

THE ROLE OF INTERNAL CONTROL AS THE
FOUNDATION OF QUALITY MANAGEMENT

A STUDY OF, THE
BROADCAST MEDIA IN NIGERIA

BY

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FACULTY OF BUSINESS ADMINISTRATION
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ENUGU CAMPUS

AUGUST, 2002

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AUGUST, 2002

CERTIFICATION

This is to certify that Mr. Eze, Anthony Ohaja, a postgraduate student of the Department of Accountancy with Registration number, PG/MBNOO/31 094, has satisfactorily completed his research work in partial fulfillment of the requirements for the award of Master of Business Administration (MBA) Degree in Accountancy.

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DEDICATION

This research work is dedicated to the Almighty God, giver of life and knowledge, my dearly beloved wife, Mrs. Comfort N. Eze;

and

Our children: Prince Oluebube, Praise Obinna,
and Rubby Oluomachi.

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Life will not be meaningful without fellow human beings. In this direction therefore, a research project of this nature cannot be carried out without immense contributions from other people. The researcher therefore wishes to express his deep appreciation and gratitude to all those who contributed in one way or the other to the success of this study.

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Finally, I wish to express my deepest gratitude to my dearly beloved wife, Mrs. Comfort N. Eze, who encouraged and supported me, prayerfully, financially and otherwise, throughout the period of this study.

To the Almighty God be the glory, honour and dominion — Amen.

EZE, ANTHONY O.

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ABSTRACT

This project titled “The Role of Internal Control as the Foundation of Quality Management: a study of the Broadcast Media in Nigeria” is both a descriptive and an analytical study designed to evaluate the role of internal control in an organization so as to see whether, or otherwise, it is the bedrock of quality management. The entire work is chronicled into five chapters with each addressing an important segment of the research work. The objectives of the study are to identify and evaluate: the importance of Internal Control System in the management of an organization using Broadcast Media in Nigeria for the study; the features of a good Internal Control System; the factors responsible for increase of frauds, embezzlements or misappropriations of funds/assets in the modern day Nigeria; and also to find out why some of them remain undetected for a good number of years whereas the books of accounts of the organization are often being examined by her internal and external auditors.

Furthermore, the population of the study is the Broadcast Media in Nigeria and the determined sample size is 171. Data used for the study were obtained from primary and secondary sources, making use of oral interviews, questionnaires, and literature review. Again, the data collected were analyzed by the use of tables, simple percentages, and absolute numbers, while chi-square (χ^2) technique was used to test the hypotheses formulated in the study.

Moreover, the major findings made in this dissertation are as follows:

that some of the factors responsible for increase of errors, frauds, embezzlements or misappropriations of funds/assets, in this modern day Nigeria are: greed and lack of contentment; non-compliance with the laid down internal control procedures; non-adherence to financial policies and guidelines; collusion; employment of unqualified and incompetent personnel; poor remuneration; glorification of ill gotten wealth in Nigeria; and delay in payment of salaries by some employers

- that undetected errors, frauds, embezzlements or misappropriation of funds/assets for quite a good number of years (whereas the accounts of the organization are being reviewed by her internal auditors on regular basis and the external auditors yearly) are due to the following: collusion; employment of inexperienced internal auditor; negligence on the part of some external auditors; and noncompliance of companies/organizations to auditors' management letters (letters of weakness).

Finally, based on the major findings above, the following recommendations aimed at improving the situations are made:

establishment of adequate accounting system and effective internal control measures; employment of honest, dedicated and competent personnel; proper supervision of staff; compliance with Auditors' management letters; adequate remuneration and regular payment of salaries, and reorientation of the Nigerian citizens towards the glorification of ill gotten wealth in our society today.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

It is a well-known fact that everything in this world has a foundation. In fact, the foundation of anything be it a building, an idea, a career, belief, etc matters a lot: it determines, to a very large extent, the strength, durability, quality and success, or otherwise, of that very thing.

The Oxford Advanced Learner's Dictionary of Current English, defines foundation as: strong base of a building, usually below ground level, on which it is built up; that on which an idea, belief, etc rests; underlying principle; basis; starting point.

Management as an essential ingredient of all organized endeavour has an underlying principle and that is the internal control system. How successfully an organization achieves its objectives, satisfies social responsibilities or both, and depends upon how well the organization's managers do their jobs. In other word, how well the managers adhere to the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise. How well managers do their jobs - Managerial performance - is measured in terms of two concepts: efficiency and effectiveness.

