such as human resource, should be rotated regularly to avoid fraud due to collusion.
- Individuals found culpable of negligence of duty leading to fraud in the bank can be expelled and if possibly charged.

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