ASSESSMENT OF COMPLIANCE WITH INTERNAL CONTROL MECHANISM BY MICROFINANCE BANKS IN THE NORTH CENTRAL STATES OF NIGERIA

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TITLE PAGE

ASSESSMENT OF COMPLIANCE WITH INTERNAL CONTROL MECHANISM BY MICROFINANCE BANKS IN THE NORTH CENTRAL STATES OF NIGERIA

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APPROVAL PAGE

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DEDICATION

This research work is dedicated to GOD ALMIGHTY, who spared my life and made me to scale through all the hurdles. To my lovely wife Mrs Veronica Olioku who was always by my side throughout the period of study. To my mother Mrs Elizabeth Olioku who supported me morally.

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OLIOKU, CHINEDU JOSEPHAT

TABLE OF CONTENTS

LIST OF TABLES

ABSTRACT

The study is aimed at the assessment of compliance with internal control mechanism by Microfinance Banks in the North Central States of Nigeria. Data were collected through the use of structured questionnaire which contained 45 items. Descriptive statistics, mean, standard deviation and t-test were used for data analysis. Simple random sampling was used to select three states (Benue, Nasarawa and Plateau) and Abuja out of the six states in the North Central States of Nigeria. The population of the study consisted of 152 respondents (management staff) of Microfinance banks. The instrument was subjected to face validation by three experts. It was also trial tested on 40 respondents to establish the internal consistency of the instrument. The reliability co-efficient of the instrument was computed to be 0.97, 0.98, 0.95, and 0.80 respectively for cluster of the instrument and the over-all co-efficient was 0.98. The result of the data analyzed showed that Microfinance Banks highly complied with physical control measure in the North Central States of Nigeria. It also showed that the importance of internal audit in the detections and preventions of errors and frauds in Microfinance banks cannot be over looked. It was recommended that management of Microfinance banks should always ensure that risk management procedures of the bank are followed in loan approval and disbursement to reduce the incidence of bad debts. That the rural and semi-urban poor should always be the target of management of Microfinance banks in loan disbursement since Microfinance banks were established to meet their financial needs. Central Bank of Nigeria should ensure that guidelines and monitoring policies of the Central Bank of Nigeria are complied with by all the Microfinance banks operating in Nigeria.

CHAPTER 1

INTRODUCTION

Background of the Study

In Nigeria, a significant gap exists between the perceived demand for investment and the availability of domestic resources. This happens as a result of inefficient financial institutions, limited private capital inflow, low government budgetary provisions and inability of market forces (demand and supply) to function actively. Hence, the introduction of Microfinance banks is seen as a welcome development as it will provide hope and the needed financial empowerment for the rural/semi urban dwellers which they were established to serve.

In 2005, the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria were launched by President Olusegun Obasanjo to give legal backing for Microfinance activities in Nigeria. Fabamwo (2008) noted that 768 Microfinance banks were licensed to operate in Nigeria. He further stated that 607 Community banks that met the capital requirement of N20 million shareholdersô funds unimpaired by losses were converted to Microfinance banks.

Ovia (2007) defined Microfinance to involve the provision of micro credit and other financial services to the people in the lower income group. These groups are made up of the un-banked population, without access to financial services with which they could generate wealth. These are the rural dwellers that lack the necessary collaterals to enable them approach conventional banking institutions for credit facilities; and so are unable to muster enough funds to embark on business ventures that could improve their financial conditions. In Nigeria, Microfinance customers are mostly the rural and urban poor, who borrow mainly to fund farming activities, petty trade, arts and crafts and other small scale businesses

Central Bank of Nigeria (2005) noted that Microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. Three features that distinguish Microfinance from other financial products include: the smallness of loans and or savings collected, the absence of asset-based collaterals and simplicity of operations. To this end, Central Bank of Nigeria (CBN, 2005) stated that the establishment of Microfinance banks has become imperative to serve the following purposes: provides diversified, affordable and dependable financial services to the poor, in a timely and competitive manner, that would enable them to undertake and develop long-term, sustainable entrepreneurial activities; mobilize savings for intermediation; create employment opportunities and increase the productivity of the active poor in the country, thereby increasing their individual household income and uplifting their standard of living; enhance organized, systematic and focused participation of the poor in the socio-economic development and resource allocation process; provide veritable avenues for the administration of the micro credit programmes of government and high net worth individuals on a non-recourse case basis. In particular, this policy ensures that state governments shall dedicate an amount of not less than one percent of their annual budgets for the on-lending activities of Microfinance banks in favour of their residents; render payment services, such as salaries, gratuities, and pensions for various tiers of government.

These Microfinance banks may not meet the objectives for which they were established except they are efficiently managed and operated under a system where they can maintain an effective internal control mechanism which is capable of preventing fraud.

Banking Supervision Annual Report (2005) noted that Microfinance bank shall be allowed to engage in the provision of normal but less sophisticated banking services to its clients, except foreign exchange transactions and international electronic fund transfer; cheques clearing activities; dealing in land for speculative purposes and real estate except for its use as office accommodation; allow any facility for speculative purposes; acceptance of public sector deposits except for the provision of payment services such as salary, gratuity, and pension for the various tiers of government and provision of loan disbursement services for the delivery of credit programmes of government, agencies, groups and individuals, for poverty alleviation on a non-recourse basis.

However, some of the functions performed by Microfinance banks include: acceptance of various types of deposits from individuals, groups and organizations, keep valuables like certificates in their vaults for their customers, maintenance and operation of different types of accounts with other banks in the country, credits to their customers and provides supervisory function in respect to the use of the loan as to enhance maximal productivity.

Internal control comprises both the ñex-anteò and ñex-portò (before and after operations) measures to control risk (Campion, 2000). Arsenault (2008) noted that internal control includes the prevention of potential problems as well as the early detection and correction of actual problems should they occur. Basle Committee on Banking Supervision (1998) maintained that the primary objectives of the internal control in a financial institution include: to verify the efficiency and effectiveness of the operations; to assure the reliability and completeness of financial and management information; to comply with applicable laws and regulations. Commenting on Microfinance banks complying with applicable laws and regulations, Campion (2000) opined that Microfinance institutions use internal control mechanisms to ensure that staff respect their organizational policies and procedures. Internal control mechanism works to improve decision-making by ensuring that information is accurate, complete and timely so that the Board and Management can respond to control issues promptly as they arise.

Central Bank of Nigeria (2005) stated that the sub-optimal performance of many existing Community banks, Microfinance and Development finance institutions are due to incompetent management, weak internal controls and lack of deposit insurance schemes. This shows that where the internal control system is weak, it will not effectively serve as a means of preventing fraud. Culley and Bauer cited in Udofia (2002) said that internal controls within an organization are set up to safeguard cash, merchandise, and other assets and also to provide checks on the accuracy of the records and compliance with organizationsô policies. Therefore, without efficient internal control, the existence and success of an organization would be in doubt, as the system would collapse due to errors, frauds and maladministration.

Bologna and Lindguist (1987) viewed fraud from two perspectives to include: corporate fraud and management fraud. They maintained that corporate fraud is that perpetrated by, for or against a business corporation. Management fraud is the intentional misrepresentation of corporate or unit performance levels perpetrated by employees serving in management roles who seek to benefit from such fraud in terms of promotions, bonus or other economic incentives and status symbol. They added that lying, cheating, gaining of unfair or unjust advantage over another could be used to describe the word fraud, because these words denote intention or willingness to deceive.

Financial audit which is an aspect of the internal control mechanism of any organization checks financial records to ascertain whether the funds were spent legally, whether receipts were properly recorded and controlled, and whether financial records and statements are complete and reliable (Mikesell, 1982). Onah (2006) noted that financial audit concentrates on establishing compliance with appropriation law and determining whether financial reports prepared by the banks are accurate and reliable.

On the issue of assessment, Wehmeier (2000) noted that assessment is the act of judging or forming an opinion about something which has been thought about carefully. In this work, assessment involves judgment about the adequacy, effectiveness and the degree of compliance with the existing control mechanism in the system. It is worth noting that the extent of effectiveness of any control mechanism depends on the extent to which it achieves the purpose for which it is installed. However, there is no generally accepted blueprint on internal control for Microfinance banks in the country. The internal control system of each Microfinance bank is designed by its Board of Directors in accordance with the provision of its regulatory agency such as Bank and Other Financial Institution Acts, (BOFIA)1991 (Amended).

The need for constant assessment of the compliance of Microfinance banks to internal control mechanism is to prevent the recurrence of bank failures as was the case of most Community banks in the past, which became insolvents few months after they were licensed to commence operation. Internal control mechanism varies from one Microfinance bank to another and this justifies the need to assess the levels and degree of compliance to internal control issues by these Microfinance banks.

Where the Management of these Microfinance banks is able to respond promptly to the lapses which are revealed through the internal control mechanism of the organization, fraudulent activities of their employees will be reduced to its barest minimum. This will lead to customersô satisfaction and higher profitability for these banks.

The Management team in any Microfinance bank comprises the key officers who are responsible to the Board of Directors for the implementation of the internal control mechanism. These officers include the bank Manager, Accountant, Internal auditor and the Credit officer. Internal control mechanism of the bank entails that internal auditors strictly examine the banking operations carried out by other management staff (Managers, Accountants and Credit officers).

Statement of the Problem

Central Bank of Nigeria (2005) noted that Microfinance Bank is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. Ehigiamusoe (2005) maintained that a Microfinance Bank recognizes the inability of the poor to provide tangible collateral and therefore promotes collateral substitution. Hence, the absence of collateral for loan means that rural dwellers will easily have access to loan facilities which will help them to improve and expand their businesses.

Over the years, government had attempted to address financial exclusion of the rural dwellers in Nigeria through various initiatives. Juma (2007) noted that rural banking programme was introduced in Nigeria in 1977, under the programme banks were mandated to open a number of rural branches and bring banking services nearer to the rural dwellers. This programme failed because it turned out to be costly and unprofitable for the commercial banks. Peoplesô bank of Nigeria was introduced in 1989 to provide microfinance services to the rural and urban poor. The Community banks came on stream in the early 1990s to provide financial services to micro and small entrepreneurs. These also failed due to ineffective management and unguided disbursement of loan which led to very poor loan recovery and subsequently collapse of these banks. In 2000, the Family Economic Advancement Programme (FEAP) was merged with the Nigeria Agricultural Cooperative Bank to form The Nigeria Agricultural Cooperative and Rural Development Bank (NACRDB). The NACRDB also failed, partly because of inadequate government commitment and poor management.

The failure of similar Microfinance institutions such as Peoplesô bank of Nigeria, Community banks, the Nigeria Agricultural Cooperative and Rural Development Bank, in the past were majorly attributed to non compliance with internal control measures within the organization. In other to solve these problems of non compliance with internal control measures, there is the need for frequent assessment of their compliance to internal control mechanisms so that their services to the rural dwellers will go unhindered.

Purpose of the Study

The major purpose of the study was to assess the compliance of Microfinance Banks in the North Central State of Nigeria to internal control mechanisms.

The study specifically sought to;

1. determine the level of compliance with physical control measures in Microfinance Banks
2. determine the importance of internal audit in detection and prevention of errors and frauds in Microfinance Banks
3. determine the level to which separation of duties are complied with in Microfinance Banks
4. determine the level of compliance with Central Bank of Nigeria's prudential regulations by Microfinance Banks

Significance of the Study

The findings of this study would be of benefit to the Management of Microfinance banks, as it will reveal areas where internal control mechanisms are not complied with. This knowledge will help the Board of Directors and Management in strengthening their security measures as to prevent errors and frauds. This will in turn ensure continual existence, growth and development of microfinance activities to the low income group.

The findings of the study would be of interest to investors and shareholders in taking decision to invest in Microfinance banks. Compliance to internal control measures often reduce losses and will amount to high profitability, thereby making Microfinance banks investorҫs haven.

The findings of the study will equip students of Management, Accounting and other related courses with useful information for their own research and for carrying out further research in the field. The study will assist government to ascertain the level of compliance of Microfinance banks to the operational guidelines and regulatory framework. This will help to reduce lapses where they are noticed and update those ones which have become out of place.

The findings of this study especially, the level of compliance with internal control in Microfinance banks will add to the general knowledge on the operation of internal control mechanisms in organizations in general and Microfinance banks in particular. The general public will benefit from the findings of the study because financial fraud will be checked if the recommendations of this study are implemented by the management of Microfinance banks. This will result in more effective method of financial management and availability of more credit facilities to interested members of the public.

Research Questions

The study provided answers to the following research questions:

1. What is the level of compliance with physical control measures in Microfinance banks?
2. What is the importance of internal audit in detection and prevention of errors and frauds in Microfinance banks?
3. To what level is separation of duties complied with in Microfinance banks in the North Central States of Nigeria?
4. To what level do Microfinance banks comply with the Central Bank of Nigeriaøs prudential regulations in the North Central States of Nigeria?