According to Stoner and Freeman (1 989:10), efficiency means "doing things right," that is, the ability to get things done correctly, and effectiveness means "doing the right thing," that is, the ability to choose appropriate objectives.

The sum of these two concepts is quality management which is itself the product of Internal Control system.

Nwoko (1997:202) defined quality management as a systematic approach for ensuring that all activities within an organization happen according to the plan. This approach was evolved primarily by a group of American quality experts: W.E. Deming, Joseph Juran and Philip Crosby. Before implementing quality management, there must be a quality system in existence. A quality system is an assembly of components, such as organizational structure, responsibilities, procedures, processes, and resources.

In the same direction, Stoner and Freeman (1989:4) defined management as the process of planning, organizing, leading, and controlling the efforts of organization members and of using all other organizational resources to achieve stated organizational goals.

A process is a systematic way of doing things. Management is defined as a process because all managers;

regardless of their particular aptitudes or skills, engage in certain interrelated activities in order to achieve their desired goals.

Planning implies that managers think through their goals and actions in advance. Plans give the organization its objectives and set up the best procedure for reaching them.

In addition, plans become the guides by which:

- ❖ the organization obtains and commits the resources required to reach its objectives;
- ❖ members of the organization carry on activities consistent with the chosen objectives and procedures; and
- ❖ progress toward the objectives is monitored and measured so that corrective action can be taken if progress is unsatisfactory.

The first step in planning is the selection of goals for the organization. Then objectives are established for the subunits of the organization — its divisions, departments, and so on. Once the objectives are determined, programmes are established for achieving them in a systematic manner.

Organizing means that managers coordinate the human and material resources of the organization. Once managers have established objectives and developed plans or programmes, to reach them, they must design and staff the organization in order to be able to carry out those programmes successfully.

Leading describes how managers direct and influence subordinates, getting others to perform essential tasks. After plans have been made, the structure of the organization has been determined, and the staff has been recruited and trained, the next step is to arrange for movement toward the organization's defined objectives. This function can be called by various names: leading, directing, motivating, actuating, and so on. But whatever the name used

to identify it, this function involves getting the members of the organization to perform in ways that will help it achieve its established objectives.

Whereas planning and organizing deal with the more abstract aspects of the management process, the activity of leading is very concrete; it involves working directly with people.

Finally, controlling means that managers attempt to assure that the organization is moving toward goals. Managers must ensure that the actions of the organisation's members do in fact move the organization toward its stated goals. This is the controlling function of management, and it involves four main elements:

- ❖ establishing standards of performance (budgets);
- ❖ Measuring current performance and comparing it against the established standards;
- ❖ detecting deviations from standard goals in order to make corrections before a sequence of activities is Completed;
- ❖ taking action to correct performance that does not meet those standards.

Through the controlling function, managers can keep the organization on its chosen track, keeping it from straying from its specified goals.

But it is a sad commentary to say that even in those organizations in which quite competent managers and skilled supporting staff are known to be at the helm of affairs for attaining the goals of the organizations, the problems of frauds, irregularities, embezzlement, misappropriation of funds/assets, mismanagement or poor management, or whatever name it may go with, are still being

encountered, and even at an alarming rate. Why? It is the opinion of the researcher therefore, that a study on internal control system as a foundation of quality management would provide an insight to the way of solving the problems.

Bethel, et al (1971:27) pointed out that an enterprise may possess the most modern plant and equipment, a highly skilled and experienced labour and sales force, ample

Financial resources and an adequate source of raw materials yet fail to perform efficiently. They argued that although several reasons are involved but the major factor is poor management.

The question now is: what is poor management? Poor management, in the context of this study, simply means deviation from any of the system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies. Poor management occurs only where there is no internal control system in existence or where in existence, it is weak. Therefore, the only solution to poor management is establishment of good internal controls and observing them.

Santocki (1972:12) opined, "By internal control, is meant not only internal check and internal audit, but the whole system of controls, financial and otherwise, established by the management, in order to carry on the business of the company in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of its records."

In fact, internal control is the bedrock of quality management, and to achieve its purposes, it must be adequate in design and effective in operation.

1.2 **STATEMENT OF THE PROBLEM**

In the early sixties one hardly heard of frauds, irregularities, embezzlements or misappropriation of funds/assets, mismanagement or poor management, or whatever name it may go with. But nowadays the reverse is the case: there are a lot of cases of the aforesaid social evils in the modern day Nigeria. Why?

Also, there has been a general out cry from the public sectors, private sectors, and the general public why some of the above fraudulent practices are not easily detected, or if at all detected, they may have taken some time, even though these organizations may have engaged internal auditors and the services of external auditors who audit the accounts of the organizations year after year.

These are the main problems which led the researcher into this study/dissertation.

- ❖ What are the factors responsible for the increase of frauds, irregularities, embezzlements or misappropriation of funds/assets, mismanagement or poor management in the modern day Nigeria?
- ❖ Does your organization have good, adequate, and operational Internal Control System in existence presently?

- ❖ Does your organization have good, adequate, and operational Internal System in existence presently
- ❖ Does your organization have internal Audit Department?
- ❖ Has your organization experienced frauds, embezzlements or misappropriation of funds/assets before, and what were the causes?

1.3 OBJECTIVES OF THE STUDY

The main objectives of this study are to:

- Identify and evaluate the importance of Internal Control System in the management of an organization using Broadcast Media in Nigeria for the study.
- identify and evaluate the features of a good Internal Control System.
- identify and evaluate the factors responsible for increase of frauds, embezzlement or misappropriation of funds/assets in the modern day Nigeria, and also find out why some frauds, embezzlement or misappropriation of funds/assets remain undetected for a good number of years whereas the books of accounts of the organization are often being examined by her internal and external auditors.

1.4 FORMULATION OF RESEARCH HYPOTHESES

In considering the nature and extent of the problems of the study, the researcher shall make some 'intelligent guesses upon which the research will be based.

1. The persistence of frauds, embezzlements or misappropriation of funds/assets and other fraudulent practices in any organization is not due to noncompliance with established internal control system. The persistence of frauds, embezzlements or misappropriation of funds/assets and other fraudulent practices in any organization is due to non-compliance with established internal control system.
- 2) There are no cases where errors, frauds, embezzlements or misappropriation of funds/assets remain undetected for quite a good number of years whereas the accounts of the organization are being audited by her internal auditor on regular basis and the external auditors yearly.

1.5_ SIGNIFICANCE OF THE STUDY

Generally, research work helps management of organizations and intending investors to solve problems and have sense of direction for effective and efficient management and profitable operations. This study is significant in that it will help managers of organizations to understand whether Internal Control System plays any significant role toward prevention and detection of errors, frauds, embezzlements or misappropriation of funds/assets, proving the claim right or wrong that Internal Control System is the foundation of quality management.

It will also help to explain the features of a good Internal Control System and the role of Internal Audit in Internal Control System.

Furthermore, it will help to identify and explain certain factors that are responsible for increase of frauds, embezzlement or misappropriation of funds/assets in various organizations in this modern day Nigeria.

Finally, it will be of tremendous help to future researchers who may wish to develop and research more into the study.

1.6 SCOPE OF THE STUDY

This research work focused on “The Role of Internal Control as the foundation of quality management,” a study of the Broadcast Media in Nigeria.

However, the findings and recommendations will certainly be of immense help to managers of other organizations in Nigeria and elsewhere and other research scholars.

1.7 LIMITATIONS OF THE STUDY

Research of this nature especially in developing countries like Nigeria is usually subjected to some constraints.

In the process of obtaining the data for this work, some specific problems worthy of mentioning were encountered.

They were as follows:

In the conduct of this kind of study, reliance is on the data collected and the appropriate officials within the organization who will make the data available, and if necessary, explain those that are rather technical. The researcher, while trying to collect the data, could not, in most cases, get the officials on seat, and where they were met in the office, some of them were always in a hurry to attend one meeting or the other and as a result could not grant enough audience. These problems hindered some of the information that could have been obtained.

Also, some of the officials were too reserved and reluctant to make available certain required information, and this posed a big obstacle during the course of the study.

Furthermore, finance was another constraint since the researcher, in most cases, had to repeat his series of visits before he could get some of the officials in the office.

Although the researcher tried to minimize the effects of these constraints, he therefore cannot claim that the report Presented here is with 100 percent precision.

The validity of any research work rests heavily on the availability and reliability of the data required and utilized for the research work. This research work, although it was starved of much of the required data, especially from primary sources, took much from the secondary source data but this does not in any way diminish the validity of the work and its recommendations. Truly, the impact of the result of this study will be of immense assistance to both lecturers and students who may wish to research in this field of study.

1.8 CLASSICAL DEFINITION OF TERMS

Detective Control

This is an internal control which is designed to discover errors that have occurred and to assure that they are corrected on a timely basis.