Hypotheses

The following null hypotheses were tested at 0.05 level of significance.

Ho_1: There is no significant difference (P<0.05) in the mean responses of Internal auditors and other management staff on the level of compliance with physical control measures in Microfinance Banks in the North Central States of Nigeria

Ho_2: There is no significant difference (P<0.05) in the mean responses of internal auditors and other management staff on the importance of internal audit in detections and preventions of errors and frauds in Microfinance banks in the North Central States of Nigeria

Ho_3: There is no significant difference (P<0.05) in the mean responses of internal auditors and other management staff on the extent to which separation of duties is complied with in Microfinance banks in the North Central States of Nigeria

Delimitation of the study

The study was restricted to the compliance of Microfinance Banks with Internal Control Mechanism in the North Central States of Nigeria. Only the management staff of the Microfinance banks was used in the study. The Board of Directors, other category of workers and customers were not used in the study.

CHAPTER II

LITERATURE REVIEW

This chapter deals with the review of related work of experts in the area of study. The review of the related literature is discussed under the following:

1. Conceptual Framework and Theoretical Framework
2. Internal Control structures in Banks
3. The importance of Internal Audit
4. Compliance of Microfinance banks to prudential requirement
5. Review of empirical studies
6. Summary of Related Literature

Conceptual and Theoretical Framework

Microfinance is the provision of financial services adapted to the needs of the low income people such as micro-entrepreneurs, especially the provision of small loans, the acceptance of small savings deposits, and simple payments services needed by micro-entrepreneurs and other poor people (USAID, 2000). Ehigiamusoe (2005) referred to Microfinance to mean those flexible processes and structures by which financial services are delivered to owners of microenterprises on a sustainable basis. He added that microfinance recognizes the inability of the poor to provide tangible collateral and therefore promotes collateral substitution. Disbursement and repayment are structured to suit credit need and cash flow pattern of small businesses (Aderibigbe, 2001).

Microfinance Bank unless otherwise stated, shall be construed to mean any company licensed to carry on the business of providing microfinance services such as savings, loans, domestic fund transfers and other financial services that economically active poor, micro-enterprises and small and medium enterprises need to conduct or expand their businesses (CBN, 2005).

Regulatory and Supervisory Framework for Microfinance Bank in Nigeria (2005) listed the following as permissible activities for Microfinance Banks in Nigeria;

a. acceptance of various types of deposits including savings, time target and demand from individuals, groups and associations except public sector deposit;
b. provision of credit to its customers, including formal and informal self-help groups, individuals and association;
c. promotion and monitoring of loan usage among its customers by providing ancillary capacity building in areas such as record keeping and small business management;
d. issuance of redeemable debentures to interested parties to raise funds from members of the public with approval of the Central Bank of Nigeria;
e. collection of money or proceeds of banking instruments on behalf of its customers through correspondent banks;

f. provision of payment services such as salary, gratuity, pension for the various tiers of government;

g. provision of loan disbursement services for the delivery of credit programme of government agencies, groups and individual for poverty alleviation on non-recourse basis;

h. provision of ancillary banking services to their customers such as domestic remittance of funds and safe custody;

i. maintenance and operation of various types of account with other banks in Nigeria;

j. investment of surplus funds of the microfinance bank in suitable instruments including placing such funds with correspondent banks and in Treasury Bills;

k. pay and receive interests as may be agreed upon between them and their clients in accordance with existing guidelines;

l. operation of micro leasing facilities, microfinance related hire purchase and arrangement of consortium lending and supervise credit schemes to ensure access of microfinance customers to inputs for their economic activities;

m. receiving of refinancing or other funds from CBN and other sources, private or public, on terms mutually acceptable to both the provider of the funds and the recipient Microfinance banks;

n. provision of microfinance related guarantees for their customers to enable them have greater access to credit and other resources;

o. buying, selling and supplying industrial and agricultural inputs, livestock, machinery and industrial raw materials to poor persons on credit and to act as agent for any association for the sale of such goods or livestock;

p. investment in shares or equity of any corporate body, the objective of which is to provide microfinance services to poor persons;

q. encouragement of investment in cottage industries and income generating projects for poor persons as may be prescribed by the CBN;

r. provision of services and facilities to customers to hedge various risks relating to microfinance activities;

s. provision of professional advice to poor persons regarding investments in small businesses, rendering managerial, marketing, technical and administrative advice to customers and assisting them in obtaining services in such fields;

t. mobilize and provide financial and technical assistance and training to micro-enterprises;

u. provision of loans to microfinance clients for home improvement and consumer credits; and

v. performance of non-banking functions that relate to micro finance related business development services such as co-operatives and group formation activities, rural industrialization and other support services needed by micro enterprises.

The role of banks in the economic development of the 21st Century Nigeria can be compared to the role of lubricating oil in the hub of a wheel. Banks serve as the meeting point between the rich and the poor. Banks collect money from the rich and the poor for safe-keeping and also redistribute the money to those areas of the economy where funds are urgently needed through guided loans, overdraft, and other forms of credit facilities. These functions performed by banks greatly enhance economic development as it bridges the gap between those who have some to save and those who want to borrow.

Banking Supervision Annual Report (2005) noted that the specific objective of the microfinance policy in Nigeria includes:

a. make financial services accessible to a large segment of the potential productive Nigerian population which otherwise would have little or no access to financial services;
b. promote synergy and mainstream the informal financial sub-sector into the national financial system;
c. enhance service delivery by microfinance institution to micro small and medium entrepreneurs;
d. contribute to rural transformation; and
e. promote linkage programmes between the universal/development specialized institutions and Microfinance banks.

To achieve the above specific objectives, two categories of Microfinance banks were licensed to carry on microfinance activities in the country. The first group known as unit bank, is made up of newly licensed Microfinance banks and those Microfinance banks that converted from community bank, with a minimum capital base of twenty million naira (N20,000,000.00) unimpaired by debt. The second group is made up of Microfinance banks licensed to operate at the state level. This group is expected to operate with an initial capital base of one billion naira (M.P.R.S.F, 2005). The policy also noted that any of the universal banks that intend to set up any of the two categories of Microfinance banks as subsidiaries shall be required to deposit the appropriate minimum paid-up capital and must satisfy all the requirements stated in the guidelines. Microfinance Newsletter (2008) noted that there are 768 microfinance banks fully licensed and operating in Nigeria. Ninety one Microfinance banks are operating in the North Central States of Nigeria.

The desire to guide against insolvency and distress as was the case of community banks and peoplesô bank of Nigeria in the past, calls for constant assessment of their compliance with internal control mechanism as laid down by the Central Bank of Nigeria. Wehmeier (2005) stated that assessment involves the act of judging or forming an opinion about something that has been thought about carefully. Through assessment, strength and weaknesses of systems or programmes are discovered and improvement effected for better satisfaction. Compliance as defined by Wehmeier (2005) is the practice of obeying rules or requests made by people in authority. She added that it is the procedures that must be followed to ensure full obedience with the law. Pickett (2001) saw compliance as the behaviour that promotes the defined approach and standards adopted by an organization. He added that compliance involves the need to work within an established corporate and operational framework. The operational framework may relate to policy, staff conduct, corporate standards, operational procedures. Compliance in this situation ensures that all banking businesses are conducted in accordance with the applicable laws and regulations, supervisory requirements and procedures as prescribed by the regulatory body. From the above, it can be deduced that assessment of compliance with internal control mechanism involves the act of judging or ascertaining the level of obedience to the stipulated guidelines from the regulatory body by the Microfinance banks in Nigeria.

Wehmeier (2005) defined mechanism as a method or a system for achieving something. McNamara (2008) defined a system as an organized collection of parts (or sub-systems) that are highly integrated to accomplish an overall goal. He added that the system has various inputs, which go through certain processes to produce certain outputs, which together, accomplish the overall desired goal for the system. A system is usually made up of many smaller systems or sub-systems. Luhmann (1995) opined that subsystems in a system are usually arranged in hierarchies, and integrated to accomplish the overall goal of the overall system. He added that a highly functioning system continually exchange feedback among its various parts to ensure that they remain closely aligned and focused on achieving the goal of the system. If any parts or activities in the system seem weakened or misaligned, the system makes necessary adjustments to more effectively achieve its goals.

The systems theory of management views the organization as a united purposeful system composed of interrelating parts (Ile, 1999). Bennett (1997) opined that understanding how the process of financial and social intermediation takes place requires a systems analysis rather than a simple institutional analysis. Ledgerwood (2000) noted that the systems perspective is important not only because there may be a number of different institutions involved, but also because these institutions are likely to have very different institutional goals or ñcorporate missionsò. Where a commercial bank through its subsidiary Microfinance bank is involved, its goal will be to build its equity and deliver a profit to its owners. Also where a town or a community, credit and savings clients themselves, formed Microfinance bank, they will have their own corporate mission; which will be to serve its members who are both clients and owners.

Systems approach allows us to see each institution involved in the intermediation process as separate locus sustainability when we are assessing the commercial viability of the whole system (Bennett, 1997). The systems approach according to Bennett, Hunte and Goldberg (1995), allows us to deal with the fact that microfinance involves a mix of ñbusinessò and ñdevelopmentò. They added that within the systems framework, the four broad categories of services that may be provided to microfinance clients are: (1) financial intermediation; (2) social intermediation; (3) enterprise development services; and (4) social services.

Bennett, Hunte and Goldberg (1995) opined that financial intermediation involves the provision of financial products and services such as savings, credit, insurance, credit cards, and payment systems. Social intermediation involves the process of building the human and social capital required by sustainable financial intermediation for the poor. Enterprise development services involve nonfinancial services that assist micro-entrepreneurs. They includes business training, marketing and technology services, skill development, and subsector analysis. Social services involve nonfinancial services that focus on improving the well-being of micro-entrepreneurs. They include health, nutrition, education, and literacy training.

Chalton and Andras (2008) stated that a management system might use its self-representing model of organizational activity to perform a variety of tasks. The function might be to maximize profit, provision, growth or market share. He maintained that the first task of analysis based upon system theory is to define the system under consideration, and to establish its operational boundaries. To ensure that Microfinance banks in Nigeria are operating within these boundaries gave rise to the assessment of compliance with the internal control system as a whole and in terms of the components of the control system.

Horngren, Sundem and Elliot (2002) defined internal control as the creation of a system of checks and balances and assures that all actions occurring within the company are in accord with the original objectives and have the general approval of top management. Internal control is all the measures taken by an organization for the purpose of protecting its resources against waste, fraud or inefficient use, ensuring the reliability of accounting data, securing compliance with management policies, and evaluating the performance of all employees, managers and departments within the organization (Meigs and Meigs, 1993).

Basle Committee on Banking Supervision (1998) noted that the primary objective of the internal control process in a financial institution includes:

a. to verify the efficiency and effectiveness of the operators,
b. to assure the reliability and completeness of financial and management information, and
c. to comply with applicable laws and regulations.

The American Institute of Certified Public Accounting (1995) Horngren, Sundem and Elliot (2002), maintained that internal control system in any organization consist of; (a) administrative control and (b) accounting control.

According to AICPA (1995) administrative control includes but not limited to, the plan of organization and the procedures and records that are concerned with the decision processes leading to managementøs authorization of transaction. Horngren, Sundem and Elliot (2002) noted that administrative control includes the plan of organization, for example, the formal organizational chart concerning who reports to whom, and all matters and procedures that facilitate management planning and control of operations. To them, accounting control includes the method and procedures for authorizing transactions, safeguarding assets and ensuring the accuracy of financial records.

AICPA (1995) noted that accounting control involves the plan of the organization and the procedures and records that are concerned with safeguarding of assets and the reliability of financial records and consequently are designed to provide reasonable assurance that:

a. Transactions are executed in accordance with managementôs general or specific authorization.
b. Transactions are recorded as necessary ï (i) to permit preparation of financial statement in conformity with generally accepted accounting principles or any other criteria applicable to such statements and (ii) To maintain accountability for assets.
c. Access to assets is permitted only in accordance with managementôs authorization.
d. The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

Rosenberg (1985) described internal control as methods and measures employed by management to promote efficiency, encourage acceptance of managerial procedures and policies, check the validity of management data and protect assets. Nikolai, Bazley and Stallman (1990) as cited in Udofia (2002) agreed that internal control consist of the policies and procedures used to safeguard a companyøs assets and to ensure that reliable financial statements are the end result of an efficient accounting system.

Tracy (1978) viewed internal control to include all the positive procedures and method designed and enforced by a company to deter and detect dishonesty and mistakes, and to make its accounting system highly reliable. He further noted that guarding against dishonesty and honest mistakes is a prime concern in designing the accounting procedures of a business. Every company depends largely on its accounting system for the information needed to prepare its financial statements, tax returns and internal management reports (Bromwich, 2001). Poorly designed accounting systems permit dishonesty to go unchecked and honest mistakes to go undetected. What is even more damaging, the companyøs financial statements, tax returns, and internal management reports may be wrong or misleading (Tracy, 1978).