Error

This is defined as unintentional occurrence of:

- Compliance deviation: This is a failure to perform an internal control procedure as prescribed; or
- Monetary error: This is a mis-statement in an account or a required financial statement disclosure.

Fraud

Financial Institutions Training Centre (FITC) defined fraud as an act or course of deception deliberately practiced to gain unlawful or unfair advantage; deception directed to the detriment of another.

Internal Control

Millichamp (1987:96) defined Internal Control as “Internal Control System — the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records.”

Internal Audit

Internal Audit is defined as: an independent appraisal activity within an organization for the review of accounting, financial and other operations as a basis of service to management. It is a managerial control, which functions by measuring and evaluating the effectiveness of other controls.

Irregularity

This means the intentional mis-statement of an account or required financial statement disclosure.

Management

Bank (1976:88) defined it as “a collective term that refers to the system, function, process or office of planning, providing coordination, directing, evaluating and controlling all available efforts and resources of an organization for the accomplishment of the objectives and policies which are designated by, and handed down from top executive of the organization.”

Potential Errors

These are errors which could occur and should be the object of internal controls and/or audit procedures.

Preventive Control

This is an internal control which is designed to prevent errors from occurring.

System

This refers to an arrangement of many parts that work together, e.g. the digestive system. Again, system can mean an established order or arrangement of things, e.g. in a business, in a society, etc.

1.9 OVERVIEW OF THE STUDY

According to Odo (1992:31) overview of the study deals with exposing in a bird's eye view the nature of the entire study. Chronologically, chapter one contains the introduction which includes among others the background of the study, statement of the problems, objectives of the study, basic research hypotheses, significance of the study, scope of the study, limitations of the study and classical definition of terms.

Chapter two is concerned with the rumination of works previously done by scholars in the field of study.

Chapter three deliberated on the research design and methodology of the study, which include, population and sample description, instrument for data collection, techniques for data collection and course of this work. Chapter four centered on data presentation and analysis while chapter five centered on the findings, recommendations, conclusion and suggestion for further study.

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CHAPTER TWO

THE REVIEW OF RELATED LITERATURE

A research of this kind which has become a topical issue in the public cycle is blessed with the literary work of eminent scholars both in public and private enterprises.

2.1 HISTORICAL DEVELOPMENT OF

INTERNAL CONTROL SYSTEM

Internal Control System did not come into being as a snapshot. Its development can be seen as a gradual process which took roots several centuries ago.

Chartey (1982:26) said, “what is referred to as an internal control today probably had its origin back to about 1500 B.C.” He added that the period 1800-1500 B.C. experienced skeletal elements of internal control. The scope of internal control then was narrower than what it is today. He further highlighted that the first recognized and recorded system of control was in 200 B.C. when an Egyptian treasurer’s activities as a grain collector was checked by scribes.

Anderson (1976:143) stated, “the idea of internal control can be traced back to stewardship of public funds in the very oldest civilizations.”

Furthermore, on his own account, Nwoko (1997:1) narrated, “it need not sound strange that Internal Control is the oldest branch of modern accounting. It is older than double entry book keeping which itself arose out of the desire to ensure better control of business assets. History has it that some of the earliest written records known to man are accounting records of the ancient Egyptian, Mesopotamian, Cretian, Mycenaen, and other early civilizations. They show that accounting records then were kept on the charge and discharge principle (a kind of receipt and payment account) and were meant to serve two main purposes: to assist in keeping track of assets (in current terminology safeguard of assets); and to make it easier to exercise control over those entrusted with other people’s property (stewardship and internal check). These are purely internal control purposes”.

In spite of this early origin however, a rapid development of this system of control was not noticed until the 18th century. The British Industrial Revolution was about the most important event which provided the much needed impetus for widening the scope of internal control. The phenomenal growth in industry and its associated complexities instigated the desire in management to reappraise the importance of internal control and thus develop the system into an important control tool.

Since then, leading Accounting bodies world-wide have from time to time issued specific recommendations and guidelines which have been accepted as the most authoritative statements on internal control.

2.2 INTERNAL CONTROL SYSTEM DEFINED

A number of writers have attempted to define internal control system in various ways.

In his view, Aguolu (1998:36) defined Internal Control System as: “the whole system of controls, financial or otherwise, established by management, in order to secure, as far as possible, the accuracy and reliability of the records, run the business in an orderly manner and safeguard the company’s assets, its objective being the prevention or early detection of frauds and errors. It may include internal auditing.”

Bigg (1972) stated: “Internal Control is best regarded as indicating the whole system of controls, financial and otherwise, established by the management in the conduct of a business, including internal check, internal audit and other forms of control”.