Canadian Institute of Chartered Accountant (COCO, 1995) defined internal control as an experience that moves one forward in terms of learning, and progressing through a cycle of setting objectives, that is, a purpose ensuring capability and commitment to this task, then monitoring learning, and adapting as a process of continuous improvement. Internal control is more than the prevention of fraud or detection of errors during the course of the business in an establishment. It is an indispensable aid to efficient management of an establishment. Establishment and maintenance of good internal control system is the responsibility of the management of the organization.

According to Horngren, Sundem and Elliot (2002) internal control is designed to perform the following functions:

a. to safeguard the assets of the organization from all forms of misuse and error;
b. to encourage efficiency in organizationøs operations;
c. to encourage and ensure that the prescribed management policies are adhered to in order to achieve the objectives of the organization;
d. to establish and maintain efficient and effective accounting system for the organization.

What is referred to as internal control probably had its origin at about 1500 BC (Chartey, 1982). He noted that the period between 180 ï 1500 BC witnessed skeletal services of internal control. The first recognized and recorded system of internal control was in 200 BC when Egyptian treasurerøs activity as grain collectors was checked by scribes.

Fraud detection and prevention in an organization constitute one of the major reasons for establishing and maintaining internal control system. Branton (1998) noted that fraud covers a wide range of white-collar crimes, from theft and malicious damage to where attempts have been made to conceal a dishonest act. He further stated that this includes the unauthorized removal of money or other assets and the manipulation of internal system. It is an intelligent and sophisticated form of theft usually involving deceit to obtain fund. Commenting on fraud, Ede-Anigbogu (2008) maintained that it involves all forms of deceitfulness, criminal deception, and the use of false representation to obtain unjust advantage. He added that fraudulent activities such as unauthorized lending, lending to óghostô borrowers, payment against un-cleared effects, over-invoicing, fictitious account, false declaration of cash shortages, fake payment, etc are common financial frauds in banks.

Rosenberg (1985) saw financial fraud as all intentional misrepresentation of the truth in order to deceive someone or organization to make money. Financial fraud involves such things as extortion, forgery, embezzlement, over statement of profit, advance fee fraud (419), kick back, and direct stealing.

Financial audit as an aspect of internal control mechanism of an organization checks financial records to ensure that funds were spent legally, that receipts were properly recorded and controlled, and that financial records and statements are complete and reliable (Mikesell, 1982).

Internal Control Structures in Microfinance Banks

Effective internal control forms the foundation for a bankøs system of risk management (O.C.C, 2000). They added that effective internal control helps to safeguard the bankøs assets and helps the Board and Management guard against fraud and financial mismanagement. Internal control comprises the institutionøs mechanism to monitor risks before and after operations (Campion, 2000). Cole and Cumming (1998) cited in Eze (2007) stated that strong internal controls could help to ensure that the goals and objectives of a banking organization will be met and that the bank will achieve long-term profitability targets. They noted that it would ensure the maintenance of reliable financial and managerial reporting.

Central Bank of Nigeria (2005) stated clearly that the Board of Directors and senior management of each Microfinance banks are responsible for establishing an appropriate control structure and for monitoring its effectiveness. Okolo (2001) observed that the internal control procedures and policies help to create an internal system of auditing and control. He further noted that developing and implementing a system of internal controls is crucial to ensuring and demonstrating compliance. Auditing both internal and external is considered as the best method of verifying and ensuring the continued effectiveness of companyôs internal controls system (Campion, 2000). Internal control as viewed by Pickett (2001) involves: (1) agreed roles and responsibilities; (2) documentation that is verified; (3) a record of income and accountabilities; (4) segregation of duties; (5) a review and monitoring committee; and (6) custodial security and frequent checks. He added that control is about having an aim, making sure you have the means to achieve it and managing those risks that can impair your ability to get there.

Cole and Cumming (1998) listed the main objectives of internal control to include: (a) efficiency and effectiveness of activities (they called this performance objective); (b) reliability, completeness and timeliness of financial and management information (they call this information objective); and (c) compliance with applicable laws and regulations (they call this compliance objective). They further noted that performance objectives relates to the effectiveness and efficiency of the bank in using its assets and other resources and protecting the bank from loss. Eze (2007) said that the internal control process seeks to ensure that personnel throughout the organization are working to achieve its goals with efficiency and integrity, without excessive cost or placing other interest before those of the bank.

Information objectives are concerned with the preparation of timely, reliable and relevant reports needed for decision making within the banking organization (Cole and Cumming, 1998). Compliance objectives on the other hand ensure that all banking businesses comply with applicable laws, and regulations, supervisory requirements and the policies and procedures of the organization. Pickett (2001) noted that for the interest of all, control is expected to be flexible, clear, economical, understood, communicated, useable, adaptable, accepted, meaningful, fit to the culture, based on exception reporting, supported by information system, promote excellence, be promulgated by top management, protect assets, promote compliance, secure value for money, be in line with defined risk criteria.

Horngren, Sundem and Elliott (2002) noted that all good system of internal control have certain features in common. These features can be summarized in a checklist of internal control which may be used to appraise any specific procedure for cash, purchases, sales, payroll, etc. They said that the following checklist summarizes the guidance that is found in most of the standard auditing literature. (1) reliable personnel with responsibilities; (2) separation of duties; (3) proper authorization; (4) adequate documentation; (5) physical safeguards; (6) bonding, vocations and rotation of duties; (7) independent check.

According to Horngren, Sundem and Elliott (2002), reliable personnel with clear responsibilities is the most important element of control. They added that incompetent or dishonest individuals can undermine a system no matter how well it meets the other items on the check list. Campion (2000) noted that in assigning responsibility, management should determine who collects information, compiles it and ensures that it reaches the proper levels of management for effective and timely decision making. She added that the control system should clearly indicate who is responsible for evaluating information and the extent to which it is their responsibility to respond to an identified control issues. Individuals must be given authority, responsibility and duties commensurate with their abilities, interests, experience and reliability (Horngren, Sundem and Elliott, 2002).

Anyafo (2004) noted that control through separation of duties involves the delineation of those responsibilities or duties which if combined enables one individual to initiate record and process a complete transaction from its origin to its ultimate posting in a ledger. He added that functions which should be separated include authorization, execution, custody, recording, and in the case of computerized accounting system, systems development and daily operations. Horngren, Bhimani, Datar and Foster (2002) observed that internal control does not only help to ensure accurate compilation of data but also limits the chances for fraud. They added that separation of duties makes it hard for one person, acting alone to defraud the organization. Arsenault (2008) said that separation of duties will help to achieve the followings in a Microfinance bank setting. (a) no one single person should have full control of loan process from the beginning to end; (b) ensure that monthly return account statements are carefully monitored; (c) people on leave and vacation should not be allowed to keep their office keys.

Campion (2000) noted that separation of duties involves the separation of responsibilities for two or more tasks that could result in error or encourage dishonest behaviour if only handled by one employee. The responsibility for cheque writing and procurements are usually assigned to two different employees unless the two employees collude to defraud the bank, this control reduces the risk of purchases being made based on self-interest or for purposes outside of the organizationôs interest. Horngren and Poster (1987) classified separation of duties into four categories to include: (1) operational responsibility from record-keeping responsibility; (2) the custody of assets from accounting; (3) authorization of transaction from custody of related assets and (4) duties within the accounting section or department.

Horngren, Sundem and Elliot (2002) noted that control through proper authorization can be either general or specific. General authorization is usually found in writing. It often sets definite limits on what price to pay, or what price to receive, on what credit limits to grant to customers, and sometimes it provides for complete prohibition or refusal. Specific authorization means that a superior manager must permit (usually in writing) any particular deviations from the limits set by general authorization.

Documents and records vary considerably from one source documents such as sales invoice and purchases order to journal and ledger. Therefore adequate documentation must start right from source documents down through the line till the final termination of such transaction (Horngren, Sundem and Elliott, 2002). Arsenault (2008) stated that inaccurate or incomplete records are often used to hide fraud by bank official. He suggested that the activities of any officer who is often associated with inaccurate and incomplete records should be properly monitored.

Control through physical safeguards involves the use of strong rooms/safe locks, guards, special lighting. Key register and box, draft books, passbooks, cashierӧs stamps, bank seal, etc should be held in the strong room and brought out only when required (Campion, 2000).

Control through clients visit by supervisor helps to verify the authenticity of the loans. This way a Microfinance bank can identify fraudulent practices by loan officers or non adherence to new policies before they are replicated on a wide scale

(Arsenault, 2008). He added that for Microfinance banks which use group lending methodologies, a supervisor may attend a group meeting to verify that the group only issue loans to group member, check the groupös records to ensure proper calculations and accurate reporting.

Control through strategic spot check involves random checks on books of accounts and records without prior notice. Ajagun (2002) cited in Eze (2007), maintained that control through strategic spot checks is a very important management function and may be applied by Board Committees as appropriate during meetings or upon any signal. He added that the areas of spot checks could include cash and ledger accounts, strong rooms, draft and cheque book records, all other vital books such as suspense accounts, interest, cost of transaction, application etc.

Another control suggested by Horngren, Sundem and Elliott (2002) is staff vacation and rotation of duties. Rotating employees and requiring them to take vacation ensures that at least two employees know how to perform each job so that an absence due to illness or sudden resignation does not create major problems. They maintained that the practice of having another employee periodically perform their duties discourages employees from engaging in fraudulent activities that might be discovered when someone else have access to their records. Job rotation and mandatory leave gives the rotated staff and replacements for those on mandatory leave opportunity to discover frauds and irregularities being perpetrated by former occupants of the positions (Dioha, 2003).

Control through risk management is a must in all Microfinance banks because of the nature of their lending operation which is often devoid of collaterals. Furash (1998) stated that risk management is a dynamic process through which the Management Board of Microfinance bank regularly evaluates the effectiveness of its policies and procedures in controlling risks and makes adjustments as necessary. He added that even if an evaluation finds that the bank is adequately controlling its risks, the risk management process does not end, it continues with regular ongoing evaluation. Each successive evaluation not only tests the effectiveness of new controls but also includes a review of previously tested control. Campion (2000) added that creating an infrastructure and system to incorporate risk management into the Microfinance bankös culture ensures that all staff focuses on identifying and anticipating potential risks. Furash (1998) suggested that the process should incorporate a continual ófeedback loopô from and back to the board and senior managers to ensure they receive the information they need, that the information is accurate and that it is consistent with the risk parameters set by the board. Campion (2000) noted that control through risk management should focus on the following risk areas: (a) credit risk; (b) liquidity risk; (c) transaction risk; (d) fraud risk.

Credit risk according to Campion (2000) is the risk to earning or capital due to a clientös failure to meet the terms of a lending agreement. She maintained that due to the short-term and unsecured nature of micro lending, microloan portfolios tend to be more volatile since the portfolio quality can deteriorate more rapidly than in traditional financial institutions. Bald (2000) defined liquidity risk as the risk to capital or earning resulting from the Microfinance bankǿs inability to meet its obligations when they are due as a result of poor cash flow planning. He maintained that effective liquidity management requires an understanding of the impact of changing market conditions and the ability to liquidate assets quickly to meet increased demand for loans or withdrawals from savings.

Campion (2000) observed that transaction risk involves the risk of financial loss resulting from employee negligence, mismanagement, systems error or other human errors. She added that Microfinance banks can mitigate transaction risk simply by ensuring that employees respect policies and follow procedures, and that all systems are functioning well. Campion and White (1999) saw fraud risk as integrity risk, according to them fraud risk is the risk of loss of earning or capital as a result of intentional deception by an employee or client. Common type of fraud risk in Microfinance banks include theft, bribes, kickbacks, phantom loans and creation of misleading financial statements. They maintained that if fraud risks are left uncontrolled, these risks inevitably increase as fraudulent activities have a habit of spreading like a virus from one employee to another.

The Importance of Internal Audit in Microfinance Banks

Internal Audit is an independent appraisal function within an organization for the review of system of control and quality of performance, as a service to the organization (Ede-Anigbogu, 2008). He maintained that internal audit objectively examines, evaluates and reports on the proper economic, efficient and effective use of resources. Internal audit is performed by the employees of the organization. Campion (2000) simply defined internal audit as a systematic review of operations of the Microfinance banks. She added that an effective internal audit is not a simple review of the books but is an in-depth evaluation of the Microfinance bankǿs ability to protect itself from excessive risk.

According to Campion (2000), an effective internal audit should incorporate a thorough review of all areas of operations of Microfinance bank. She added that key audit areas in Microfinance bank should include: (1) cash (2) loans (3) provisions (4) write-offs (5) savings (6) transfers (7) computer systems (8) fixed assets (9) interest rate setting (10) financial statements. Ohazulike (2001) pointed out that internal audit function is a control duty established by the Board of Directors to exact actions which safeguard assets, confirm liabilities, reduce wasteful expenses and deter occurrence of fraud. He added that the internal auditor is charged with the daily review of expenses and prevents dubious payments through prepayment audit.

During the process of auditing Microfinance bank, the auditor is expected to (a) count cash and compare it to the register/ ledger entries; (2) check cash adequacy; (3) check authorized access to safe; (4) verify proper signatures; (5) reconcile cash transfer vouchers against transfer register (Campion, 2000). She saw loan as the major risk exposure in Microfinance bank as the risk of loss of income from loans due to processing errors, inadequate information, non-compliance with loan policy, excessive concentrations of credit risk, counterfeit collateral, and employee fraud are very high. Staschen (1999) argued that managing credit risk is the essence of microfinance lending. This credit risk is associated with the clientøs future ability to repay the loan. She said that in processing loans, Microfinance banks exposes themselves to transaction risk since its employees are human and can make mistakes that could result in financial loss.

Carpenter and Lynn (2000) stated that the internal auditor should ensure that through client visit, the auditor should (1) identity fictitious loans; (2) uncover kickbacks by reviewing the loan files; (3) uncover misappropriation of clients funds, that is, the registering of a loan payment or deposit in another personøs account. According to Campion (2000), the auditor check for risk exposure due to poor provisions of bad loans and mishandling of collection. She maintained that the provision must be adequate and in compliance with the policy, through client visits, verify authenticity of loans and validate reason for non-payment prior to write-off. The process of auditing the loan account is not complete until the auditor visits the loan clients under review. It is by visiting clients that Microfinance bank assures itself that fraud risk is adequately controlled.

Sawyer (1999) opined that, by offering its clients saving services, Microfinance bank exposes itself to increased fiduciary liquidity and fraud risks. He advised that Microfinance banks must assure clients that their funds are physically secured and that their money is available for withdrawal on demand. Sawyer maintained that fiduciary risk involves the risk of the loss of trust in the institution by clients as they change their perception of the financial soundness of the Microfinance bank or loss confidence in management ability to protect their assets. Clients demonstrate a loss of confidence by withdrawing their savings which often lead to financial crises in the bank.

On audit of financial statements, Campion and White (1999) opined that auditors should check the accuracy and reliability of the information contained in the financial statements, that is, the balance sheet and income statement. They noted that the primary risk exposures that auditors identify in the review of financial statements are overstatement of expenses, lack of budgetary controls, inadequate cost accounting, double payments and fraudulent payments to vendor. The essence of the internal audit department in microfinance bank is aimed at achieving efficiency of operation and early detection and prevention of errors and frauds.

Compliance of Microfinance Banks with Prudential Regulations

Compliance objectives ensure that all banking businesses comply with applicable laws, and regulations, supervisory requirements and the policies and procedures of the organization (Eze, 2007). These applicable laws and regulations according to Christen (2003) could be prudential or non-prudential laws and regulations. He defined prudential regulations to mean those laws aimed specifically at protecting the financial system as a whole as well as protecting the safety of small deposits in individual institutions. Prudential regulation involves the government in attempting to protect the financial soundness of the regulated institutions through the appropriate government agency (CGAP, 2003). Lyman (2003) noted that prudential regulations are aimed at protecting the financial soundness of licensed intermediariesô business, in order to prevent financial system instability and losses to depositors. CGAP (2003) also noted that the objectives of prudential regulation include: (1) protecting the countryøs financial system by preventing failure of one institution from leading to failure of others; and (2) protection of depositors who are not well positioned to monitor the institutionøs financial soundness themselves. CGAP added that if prudential regulation does not focus closely enough on these objectives, scarce supervisory resources can be wasted, institutions can be saddled with unnecessary compliance burdens, and development of the financial sector can be constrained. Chavez and Gonzalez (1995) noted that prudential regulation and supervision are designed to; (a) avoid a financial sector crises and maintain the integrity of the payments system; (b) encourage financial sector competition and efficiency. They further stated that for the creation of an environment that is conducive to financial intermediation, governments and policymakers must ensure that financial repression, that is, regulations that distort financial markets and reduce the efficiency of financial institution are minimized. They added that financial repression includes: imposed interest rate ceilings, subsidized credit, and tax structures that discourage investment in microfinance banks. Christen (1997) maintained that prudential regulation are generally much more complex, difficult and expensive than most types of non-prudential regulations (protecting consumers; preventing fraud and financial crimes, setting up credit information services; and supporting secured transactions).

According to Regulatory and Supervisory Framework for Microfinance Banks in Nigeria (2005), the following prudential requirements are outlined in the Microfinance Bank regulatory and Supervisory Policy:

a. compulsory investment in Nigeria Treasury Bills (NTB) of 5 percent of deposit liabilities;
b. liquidity ratio of 20 percent, including compulsory investment in NTBs;
c. capital funds adequacy of 10 percent;
d. limit of lending to a single borrower and related party;
e. that portfolio-at-risk (PAR) shall not exceed 2.5 percent of the credit portfolio at any given time for microfinance banks;
f. fixed Assets/long-term investments and branch expansion;
g. restriction on declaration of dividend;
h. maximum equity investment holding ratio;
i. limit of investment in fixed assets;

j. contingent items; and

k. revaluation of fixed assets.

On compulsory investment, the regulatory framework (2005) stated that all Microfinance banks shall be required to maintain not less than 5% of their deposit liabilities in the Treasury Bills. The regulatory framework also maintained that a liquidity ratio of 20% including 5% investment in Treasury Bills must be observed by all Microfinance banks. Capital fund adequacy of 10% is also required to be kept by all Microfinance banks. Non compliance to any of the above ratio will lead to the prohibition of the bank from any of the followings until the required ratio is restored. (a) Grant credits and undertakes further investment; (b) pay dividend to shareholders; (c) borrow from the investing public; and (d) open branch/cash centre.

Concerning limit of lending to a single borrower and related party, the regulatory framework stated that the maximum loan by Microfinance bank to any individual borrower or director, related borrower shall not exceed 1%, while group borrower is restricted to a maximum of 5% of the Microfinance bankôs shareholdersô fund unimpaired by losses or as may be prescribed by CBN from time to time. Portfolio-at-risk (PAR) shall not exceed 2.5% of the loan portfolio at any given time for the Microfinance bank. Portfolio-at-risk deals with those loan facilities whose repayment period is due but the borrower is unable to meet their obligation as and when due (Ehigiamusoe, 2008). He added that financial institutions should aspire to maintain a low percent rate of portfolio-at-risk as this will boost the morale of staff and uplift the rating of the institution.

The regulatory framework noted that a Microfinance bank shall not declare or pay a dividend on its shares until it has, (a) completely written-off all its preliminary and pre-operational expenses; (b) made the required provisions for non-performing loans and other erosions in asset values; (c) satisfied the minimum capital adequacy ratio requirement; and (d) met all matured obligations.

CGAP (2003) noted that non-prudential (ócconduct of businessô) regulatory issues of relevance to microfinance span a wide spectrum. These issues include enabling the formation and operation of micro lending institutions; protecting consumers; preventing fraud and financial crimes; setting up credit information services; supporting secured transactions; policies with respect to interest rates; limitations on foreign ownership, management, and sources of capital; tax and accounting issues; and a variety of cross-cutting issues surrounding transformations from one institutional type to another.

Regulatory and Supervisory framework for Microfinance Banks in Nigeria (2005) listed the followings as the special prudential standard (non-prudential requirements). (a) unsecured lending limits; (b) the restriction of co-signers as borrowers; (c) loan documentation requirement; (d) reporting requirements; (e) cash reserve requirements.

In accordance with the provision of BOFIA (1991) Section 20(2): (a) any unsecured advances or loans or credit facilities of an aggregate amount in excess of fifty thousand naira (N50,000.00) is not permitted. For the purpose of applying this regulation to microfinance bank, group guarantees or third party guarantee of an individual acceptable to the Microfinance bank shall qualify as collateral for microfinance loan; (b) the restriction prohibiting a bank from lending to someone who has co-signed or otherwise guaranteed a loan from the same bank shall not apply to Microfinance banks; (c) given the nature of microfinance loan size and customers, collateral registration, financial statements of borrowers or evidence that those businesses are formally registered shall not be required; (d) the reporting requirements for Microfinance banks shall be simplified to minimize administrative costs to them; (e) the mandatory cash reserve requirements for banks shall not apply to microfinance banks, rather an Microfinance bank shall be required to have compulsory investment of five (5) percent of its total deposit liabilities in the treasury bills which shall qualify as specified liquid assets in computation of its liquidity ratio.

Related Empirical Studies

Some empirical studies conducted in the area of the present study are reviewed thus. Rauta (1992) carried out a study on internal control and fraud prevention in commercial banks in Plateau state of Nigeria. The major purpose of the study was to evaluate the effectiveness or otherwise of internal control in commercial banks. The study indicated that banks: (1) formulated adequate internal control system but the controls were not enough to prevent frauds; (2) it was also revealed that persistence of fraud could be attributed to failure to comply with established controls. The present study was related to Rautaös study because both study concentrated on the assessment of internal control in banks. The present study differs from Rautaös study in that (1) the present study is on Microfinance banks while Rautaös study was based on Commercial banks; (2) the present study seeks to assess the level of compliance with internal control in Microfinance banks while Rautaös study seek to know whether non-compliance with control procedures was a major setback for effective fraud control. Ugwu (1995) carried out a study on the efficacy of internal control system in community banks in Enugu state. The major purpose of the study was to ascertain the efficacy of internal control system in Community banks. The findings from this study were as follows: (1) the scope of internal audit works in Community banks was sufficiently comprehensive for the detection of irregularities; (2) that internal control assisted in detecting errors, omission and commission; (3) most of the respondents affirmed that employees and management do not overlook control procedures. The present study is related to Ugwuös study because both studies handled internal control issues in banks in Nigeria. However, the two studies differed in that Ugwu studied the assessment of the efficacy of internal control system in Community banks, the present study concentrated on the assessment of compliance with internal control mechanism in Microfinance banks.

Udofia (2002) conducted a study on how to identify and assess the internal control measures for preventing financial frauds in government parastatals in Akwa Ibom state. The major purpose of the study was to identify and access the internal control measures for preventing financial frauds in government parastatals in Akwa Ibom state. The findings of the study are; (1) internal control measures of government parastatals are not effective to prevent financial frauds in the state. (2) the causes of financial frauds in government parastatals in Akwa Ibom state includes, loopholes in internal control measures; collusion among dishonest staff; frustration as a result of poor condition of service; and non compliance by employees with internal control measures. The present study is related to Udofiaôs study because both studies dwelled on the assessment of the internal control measures in Nigeria. The two studies differs in that Udofiaôs study concentrated on how to identify and assess internal control measures in government parastatals while the present study is based on the assessment of compliance with internal control measures in Microfinance banks.

Kanu (2004) carried out a study on fraud and its management in Nigerian banks, a case study of Union bank of Nigeria plc. The major purpose of the study was to find out practical ways of minimizing the incidence of frauds in Nigerian banks. The study was conducted at a period when most Nigerian banks were distressed and insolvent because of fraudulent practices. It was found that there was upward trend in the frequency of fraud occurrence in Nigerian banks. It was also found that strong internal control and internal audit assists in minimizing frauds in Nigerian banks. The present study and Kanu◊s study are related because both covered banks in Nigeria. However, their difference lies in the followings: (1) the present study is on Microfinance banks while Kanu◊s study was on Commercial banks; (2) the present study dealt mostly with compliance with internal control mechanism by Microfinance banks while Kanu◊s study was centered on fraud management in Commercial banks.

Eze (2007) conducted a study on the assessment of internal control systems in Community banks in Anambra and Enugu states. The major purpose of the study was to assess the internal control systems in Community banks in Anambra and Enugu states. The findings from this study were as follows: (a) internal audit unit was always independent of other units in most of the Community banks; (b) it was found that periodic comparison of actual assets and liability values with those shown on control records was most often complied with in Community banks; (c) it was revealed that proper credit documentation and perfection of collateral security was most often done before loan is executed in most of the Community banks; (d) it was also revealed that staff handling cash, securities and cheques were most often bonded or required to provide credible guarantors; (e) it showed that transactions were always duly authorized before execution in most of the Community banks.

The present study is related to Ezeös study because both studies are focused on the assessment of internal control system in banks in Nigeria. However, the present study differs from Ezeös study in that Ezeös study concentrated on the assessment of internal control system in Community banks while the present study deals with the assessment of compliance with internal control mechanism in Microfinance banks.

Summary of Related Literature

The materials reviewed showed that microfinance is all about the provision of financial solution to the needs or to the door steps of the urban and rural poor who are not usually served by the ñbig banksò. Microfinance banks are properly positioned to provide financial intermediation, social intermediation, enterprise development services and social services to their clients.

The literature reviewed showed that compliance to internal control mechanism means that the Microfinance banks must work within an established corporate and operational framework. The operational framework may relate to policy, staff conduct, corporate standards and operational procedures.