According to Santocki (1972:12), “By internal control is meant not only internal check and internal audit but the whole system of controls, financial and otherwise, established by the management, in order to carry on the business of the company in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of its records”

In his own book, Millichamp (1987:96) defined internal control as: Internal Control System — the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness

and accuracy of the records. The individual components of an internal control system are known as 'controls' or internal controls"

Furthermore, the American Institute of Certified Public Accountants (1949:6) described internal control as: "the plan of organization and all of the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies".

In his own contribution, Nwoko (1997:10 & 11) viewed internal control as: "a system of controls, financial, administrative and otherwise, installed and maintained by internal management to achieve at least five major purposes:

- Safeguard the assets of the enterprise from all forms of misuse and error;
- Establish and maintain the accuracy and reliability of accounting data, information and records;
- Promote operational efficiency and effectiveness;
- Encourage orderly conduct of enterprise business; and
- Seek, encourage and obtain adherence to prescribed management policies and methods."

Broadly, therefore, internal control system consists of two distinct but inter-related parts:

- ❖ Financial (accounting) controls — identified as internal check, internal audit and other financial systems of controls; and
- ❖ Administrative controls — identified as 'otherwise' — i.e. other systems of controls in the definitions.

Financial (Accounting) Controls:

These consist of all accounting, financial and monetary control techniques and systems built into the internal control system to promote and encourage the attainment of the objectives of internal control. They are usually non administrative and often geared towards the achievement of quantitative objectives. Their impact on internal control system is more directly and positively noticeable than the impact of administrative controls. A lapse in them can result in a more immediate pecuniary disadvantage unlike a lapse in administrative controls which may take some time before being translated into quantities or before being exploited. For instance, loose cash control may result in immediate embezzlement or misappropriation of cash funds, while failure to go on annual vacation for a year or two, due to pressure of work, may not immediately result in misappropriation of corporate assets. Further, a loose and weak accounting or financial control is much more easily obvious than lapses in administrative controls. Again, as an example, it is much easier for an auditor or any

investigator to notice inadequate recording of stores, than it is for him to observe an excessive span of control in practice, even though both are indicators of weakness in the internal control system.

Accounting and financial controls would generally consist of:

- 1) A system of internal checks, counter checks and balances operating in a multiple effect and routine manner, installed and maintained to prevent or at least minimize errors and frauds. Internal check system is a distinct part of internal control. Its aim therefore is to ensure that the error or fraud is discovered and corrected soon after commission and before it becomes effective, through compulsory routine and unconscious counter — checks and balances.
- 2) Internal accounting and financial policies, procedures and regulations encompassing recording, safeguarding, reconciliations and valuations of transactions and assets. Management has a duty to lay down or adopt accounting policies and procedures, regarding, for instance, depreciation, stores requisition, custody and use of assets, etc, and they should be consistent. In fact, it should be noted that consistency is a good control measure, it improves efficiency.
- 3) Internal planning and budgetary control systems and procedures which are often formalized for ease of operation.

Control can be exerted through budgets. The constructive use of budget forces the organization to plan formally for profit. In profit oriented businesses, budgeting is strictly profit planning. Budgets must not be seen as mere estimates whose purpose and usefulness expire no sooner than they are drawn up. They must not be seen as something that may not necessarily be adhered to. Budgets express the degree of efficiency and effectiveness which management, putting all available resources to best use, intends to attain in pursuit of corporate goals.

Administrative Controls

Administrative controls consist of all non-accounting and non-financial systems and methods which are built into the system to promote the attainment of the objectives of internal control. They are often non-pecuniary in nature and their effects are usually non-quantifiable. It is a fact that qualitative factors can often have the most telling effect on result because of their intractable and non-committal nature. It is, therefore, true that the effectiveness and efficiency of an internal control system is doubtful as long as the administrative control system is weak.

Administrative controls essentially comprises of:

- ❖ The plan of the organization, appropriately designating authorities and responsibilities for financial and other matters, including matters of appraisal and rewards. This plan is often summarized into an organizational chart or diagram usually referred to as an organ gram, which provides a clear separation between operating, financial and accounting duties. For instance, the production manager

who is in charge of operations, would not normal be allowed to directly purchase materials for use or to have direct access to the market for sales, or even to the accounting records.

- Administrative control evaluations, appraisals and reward measures including promotion, recognition and commendation procedures and methods. Promotions and recognitions ought to be based on well defined and clearly understood criteria, as well as laid down principles and procedures. A good internal control system should build in control mechanisms for achieving such.