The literature reviewed showed that internal control of any organization is usually established by the Board of Management of such organization. The authors agreed that internal control is often aimed at ensuring that transaction are implemented according to management authorization, assets of the organization are safeguard from wasteful use, efficient and effective accounting system are established and maintained by the organization. The authors agreed that effective internal control in any Microfinance bank will help the Board of Directors of the bank to guard against fraud and financial mismanagement. Effective internal control will always lead to the achievement of the long-term profitability targets of the bank. Most authors agreed that internal control system in most organization involves: personnel responsibilities, separation of duties, authorization, documentation, physical safeguards (control), independent checks, accounting control, bonding, vacation and rotation of duties.

The authors agreed that credit risk constitute the major risk of Microfinance bank. This credit risk could result from losses of income due to processing errors, inadequate information, non-compliance with loan policy, counterfeit collateral and employee fraud. The authors also agreed that through clients visit, the auditor will verify the authenticity of loans, uncover kickbacks by reviewing the loan files, uncover misappropriation of client funds and identify fictitious loans.

The authors whose works are reviewed dealt with one aspect of internal control or the other. Some based their work on internal control in Commercial banks while some are on Community banks. None of the studies covered any form of internal control in Microfinance banks in Nigeria. Hence, this present study is set out to fill the above gap.

CHAPTER III

METHODOLOGY

This chapter describes the design of the study, area of the study, the population of the study, sample for the study, instrument for data collection, validation of instrument, reliability of the instrument, and method of data analysis.

Design of the Study

The study adopted a survey research design. A survey of managers, accountants, credit officers and internal auditors of Microfinance banks in the North Central States of Nigeria was carried out to ascertain their opinion on the compliance with internal control mechanism by their Microfinance banks. Survey research design was preferable for this study because Osuala (2005) noted that survey research focuses on people, their beliefs, opinions, behaviour and interactions of sociological and psychological variables. The present study used structured questionnaire to elicit responses from managers, accountants, credit officers and internal auditors of Microfinance banks.

Area of the Study

The study was carried out in the North Central States of Nigeria which consist of six states and Abuja. The states that made up the North Central States are: (1) Benue state (2) Kogi state (3) Kwara state (4) Nasarawa state (5) Niger state (6) Plateau state and Abuja.

Population for the Study

The population for the study was made up of 91 microfinance banks spread over the six states and Abuja. The population of the respondents was made up 364 management staff which consists of four management staff from each of the 91 microfinance banks.

Table1. Population Distribution

S/No	State	No of Banks	No of management Staff.
1.	Abuja	18	72
2.	Benue	8	32
3.	Kogi	21	84
4.	Kwara	22	88
5.	Nasarawa	3	12
6.	Niger	10	40
7.	Plateau	9	36
	Total	**91**	**364**

Source: Microfinance Newsletter Jan-Jun, 2008

Sampling Techniques

Four States representing sixty percent (60%) of the states were randomly selected for the study out of the seven States in the North Central States. The selected states are; Abuja, Benue, Nasarawa and Plateau states.

Table 2: Number of Microfinance Banks in each of the four States and Number of Respondents

S/No	State	No of Banks	No of Management staff
1	Abuja	18	72
2	Benue	8	32
3	Nasarawa	3	12
4	Plateau	9	36
	Total	**38**	**152**

Source: Microfinance Newsletter Jan-Jun, 2008

Instrument for Data Collection

The instrument for data collection for the study was structured questionnaire which consists of sections A, B, C, D, and E. Section A contains general information about the banks and the respondents. The items in all the sections B-F was structured on a four point Rating scale. Section B contains items designed to elicit respondentsô opinion on the level of compliance with physical control in their Microfinance bank. The response options were ñMost oftenò, ñOftenò, ñRarelyò, and ñNot at allò. Section C contains items designed to elicit the respondentsô opinion on the importance of internal audit in detection and prevention of errors and frauds in Microfinance bank. The response options were ñVery important, ñimportantò, óSlightly importantò, and ñNot importantò. Section D contains items designed to elicit the respondentsô opinion on the level to which separation of duties is complied with in Microfinance banks. The response options were ñAlwaysò, ñOccasionallyò, ñRarelyò, ñNot at allò. Section E contains items designed to elicit the respondentsô opinion on the level of compliance of Microfinance bank with Central Bank of Nigeria (CBN) prudential regulation. The response options were ñMost timesò, ñSometimesò, ñRarelyò, and ñNeverò.

Table 3: Values of the 4 point rating scale for sections B – E

Response Categories	Point	Boundary Limit
Most often/Very important/Always/ Most times	4	3.50 ï 4.00
Often/important/Occasionally/Sometimes	3	2.50 ï 3.49
Rarely/ Slightly important /Rarely /Rarely	2	1.50 ï 2.49
Not at all/Not important/Not at all/Never	1	0.50 ï 1.49

Validation of the Instrument

The instrument was subjected to face validation by three experts in Business Education in the Department of Vocational Technical Education, University of Nigeria Nsukka, Enugu State. Each of the validators was served with a copy of the instrument, purpose of the study and hypothesis for validation. Based on the constructive correction and suggestions, amendments were effected before the instrument was administered.

Reliability of the Instrument

To determine the reliability of the instrument, copies of the questionnaire were administered to management staff in 10 Microfinance banks from Enugu state and Anambra state. This consists of five Microfinance banks each from Enugu and Anambra states that is, a total of 40 respondents. A total of 36 respondents completed and returned the instruments. The internal consistency of the instruments was determined by analyzing the data obtained from the exercise. The reliability co-efficient was established using Cronbach Alpha for each of the 4 clusters thus; 0.97, 0.98, 0.95, 0.80, and the over-all reliability of the instrument was 0.98.

Method of Data Collection

Copies of the questionnaire were administered to the bank Managers, Accountants, Internal auditors and Credit officers of the Microfinance banks in the North Central States of Nigeria through personal contact and with the help of two trained research assistants. The research assistants were recruited and trained to assist in administering the questionnaires to the respondents and to collect them back after they were filled. A total of 152 questionnaires were distributed and 151 questionnaires were retrieved and were used for the study.

Method for Data Analysis

The data collected from respondents was analyzed using mean, standard deviation, and t-test. The mean and standard deviation were used to answer research questions, while t-test was used to test the hypotheses at 0.05 level of significance. The analysis was computer based with the use of the Statistical Package for Social Sciences (SPSS 16.0 version).

The mean for the response scale was 2.50. Items with mean value of 2.50 and above were accepted while items with the mean value of less than 2.50 were rejected. The three null hypotheses were tested using t-test and the P-value was compared with 0.05 in each of the cases. Any item with P-value greater than or equal to the t-value of 0.05, the hypothesis of no significant difference was upheld at probability of 0.05 level of significance; but where the P-value is less than 0.05, the hypothesis of no significant difference was rejected at 0.05 level of significance and at 149 degree of freedom.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This Chapter deals with the presentation and analysis of data. The presentations were organized according to the research questions and null hypotheses formulated to guide the study.

Research Question 1

What is the level of Compliance with Physical Control Measures in Microfinance Banks in the North Central States of Nigeria?

Managers, Accountants, Internal Auditors and Credit Officers from Microfinance Banks were required to respond to the question. The responses obtained are presented in table 4.

Table 4
Mean and standard deviation ratings on the level of Compliance with Physical Control Measures in Microfinance Banks

S/NO	ITEM	$\bar{x}$	SD	DECISION
1.	Access to customersô ledger is only limited to authorized personnel	3.66	0.62	Agree
2.	Customers are not allowed behind the cashierôs cage except by invitation	3.41	0.49	Agree
3.	Comparison of actual assets and liability values with those shown on control records take place	3.66	0.47	Agree
4.	Account records are compared with cash, securities and stock counts	3.83	0.37	Agree
5.	Dual control over strong room/vaults is adhered to	3.66	0.47	Agree
6.	Cash, securities and cheque books are locked in bank vaults	3.58	0.49	Agree
7.	Police escorts are used in movement of cash to other banks	2.26	0.92	Disagree
8.	Bullion van is used in movement of cash to other banks	1.40	0.49	Disagree
9.	All issues of cash to cashier are entered in the strong room cash register and signed by both cashierôs cash register and accountant or cash officer	3.91	0.28	Agree
10.	Deeds, vital register and vital stamps are locked in fire proof steel cabinets or vaults	2.94	0.99	Agree
11.	To identify counterfeit money, ultra-violet (mercury) light are used by cashiers when collecting cash	3.67	0.61	Agree
12.	Printing of cheque books and other security documents is handled by a reputable printing company	3.74	0.60	Agree
13.	Rotating employee help to reduce problems caused by illness and sudden resignation	3.16	0.55	Agree
14.	Officers on leave and vacation do not keep their office keys	2.92	0.95	Agree
15.	Management carries out spot checks on cashiers and account officers	3.25	0.43	Agree
16.	The safety of a loan facility is assessed prior to loan disbursement	3.91	0.28	agree
17.	Proper loan documentation is carried out before loan disbursement	3.58	0.49	Agree
18.	Loan disbursement committee complies with its loan approval limit	3.58	0.49	Agree
19.	Violations to disbursement and approval rules are discovered during client visit	2.20	0.76	Disagree
20.	Customers who have not liquidated their loan facilities are not allowed new loan	2.92	1.38	Agree
21.	Overdrafts are granted only to customers who are not indebted to the bank	3.08	0.28	Agree

Key: $\bar{x}$ = Mean, SD= Standard Deviation

The data in table 4 showed that, items (1,2,3,4,5,6,9,10,11,12,13,14, 15,16,17,18,20 and 21) had their mean above the cut-off point of 2.50. This implies that the majority of the respondents used for the study agreed with these items that there is Compliance with Physical Control Measures in Microfinance Banks. The standard deviation of the level of Compliance with Physical Control Measures in Microfinance Banks ranged from 0.28-1.38. This shows that the respondents were close to one another in their responses and that their responses are not too far from the mean.

The table further revealed that the respondents disagreed on items (7,8 and 19). This shows that there is no Compliance to this Physical Control Measures in Microfinance Banks. The mean rating of the items ranged from 1.40-2.26 which fell below the cut-off point. The table also revealed that the standard deviation of the items ranged from 0.49-0.92. This indicated the respondentsô closeness to one another in their opinions and further revealed that the respondents are not far away from the mean.

Research Question 2

How Important is Internal Audit in the Detections and Preventions of errors and Frauds in Microfinance Banks?

Managers, Accountants, Internal auditor and Credit officers in Microfinance Banks are required to respond to this question. The responses obtained were presented in table 5.

Table 5

Mean and standard deviation ratings on the importance of internal audit in the detections and preventions of errors and frauds in Microfinance Banks

S/NO	ITEMS	$\bar{x}$	SD	DECISION
1.	Internal audit review of expenses and payment	4.00	0.00	Agree
2.	Checks payments, which are legitimate, but above authorizing officersô limit	3.42	0.49	Agree
3.	Discovery of inaccurate or incomplete records which could lead to fraud	3.91	0.28	Agree
4.	Ascertaining the compliance of executive actions with established policies and procedures	3.58	0.49	Agree
5.	Ensures that risk management procedures of the bank are followed in loan approval and disbursement	4.00	0.00	Agree
6.	Detailed examination of accounting and operational information	3.50	0.65	Agree
7.	Discovery of fictitious/phantom loans through client visit	3.00	0.91	Agree
8.	Uncover misappropriation of client funds that is, the registering of a loan payment or deposit in another personôs account	3.82	0.56	Agree
9.	Validate reasons for non-payment of bad loans prior to write-off	3.33	0.74	Agree
10.	Validate the accuracy and reliability of the information contained in the financial statement	3.25	0.43	Agree

Key: $\bar{x}$ = Mean, SD= Standard Deviation

The data presented in table 5 indicated that all the items had their mean above the cut-off point of 2.50. This shows that the majority of the respondents used for this study agreed that internal audit is very important in the detections and preventions of errors and frauds in Microfinance Banks. The standard deviation of the items ranged from 0.00-0.91. This revealed that the respondents were close to one another in their responses and their responses were not too far from the mean.

Research Question 3

To what level is separation of duties complied with in Microfinance banks in the North Central States of Nigeria?

Managers, Accountants, Internal auditors and Credit officers are required to respond to this question. The responses obtained are presented in table 6.

Table 6
Mean and standard deviation ratings on the level to which separation of duties are complied with in Microfinance Banks

S/NO	ITEM	$\bar{x}$	SD	DECISION
1.	Responsibility for execution of transactions (payment) is separated from responsibility of authorization of transactions (payment)	4.00	0.00	Agree
2.	The responsibility for receiving cash/cheques (receiving cashier) and the responsibility for making payments are carried out by different personnel	2.34	1.18	Disagree
3.	The duty for loan recovery is separated from the duty for ageing of loan and classifying loan as bad debts	1.92	0.86	Disagree
4.	The officer who prepares assets accounts is separated from the officer who keeps custody of assets	1.92	0.86	Disagree
5.	Internal audit is independent of individual subject to audit	3.07	0.95	Agree
6.	The officer who prepares an account is separate from the officer who reconciles the account	2.42	1.03	Disagree
7.	The responsibility for cheque writing is separate from the responsibility for procurement	3.15	0.90	Agree
8.	The officers who recovers loan are not member of the loan approval committee	2.50	0.77	Agree

KEY: $\bar{x}$ = Mean, SD= Standard Deviation

The data on table 6 revealed that items (1,5,7 and 8) had their mean above the cut-off of 2.50. This implies that majority of the respondents used for the study agreed that separation of duties is practiced in Microfinance banks. The standard deviation on the level of separation of duties in Microfinance Banks in the North

Central States of Nigeria ranges from 0.00-0.95. This revealed that the respondents were close to one another in their responses and that their responses are not too far from the mean.

The table further showed that the respondents disagreed on items (2,3,4 and 6). This indicated that separation of duties is not complied with in Microfinance Banks in the North Central States of Nigeria. The mean rating of the items ranged from1.92-2.42 which fell below the cut-off point. The table also revealed that the standard deviation of the items ranged from 0.86-1.03. This showed that the respondents were close to one another in their opinion and further revealed that the respondents are not far from the mean.

Research Questions 4

To what level do Microfinance Banks comply with Central Bank of Nigeria's prudential regulations in North Central States of Nigeria?

Managers, Accountants, Internal auditors and Credit officers in Microfinance Banks in the North Central States of Nigeria are required to respond to the question. The responses obtained were presented in table 7.

Table 7

Mean and standard deviation ratings on the level of compliance with Central Bank of Nigeria's prudential regulations by Microfinance Banks in North Central States of Nigeria

S/NO	ITEMS	$\bar{x}$	SD	DECISION
1.	Compulsory investment in Nigeria Treasury Bills (NTB) of 5% of deposit liabilities	2.76	1.17	Agree
2.	Liquidity ratio of 20% of including compulsory investment in NTB	3.25	0.92	Agree
3.	Capital funds adequacy of 10%	3.25	0.92	Agree
4.	Maintenance of 2.5% portfolio-at-risk (PAR) of credit portfolio at all times.	3.08	0.95	Agree
5.	One percent of lending to a single borrower of your bank fund unimpaired by losses	3.24	0.72	Agree
6,	Five percent of lending to group borrowings of your bank fund unimpaired by losses	2.91	0.64	Agree

Key: $\bar{x}$ = Mean, SD= Standard Deviation

The data presented in table 7 revealed that all the items had their mean above the cut-off point 2.50. This shows that the majority of the respondents used for this study agreed that Microfinance Banks in the North Central States of Nigeria complied with the Central Bank of Nigeriaѓs prudential regulations. The standard deviation of the items ranged from 0.64-1.17. This indicated that the respondents were close to one another in their responses and their responses were not far from the mean.

Hypothesis 1

HO_1: *There is no significant difference (P<0.05) in the mean responses of Internal auditors and other management staff (Managers, Accountants and Credit officers) on the level of compliance with Physical control measures in Microfinance Banks in the North Central States of Nigeria*

Internal auditors and other management staff in Microfinance Banks are required to respond to the hypothesis. The responses obtained are presented in Table 8.

Table 8

The t-test analysis of the mean responses of Internal auditors and other Management Staff on the level of compliance with physical control measures in Microfinance Banks in the North Central States of Nigeria.

S/N	Items	Groups	N	$\bar{x}$	SD	t	df	Sig.(2 tailed)	Decision
1.	Access to customersô ledger is only limited to authorized personnel	IA OMS	54 97	2.74 3.78	1.11 0.41	-8.238	149	0.000	S
2.	Customers are not allowed behind the cashiersô cage except by invitation	IA OMS	54 97	2.44 3.19	1.00 1.05	-4.263	149	0.000	S
3.	Comparison of actual assets and liability values with those shown on control records takes place	IA OMS	54 97	2.74 3.36	1.08 1.02	-3.496	149	0.001	S
4.	Account records are compared with cash, securities and stock counts	IA OMS	54 97	2.61 3.54	1.30 0.80	-5,438	149	0.000	S
5.	Dual control over strong room/vault is adhered to	IA OMS	54 97	2.74 3.49	1.08 0.72	-5.109	149	0.000	S
6.	Cash, securities and cheque books are locked in bank vaults	IA OMS	54 97	2.70 3.27	1.05 0.98	-3.343	149	0.001	S
7.	Police escorts are used in movement of cash to other banks	IA OMS	54 97	2.64 2.32	0.97 1.06	1.810	149	0.072	NS
8.	Bullion van is used in movement of cash to other banks	IA OMS	54 97	2.92 1.54	0.90 0.67	10.588	149	0.000	S
9.	All issues of cash to cashier are entered in the strong room cash register and cashierôs cash register and signed by both cashier and account or cash officer	IA OMS	54 97	2-88 2.39	1.12 0.86	3.038	149	0.003	S

10.	Deeds, vital register and vital stamps are locked in fire proof steel cabinets or vaults	IA OMS	54 97	2.94 2.83	0.95 1.28	0.548	149	0.585	NS
11.	To identify counterfeit money, ultra violet (mercury) light are used by cashiers when collecting cash	IA OMS	54 97	3.33 3.16	0.77 1.17	0.941	149	0.348	NS
12.	Printing of cheque books and other security documents is handled by a reputable printing company	IA OMS	54 97	3.29 2.91	0.90 1.20	2.015	149	0.046	S
13.	Rotating employees help to reduce problems caused by illness and sudden resignation	IA OMS	54 97	2.70 3.03	1.09 0.96	-1.973	149	0.050	NS
14.	Officers on leave and vacation do not keep their office keys	IA OMS	54 97	2.96 2.97	0.88 0.96	-0.103	149	0.918	NS
15.	Management carries out spot checks on cashiers and account officers	IA OMS	54 97	3.11 2.89	0.69 1.09	1.300	149	0.196	NS
16.	The safety of a loan facility is assessed prior to loan approval	IA OMS	54 97	3.03 3.20	0.88 1.06	-0.987	149	0.325	NS
17.	Proper loan documentation is carried out before loan disbursement	IA OMS	54 97	3-25 3.23	0.75 1.08	0.133	149	0.895	NS
18.	Loan disbursement committee complies with its loan approval limit	IA OMS	54 97	3.25 3.57	0.75 0.65	-2.694	149	0.008	S
19.	Violation to disbursement and approval rules are discovered during client visit	IA OMS	54 97	2.59 2.42	0.96 0.70	1.242	149	0.216	NS
20.	Customers who have not liquidated their loan facilities are not allowed new loan	IA OMS	54 97	3.25 3.04	0.75 1.23	1.181	149	0.240	NS
21.	Overdraft are granted only to customers who are not indebted to the bank	IA OMS	54 97	3.25 3.03	0.75 0.44	2.338	149	0.021	S
	Grand Mean	**IA** **OMS**	**54** **97**	**2.92** **3.01**	**0.90** **0.85**	**-0.580**	**149**	**0.563**	**NS**

Key: IA = Internal Auditors, OMS = Other Management Staff, P = level of significance (0.05), SD = Standard Deviation, NS = Not significant, S = significant, df = degree of freedom.

The result in Table 8 showed that the mean difference, standard deviation, t-value, sig.(2-tailed) and degree of freedom of t-test values calculated using Statistical Package for Social Sciences (SPSS, Version 16.0) on the respondents responses on the level of compliance with physical control measures in Microfinance Banks in North Central States of Nigeria. The result revealed that ten of the items on the compliance with physical control measures in Microfinance Banks (7,10,11,13,14,15,16,17,19 and 20) had their t-values on 149 degree of freedom and its P-values greater than 0.05 level. Therefore, the null hypothesis was accepted not to have any significant difference between the mean ratings of responses of the two groups of respondents (Internal Auditors and Other Management Staff) on the level of compliance with physical control measures in Microfinance Banks.

Subsequently, the result of items (1,2,3,4,5,6,8,9,12,18 and 21) had their t-values on 149 degree of freedom and its P-values less than 0.05 level. Therefore, the null hypothesis was rejected showing that there is a difference in the opinions of Internal Auditors and Other Management Staff on items (1,2,3,4,5,6,8,12,18 and 21).

However, the table further showed that the grand mean with t-value on 149 degree of freedom (-0.580) and P-value sig.(2-tailed) 0.563 greater than 0.05 level. Therefore, the null hypothesis was accepted not to have any significant difference between the mean ratings of responses of the two groups of respondents (Internal

Auditors and Other Management Staff) on the level of compliance with physical control in Microfinance Banks.

Hypothesis 2

HO_2: *There is no significant difference ($P<0.05$) in the mean responses of Internal Auditors and Other Management Staff on the importance of Internal audit in detections and preventions of errors and frauds in Microfinance Banks in the North Central States of Nigeria*

Internal Auditors and Other Management Staff in Microfinance Banks are required to respond to the hypothesis. The responses obtained are presented in Table 9.

Table 9

The t-test analysis of the mean responses of Internal Auditors and Other Management Staff on the importance of Internal Audit in detections and preventions of errors and frauds in Microfinance Banks in the North Central States of Nigeria

S/N	Items	Groups	N	$\bar{x}$	SD	t	df	Sig.(2 tailed	Decision
1.	Internal auditors review of expenses and payments	IA OMS	54 97	2.90 4.00	1.18 0.00	-0.9098	149	0.000	S
2.	Checks payments which are legitimate, but above authorizing officersô limit	IA OMS	54 97	3.18 2.74	0.72 1.03	2.785	149	0.006	S
3.	Discovery of inaccurate or incomplete records which could lead to fraud	IA OMS	54 97	3.18 3.60	0.87 0.89	-2.809	149	0.006	S
4.	Ascertaining the compliance of executive actions with established policies and procedures	IA OMS	54 97	3.07 3.48	0.90 0.90	-2.672	149	0.008	S
5.	Ensures that risk management procedures of the bank are followed in loan approval and disbursement	IA OMS	54 97	2.88 4.00	1.17 0.00	-9.325	149	0.000	S
6.	Detailed examination of accounting and operational information	IA OMS	54 97	2.68 3.26	1.04 0.99	-3.391	149	0.001	S
7.	Discovery of fictitious/ phantom loans through client visit	IA OMS	54 97	2.90 2.91	0.99 1.16	-0.054	149	0.957	NS
8.	Uncover misappropriation of client funds that is, the registering of a loan payment or deposit in another personôs account	IA OMS	54 97	3.01 3.83	0.90 0.55	-6.902	149	0.000	S
9.	Validate reasons for non-payment of bad loans prior to write-off	IA OMS	54 97	2.59 3.55	1.03 0.67	-6.898	149	0.000	S
10.	Validate the accuracy and reliability of the information contained in the financial statement	IA OMS	54 97	2.64 2.65	1.04 0.94	-0.070	149	0.944	NS
	Grand mean	**IA** **OMS**	**54** **97**	**2.90** **3.40**	**0.94** **0.62**	**-3.817**	**149**	**0.000**	**S**

Key: IA = Internal Auditors, OMS = Other Management Staff, P = level of significance (0.05), SD = Standard Deviation, NS = Not significant, S = significant, df = degree of freedom.

Data presented in Table 9 showed that two of the items (7 and 10) on the importance of Internal audit in the detections and preventions of errors and frauds in Microfinance Banks had P-values, sig.(2-tailed) greater than t-values at 0.05 level of significance at 149 degree of freedom. This indicated that there was no significant difference between the mean responses of Internal Auditors and Other Management Staff on the importance of internal audit in the detections and preventions of errors and frauds in Microfinance Banks. With this result, the null hypothesis (HO) of no significant difference was upheld at 0.05 level of significance.

On the other hand, items (1,2,3,4,5,6,8 and 9) had their t-values less than 0.05 level of significance. Therefore, the null hypothesis was rejected showing that there is a difference in the opinions of Internal Auditors and Other Management Staff on items (1,2,3,4,5,6,8 and 9).

The table showed the grand mean with t-value on 149 degree of freedom (-3.817) and P-value sig.(2-tailed) 0.000 less than 0.05 level. The null hypothesis was rejected which means that there is a significant difference between the mean ratings of responses of the two groups of respondents (Internal Auditors and Other Management Staff) on the importance of Internal Audit in detections and preventions of errors and frauds in Microfinance Banks in the North Central States of Nigeria.

Hypothesis 3

HO$_3$: *There is no significant difference (P<0.05) in the mean responses of Internal Auditors and Other Management Staff on the level to which Separation of duties are complied with in Microfinance Banks in the North Central States of Nigeria*

Internal Auditors and Other management Staff in Microfinance Banks are required to respond to the hypothesis. The responses obtained are presented in Table 10.

Table 10

The t-test analysis of the mean responses of Internal Auditors and Other Management Staff on the level to which separation of duties are complied with in Microfinance Banks in the North Central States of Nigeria.

S/N	Items	Groups	N	$\bar{x}$	SD	t	df	Sig. (2 tailed)	Decision
1.	Responsibility for execution of transaction (payment) is separated from responsibility for authorization of transaction (payment)	IA OMS	54 97	2.88 4.00	1.17 0.00	-9.328	149	0.000	S
2.	The responsibility for receiving cash/cheques (receiving cahier) and the responsibility for making payments are carried out by different personnel	IA OMS	54 97	2.70 2.54	1.05 1.18	0.813	149	0.417	NS
3.	The duty for loan recovery is separated from the duty for ageing of loan and classifying loan as bad debts	IA OMS	54 97	2.33 2.13	1.16 0.84	1.206	149	0.230	NS
4.	The officer who prepares assets accounts is separated from the officer who keeps custody of assets	IA OMS	54 97	2.53 2.11	0.98 0.87	2.722	149	0.007	S
5.	Internal audit is independent of individual subject of audit	IA OMS	54 97	2.48 3.11	1.04 1.18	-3.268	149	0.001	S
6.	The officer who prepares an account is different from the officer who reconciles the account	IA OMS	54 97	2.38 2.68	1.15 0.94	-6.678	149	0.095	NS
7.	The responsibility for cheque writing is separated from the responsibility for procurement	IA OMS	54 97	2.94 3.27	1.08 1.00	-1.896	149	0.060	NS
8.	The officers who recovers loan are not member of the loan approval committee	IA OMS	54 97	2.74 3.11	0.91 1.07	-2.144	149	0.34	S
	Grand mean	**IA** **OMS**	**54** **97**	**2.62** **2.87**	**1.03** **0.81**	**-1.605**	**149**	**0.111**	**NS**

Key: IA = Internal Auditors, OMS = Other Management Staff, P = level of significance (0.05), SD = Standard Deviation, NS = Not significant, S = significant, df = degree of freedom.

Data presented in Table 10 indicated that four of the items (2,4,6 and 7) on the level to which separation of duties are complied with in Microfinance had P-values, sig.(2-tailed) greater than t-values at 0.05 level of significance and 149 degree of freedom. This showed that there is no significant difference between the responses of Internal Auditors and Other Management Staff on the level to which separation of duties is complied with in Microfinance Banks. This implied that the null hypothesis (Ho) of no significant difference was accepted at 0.05 level of significance.

However, the result of items (1,4,5 and 8) had their t-value on 149 degree of freedom and its P-value less than 0.05 level. As a result of this outcome, the null hypothesis was rejected showing that there is a difference in opinions of Internal Auditors and Other Management Staff on items (1,4,5 and 8).

The Table also showed that the grand mean with t-value on 149 degree of freedom (-1.605) and P-value sig.(2-tailed) 0.111 greater than 0.05 level. This revealed that there is no significant difference between the means responses of the two group or respondents (Internal Auditors and Other Management Staff) on the level to which separation of duties are complied with in Microfinance Banks, hence, the hypothesis was accepted.

Findings of the Study

Based on the research questions and hypotheses tested, the following findings are made:

1. Comparison of actual assets and liability values with those shown on control records was accepted as compliance with physical control measures in Microfinance Banks.
2. Dual control over strong room/vaults was upheld as compliance with physical control measures in Microfinance Banks.
3. The use of ultra-violet light by cashiers during cash collection to identify counterfeit money was accepted as compliance with physical control measures in Microfinance Banks.
4. Rotating employees helps to reduce problems caused by illness and sudden resignation was upheld as compliance with physical control measures in Microfinance Banks,
5. Spot check on cashiers and account officers by management was affirmed as compliance with physical control measures in Microfinance Banks.
6. Assessment of the safety of a loan facility prior to loan disbursement was accepted as compliance with physical control measures in Microfinance Banks.

7. It was agreed that proper loan documentation is carried out before loan disbursement as compliance with physical control measures in Microfinance Banks.

8. Loan disbursement committee complies with its loan approval limit was upheld as compliance with physical control measure in Microfinance Banks.

9. Customers who have not liquidated their loan facilities are not allowed new loan was accepted as compliance with physical control measures in Microfinance Banks.

10. Internal Audit review of expenses and payments was accepted as important in the detections and preventions of errors and frauds in Microfinance Banks.

11. Discovery of inaccurate or incomplete records which could lead to frauds was affirmed as important function of internal audit in detections and preventions of errors and frauds in Microfinance Banks.

12. Ensures that risk management procedures of the bank are followed in loan approval and disbursement was upheld as important function of internal audit in detections and preventions of errors and frauds in Microfinance Banks.

13. Detailed examination of accounting and operational information was accepted as important duties of internal audit in detections and preventions of errors and frauds in Microfinance Banks.

14. Uncover misappropriation of client funds that is, the registering of a loan payment or deposit in another personφs account was affirmed as important

function of internal audit in detections and preventions of errors and frauds in Microfinance Banks.

15. Validation of reasons for non-payment of bad loans prior to write-off was accepted as important function of internal audit in detections and preventions of errors and frauds in Microfinance Banks.
16. Validation of the accuracy and reliability of the information contained in the financial statement was agreed as important function of internal audit in detections and preventions of errors and frauds in Microfinance Banks.
17. Internal audit is independent of individual subject to audit was agreed as separation of duties in Microfinance Banks.
18. The responsibility for cheque writing is separate from the responsibility for procurement was affirmed as separation of duties in Microfinance Banks.
19. The officers who recover loan are not member of the loan approval committee was accepted as separation of duty in Microfinance Banks.
20. Compulsory investment in Nigeria Treasury Bills of 5% of deposit liabilities was accepted as compliance with Central Bank of Nigeriaøs prudential regulations.
21. Maintenance of 2.5% portfolio-at-risk (PAR) of credit portfolio at all times was upheld as compliance with Central Bank of Nigeriaøs prudential regulations.

22. One percent of lending to single borrower of bank fund unimpaired by losses was affirmed as compliance with Central Bank of Nigeriaôs prudential regulations.
23. Five percent of lending to group borrowers of bank fund unimpaired by losses was accepted as compliance with Central Bank of Nigeriaôs prudential regulations.
24. There was no significant difference in the mean responses of internal auditors and other management staff on the level of compliance with physical control measures in Microfinance Banks.
25. There was a significant difference in the mean responses of internal auditors and other management staff on the importance of internal audit in the detections and preventions of errors and frauds in Microfinance Banks.
26. There was no significant difference in the mean responses of internal auditors and other management staff on the level to which separation of duties are complied with in Microfinance Banks.

Discussion of Findings

Level of compliance with physical control measures in Microfinance Banks

The data presented in Table 4 supplied answer to research question one. The findings indicated that there is high level of compliance with physical control in Microfinance Banks in the North Central States of Nigeria. The finding is in line with Campion (2000) study which revealed that control through physical safeguards involves the use of strong room/ safe locks, guards, special lightings, key register and box, draft books, passbooks, cashierӧs stamps, bank seals etc should be held in the strong room and brought out only when required.

The findings of this study further confirm that compliance with physical control could be achieved through management spot checks on cashier and account officers. This is in consonance with Ajagun (2002) who observed that control through strategic spot checks is a very important management function which can be applied by Board Committees as appropriate during meetings or upon any signal. Ajagun (2002) added that areas of spot checks could include cash and ledger accounts, strong rooms, draft and cheque book records, all other vital books such as suspense accounts, interest and cost of transaction.

The findings also revealed that rotating employees helps to reduce problems caused by illness and sudden resignation. This is in line with Dioha (2003) who observed that job rotation and mandatory leave gives the rotated staff and replacements for those ones mandatory leave opportunity to discover frauds and irregularities being perpetrated by former occupants of the positions. Horngren, Sundem and Elliott (2002) maintained that rotating employees and requiring them to take vacation ensures that at least two employees know how to perform each job so that an absence due to illness or sudden resignation does not create major problems.

The importance of internal audit in detections and preventions of frauds in Microfinance Banks

The data presented in Table 5 provided answer to research question two. The findings revealed that the action of internal audit could lead to the discovery of inaccurate or incomplete records which could lead to fraud. This is in line with Ohazulike (2001) who pointed out that internal audit function is a control duty established by the Board of Directors to exact action which safeguard assets, confirm liabilities, reduce wasteful expenses and deter occurrence of fraud. On the other hand, Campion (2000) noted that during the process of auditing Microfinance Bank, the auditor is expected to: count cash and compare it to the register/ledger entries; check cash adequacy; check authorized access to safe; verify proper signature and reconcile cash transfer vouchers against transfer register.

The findings also revealed that misappropriation of client funds is uncovered during client visit. This is in line with the opinion of Carpenter and Lynn (2000) that the internal auditor should ensure through client visit, the auditor should identify fictitious loans, uncover kickbacks by reviewing the loan files, and uncover misappropriation of client fund. Arsenault (2008) opined that for Microfinance Banks which use group lending methodologies, a supervisor may attend a group meeting to verify that the group only issue loans to group member, check the groupôs records to ensure proper calculations and accurate reporting. This will go a long way to nip fraud at the bud.

The respondents of this study responded with high mean on the importance of internal audit in detections and preventions of frauds in Microfinance Banks. Since internal audit is about ensuring the accuracy and reliability of information in an organization, Campion and White (1999) noted that auditors should check the accuracy and reliability of the information contained in the financial statements, that is, the balance sheet and income statement.

Level to which separation of duties are complied with in Microfinance Banks

The data presented in Table 6 provided answers to research question three. The findings revealed that the responsibility for cheque writing is separate from the responsibility for procurement. This is in line with Campion (2000) who noted that separation of duties involves the separation of responsibilities for two or more tasks that could result in error or encourage dishonest behaviour if only handled by one employee. The responsibility for cheque writing and procurements are usually assigned to two different employees and unless they collude, they cannot defraud the Bank.

Further more, Horngren and Foster (1987) classified separation of duties into four to include: operational responsibility from record-keeping responsibility; the custody of assets from accounting; authorization of transaction from custody of related assets and duties within the accounting department. Anyafo (2004) noted that separation of duties involves the delineation of those responsibilities or duties which if combined enables one individual to initiate record and process a complete transaction from its origin to its ultimate posting to a ledger. The findings of the study showed that functions which should be separated include authorization, execution, custody and recording.

Level of compliance with Central Bank of Nigeria's prudential regulations by Microfinance Banks

The data presented in Table 7 provided answers to the research question four. The findings revealed that Microfinance Banks comply with Central Bank of Nigeriaös prudential regulations. Eze (2007) noted that compliance objective ensures that all banking businesses comply with applicable laws, and regulations, supervisory requirements and the policies and procedures of the organization. On the other hand, Lyman (2003) opined that prudential regulations are aimed at protecting the financial soundness of licensed intermediariesô business, in other to prevent financial system instability and losses to depositors.

The t-test analysis of the level of compliance with physical control measures in Microfinance Banks

The analysis of hypothesis one presented in Table 8 revealed the comparison of the mean ratings of responses of Internal auditors and other management staff on the level of compliance with physical control measures in Microfinance Banks tested with t-test statistic at 0.05 level of significance and at 149 degree of freedom. The findings showed that 10 out of the 21 items on the level of compliance with physical control measures in Microfinance Banks were accepted by the respondents as being complied with in Microfinance Banks. This is based on the result of the calculated grand mean and P-value of all the items of the cluster which were greater than the value of 0.05. Hence, it shows that there was no significant difference between the mean responses of internal auditors and other management staff on the level of compliance with physical control measures in Microfinance Banks in the North Central States of Nigeria. This implies that the findings confirm the findings made in the research question.

The t-test analysis of the importance of the internal audit in detections and preventions of errors and frauds in Microfinance banks

The analysis of hypothesis two compared the mean ratings of internal auditors and other management staff on the importance of internal audit in the detections and preventions of errors and frauds in Microfinance Banks and the findings was presented in Table 9. The calculated grand mean and P-value of all the cluster was less than the value of 0.05. The result showed that there was a significant difference between the responses of internal auditors and the responses of other management staff on the importance of internal audit in the detections and preventions of errors and frauds in Microfinance Banks in the North Central States of Nigeria.

The t-test analysis on the level to which separation of duties are complied with in Microfinance Banks

The t-test significance used for the third hypothesis on the level to which separation of duties are complied with in Microfinance Banks was presented in Table 10. The calculated grand mean and p-value for 8 items of the cluster was greater than 0.05. Therefore, the null hypothesis was accepted at 0.05 level of significance. It shows that internal auditors and other management staff agreed that separation of duties is complied with in Microfinance Banks.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter deals with the summary of the research problem, methodology and major findings of the study. Conclusions, recommendations based on the findings of the study, implications of the study and suggestion for further research were also presented in this chapter.

Re-statement of the problem

The introduction of Microfinance Banks is seen as a welcome development as it will provide hope and the needed financial empowerment of the rural/semi urban dwellers which they were established to serve. The Central Bank of Nigeria (2005) noted that Microfinance Bank is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. Ehigiamusoe (2005) maintained that Microfinance Bank recognizes the inability of the poor to provide tangible collateral and therefore promote collateral substitution. Hence, the absence of collateral for loan means that rural dwellers will easily have access to loan facilities which will help them to improve and expand their businesses.

Juma (2007) noted that rural banking programme was introduced in Nigeria in 1977 as Commercial banks were mandated to open a number of rural branches to bring banking services closer to rural dwellers but this programme failed because it turned out to be costly and unprofitable for the Commercial banks. Peoplesô Bank of Nigeria, Community Banks and Nigeria Agricultural Cooperative and Rural Development Bank (NACRDB) all came on stream between 1990 and 2000 to provide financial services to micro and small entrepreneurs but also failed because of ineffective management and unguided disbursement of loan, inadequate government commitment and none compliance with internal control mechanism within the banks. Therefore, to solve these problems of none compliance with internal control mechanisms, there is the need for frequent assessment of these banksô compliance to internal control mechanisms so that their services to the rural dwellers will go unhindered.

The study was designed specifically to achieve the following purposes,

1. Determine the level of compliance with physical control measures in Microfinance Banks.
2. Determine the importance of internal audit in detections and preventions of errors and frauds in Microfinance Banks.
3. Determine the level to which separation of duties are complied with in Microfinance Banks.
4. Determine the level of compliance with Central Bank of Nigeriaôs prudential regulations by Microfinance Banks.

Summary of Procedures used for the Study

The study adopted a survey research design; questionnaire was used as instrument for data collection for the assessment of compliance with internal control mechanism by Microfinance Banks in the North Central States of Nigeria. The questionnaire was made up of four clusters consisting of 45 structured questionnaire items which was used to gather opinions from 152 respondents made up of Managers, Accountants, Internal auditors and Credit officers in Microfinance Banks. The questionnaire was validated by three experts from the Department of Vocational

Teacher Education, University of Nigeria, Nsukka. The internal consistency of the instruments was established using Cronbach alpha formula for determining reliability. The over-all reliability of the instrument was 0.98 after its trial test on 36 management staff of nine Microfinance Banks from Anambra and Enugu States.

The questionnaire was administered and collected with the assistance of two trained research assistants. The result was analyzed by computer (SPSS 16.0 version) using mean, standard deviation and t-test. The mean and standard deviation was used to answer the four research questions while t-test statistic was used to test the hypotheses.

Summary of Findings

The findings of the study were based on the results of the research questions and hypothesis after analyzing data obtained from the study.

1. A total of 18 out of 21 items on the level of compliance with physical control measures in Microfinance Banks were accepted by the respondents with mean ranging from 2.92-3.91.
2. All the 10 items on the importance of internal audit in the detections and preventions of errors and frauds in Microfinance Banks were agreed as important by the respondents with mean ranging from 3.00-4.00.
3. Four out of eight items on the level to which separation of duties is complied with in Microfinance Banks were accepted by the respondents with mean ranging from 2.50-4.00.

4. All the six items on the level of compliance with the Central Bank of Nigeriaøs prudential regulations were agreed as being complied with by the respondents with mean ranging from 2.76-3.25.
5. There was no significant difference between the mean ratings of internal auditors and other management staff on the level of compliance with physical control measures in Microfinance Banks.
6. There was significant difference between the mean ratings of internal auditors and other management staff on the importance of internal audit in detection and prevention of errors and frauds in Microfinance Banks.
7. There was no significant difference between the mean ratings of internal auditors and other management staff on the level to which separation of duties are complied with in Microfinance Banks.

Implications of the Study

The findings of this study have implications for the Board of Directors and management staff in Microfinance Banks in strengthening their security measure as to prevent errors and frauds. The findings of this study have implication for students of Management, Accounting and other related courses as useful information on Microfinance Banks are made available for their research work.

The findings of this study have implications for the government as it will assist the government to ascertain the level of compliance of Microfinance Banks to operational guidelines and regulatory framework. This will lead to efficient management in Microfinance Banks as lapses are reduced and obsolete regulations updated.

The findings of this study have implication to the general public, investors and shareholders as it will help them to take decision to invest in Microfinance Banks. Compliance to internal control measures often reduce losses and will amount to high profitability, thereby making Microfinance Banks investorøs choice.

Conclusions

The study concludes that there are reasonable levels of compliance to physical control measures in Microfinance Banks in the North Central States of Nigeria because there was frequent assessment of Microfinance Banksô compliance to internal control mechanisms in other to make their services to the rural dwellers go unhindered. The study also revealed that Microfinance Banks complied with prudential regulations as outlined in the Regulatory and Supervisory Framework for Microfinance Banks in Nigeria. It was also shown in the study that rotating employees within the various sections of bank help to reduce problems caused by illness and sudden resignation as well as help to detect and prevent errors and frauds.

It was noted that when there is frequent assessment of compliance with internal control mechanism by Microfinance Banks, it will help to discover the inaccurate or incomplete records which could lead to frauds. It was further revealed in the study that if risk management procedures of the bank are followed in loan approval and disbursement, it will lead to greater loan recovery and reduction of cases of bad debts.

Recommendations

Based on the findings of this study, the following recommendations are made:

1. Management of Microfinance Banks should always ensure that risk management procedures of the bank are followed in loan approval and disbursement to reduce the risk of high rate of bad debts.
2. All employees involved in bank operations should be given on the job training in all the department of the bank so that they can function effectively in all the sections of the bank.
3. All loan disbursement to borrowers should pass through loan disbursement committee who will ensure that all necessary documentations are complied with prior to actual disbursement to the customer.
4. The Central Bank of Nigeria should ensure that guidelines and monitoring policies of the Central Bank of Nigeria are complied with by all the Microfinance Banks operating in the country. This will create confidence on the part of Microfinance bankôs investors and customers.
5. The rural and semi-urban poor should always be the target of management of Microfinance banks in loan disbursement since Microfinance banks was established to bring financial succour to them.

Suggestions for Further Studies

The followings are suggested for further research:

1. Assessment of compliance with internal control mechanism by Microfinance Banks in the South Western States of Nigeria.
2. Assessment of compliance with internal control mechanism by Commercial Banks in the North Central States of Nigeria.
3. Assessment of the effects of the present economic crises on the operations of Microfinance Banks in Nigeria.

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APPENDIX A

Dept. of Vocational Technical Education
(Business Education Section)
University of Nigeria,
Nsukka.

LETTER TO RESPONDENTS

Dear Respondent,

I am a postgraduate student in the above named University presently conducting a research on the **assessment of compliance with internal control mechanism by microfinance banks in the north central states of Nigeria.**

Please feel free, and sincerely fill the attached questionnaire. You are assured that the information given here will be purely used for academic purpose only. You are also assured that information provided will be treated with strict confidentiality and strictly used for the purpose of this study. Thanks for your anticipated cooperation.

Yours faithfully,

Olioku, Josephat.

APPENDIX B

QUESTIIONNAIRE

Assessment of compliance with internal control mechanism by microfinance banks in four states of the north central states of Nigeria.

Section A: General information.

Tick (_/) the options, which apply to you and your bank.

Bank location

(1) Your bank is located in

(a) Abuja ( )

(b) Benue State ( )

(c) Nasarawa State ( )

(d) Plateau State ( )

(2) Your bank is located in Rural Area ( ) Urban Area ( )

(3) Your job/position in the bank is

(a) Manager ( )

(b) Accountant ( )

(c) Internal Auditor ( )

(d) Credit Officer ( )

Section B: Levels of compliance with physical control in your Microfinance bank

Show the level to which each of these physical controls is applied in your microfinance bank.

MO = Most often, OF = Often, R = Rarely, NA = Not at all.

Item No.	Controls	MO	OF	R	NA
1.	Access to customersô ledger is only limited to authorize personnel.				
2.	Customers are not allowed behind the cashierôs cage except by invitation.				
3.	Comparison of actual assets and liability values with those shown on control records takes place				
4.	Account records are compared with cash, securities and stock counts				
5.	Dual control over strong room/vault is adhered to				
6.	Cash, securities and cheque books are locked in bank vaults.				
7.	Police escorts are used in movement of cash to other banks.				
8.	Bullion van is used in movement of cash to other banks.				
9.	All issues of cash to cashier are entered in the strong room cash register and cashierôs cash register and signed by both cashier and accountant or cash officer.				
10.	Deeds, vital register and vital stamps are locked in fire proof steel cabinets or vault.				
11.	To identify counterfeit money, ultra-violet (mercury) light are used by cashiers when collecting cash.				
12.	Printing of cheque books and other security documents is handled by a reputable printing company				
13.	Rotating employees help to reduce problems caused by illness and sudden resignation.				
14.	Officers on leave and vacation do not keep their office keys.				
15.	Management carries out spot checks on cashier and account officers.				
16.	The safety of a loan facility is assessed prior to loan approval.				
17.	Proper loan documentation is carried out before loan disbursement.				
18.	Loan disbursement committee complies with its loan approval limit.				
19.	Violations to disbursement and approval rules are discovered during client visit.				
20.	Customers who have not liquidated their loan facilities are not allowed new loan.				
21.	Overdrafts are granted only to customers who are not indebted to the bank.				

Section C. The importance of internal audit in detections and Preventions of errors and frauds in Microfinance Banks

How important is each of the following internal audit function in detecting and preventing errors and frauds in your Microfinance Bank.

VI = Very Important, I = Important, SI = Slightly Important, NI = Not Important

Item No.	Item Statements	VI	I	SI	NI
22.	Internal auditors review of expenses and payments.				
23.	Checks payments, which are legitimate, but above authorizing officersô limit.				
24.	Discovery of inaccurate or incomplete records which could lead to fraud.				
25.	Ascertaining the compliance of executive actions with established policies and procedures.				
26.	Ensures that risk management procedures of the bank are followed in loan approval and disbursement				
27.	Detailed examination of accounting and operational information.				
28.	Discovery of fictitious/ phantom loans through client visit.				
29.	Uncover misappropriation of client funds that is, the registering of a loan payment or deposit in another personôs account.				
30.	Validate reasons for non-payment of bad loans prior to write-off.				
31.	Validate the accuracy and reliability of the information contained in the financial statement.				

Section D: Levels to which separation of duties are complied with in Microfinance Bank

Show the levels to which each of the following aspects of separation of duties is complied with in your Microfinance Bank.

A = Always. O = Often. R = Rarely. NA = Not at all

Item No	Control	A	O	R	NA
32.	Responsibility for execution of transactions (payment) is separated from responsibility for authorization of transactions (payment).				
33.	The responsibility for receiving cash/cheques (receiving cashier) and the responsibility for making payments are carried out by different personnel.				
34.	The duty for loan recovery is separated from the duty for ageing of loan and classifying loan as bad debts.				
35.	The officer who prepares assets accounts is separated from the officer who keeps custody of assets.				
36.	Internal audit is independent of individual subject to audit.				
37.	The officer who prepares an account is separate from the officer who reconciles the account.				
38.	The responsibility for cheque writing is separate from the responsibility for procurement.				
39.	The officers who recovers loan are not member of the loan approval committee.				

Section E: Level of compliance with Central Bank of Nigeria's (CBN) prudential regulations by Microfinance Banks in four states of the North Central States

Indicate the level to which the following CBN prudential requirements are complied with by your Microfinance Bank.

MT = Most times, ST = Sometimes, R = Rarely, N = Never.

Item No	Compliance with prudential requirement	MT	ST	R	N
40.	Compulsory investment in Nigeria Treasury Bills (NTB) of 5% of deposit liabilities.				
41.	Liquidity ratio of 20%, including compulsory investment in NTBs.				
42.	Capital funds adequacy of 10%				
43.	Maintenance of 2.5% portfolio-at-risk (PAR) of credit portfolio at all times.				
44.	One percent of lending to a single borrower of your bank fund unimpaired by losses.				
45.	Five percent of lending to group borrowers of your bank fund unimpaired by losses.				

APPENDIX C

Department of Vocational Technical Education
Faculty of Education,
University of Nigeria,
Nsukka.
11th November, 2009

REQUEST FOR VALIDATION OF RESEARCH INSTRUMENT

I am a post graduate student in the Department of Vocational Technical Education, University of Nigeria, Nsukka. The topic of my research work is **Assessment of Compliance with Internal Control Mechanisms by Microfinance Banks in the North Central States of Nigeria**

I sincerely request you to please help validate the Questionnaire items as regards to appropriateness of the various research questions. Your comment(s) will help improve the final instrument.

Attached is a draft copy of the questionnaire for your study. Thanks for your anticipated cooperation.

Yours faithfully,

Olioku Josephat
PG/M.ED/07/43114