- ❖ Discipline and code of business ethics and conduct. It is of paramount importance that the worker or manager does not allow his private interest to conflict with that of the business. To this end, a detailed code of appropriate business ethics and conduct, complete with sanctions for violation, is often a part of the administrative control system.

- ❖ Rotation of duties, transfers and vacations. The administrative control system will usually allow for routine transfers and annual vacations, both to relieve the worker of fatigue and boredom and to allow for an independent check of his work in his absence.

- ❖ Education and training programmes, fidelity coverage for employees and officials. These also should form part of the system.

2.3 **OBJECTIVES OF INTERNAL CONTROL SYSTEM**

Internal Control System is usually established by the management in order to achieve the following objectives:

i) **To Carry On The Business In An Orderly Manner:**

The first condition for the success of any business organization is orderliness. This will involve:

- Having a defined procedure for carrying out every aspect of the Transactions
- Assigning specific powers and responsibilities to designated personnel.
- Clearly defining the lines of business in which the company may get involved.
- Reviewing the work done by controlling their performance sanctions if necessary.

ii) **To Promote Operational Efficiency:**

The controls within an organization are meant to prevent unnecessary duplication of effort and waste in all aspects of the business, and to discourage other inefficient use of resources.

iii) To Ensure Adherence To Prescribed Management Policies:

Management institutes procedures and rules to meet the goals of the company. The internal control system is meant to provide reasonable assurance that these are followed by company personnel.

iv) **To Safeguard the Assets**

It is an essential aspect of internal control to safeguard the assets of a company against loss or damage. The physical assets of a company can be stolen, misuse, or accidentally destroyed unless they are protected by adequate controls. The same is true of non-physical assets such as accounts receivables, important documents, and records.

v) To Secure The Accuracy and Reliability of Accounting Data, Information, And Records:

For any system of internal control to be worth the name, it must be capable of ensuring the accuracy and hence the reliability of the accounting and non accounting records. Most management decisions are based on information obtained from the records. The more accurate and reliable these records are, the better the decisions made by the management. To be reliable, these records must ensure the completeness, accuracy and validity of the transactions recorded therein.

vi) **Prevention Or Early Detection Of Frauds And Errors**

Internal control system has the primary objective of preventing frauds or errors. But since it cannot absolutely be ruled out that frauds and errors cannot occur even in the best systems of internal control, a good internal control system should be able to ensure that where errors and frauds take place, they are detected within a very short time. Again, it is expected that the effect of a good system of internal control is to reduce the incidence of errors and frauds.

2.4 FEATURES OF GOOD INTERNAL CONTROL SYSTEM

Nwoko (1997:21) stated, “while it may not be possible to have a ready-to-install internal control system suitable for all organizations, there are certain essential characteristics which a good internal control system must possess. Thus, the absence of some or all of these characteristics from an enterprise’s control system is sufficient indication that the internal control system is faulty. It is a sign of weakness in any business for the Internal Control mechanisms to revolve around any person — the owner or his representative in whose absence considerable lapses would abound. Control Mechanisms should not be built around persons, but around processes, procedures and methods of doing things.”

Broadly, therefore, any good system of internal control should have the following features or at least most of them. These features must be built in at the design stage in order to ensure the realization of Internal Control objectives.

a) Competent. Trustworthy Personnel

The most important condition for reliable Internal Controls is people who are competent and who act with good faith and integrity. In fact, it is the bedrock upon which any successful internal control system rests.

Nwoko (1997:22) opined, “sincere and honest personnel with integrity is, perhaps, the best internal check and control mechanism. Dishonest and negatively ingenious staff with dubious motives can beat any system, no matter how tight, while honest and disciplined staff will be less inclined to commit fraud”

b) Clear Definition of Functions

This can also be titled ‘plan of the organization’ as already seen in most other texts.

Nwoko (1997:23) said “clarity is a very important step towards accountability. Executives and workers should be made accountable for whatever actions they take for and on behalf of the enterprise. This will be facilitated and made possible when duties are clearly defined and assigned to specific officials who initiate and participate in them. Except this is done, it may be very difficult to attach responsibility to action.”

On his own, Anderson (1976:149) emphasized that a plan of the organization usually illustrated by an organizational chart should define and allocate responsibility and also identify lines of authority.

It is important to emphasize too, that the assignment of duties within an organization cannot by itself assure that the duties are actually performed as prescribed. It is therefore important that provisions be made in the designing of organizational structures to guide against the tendencies among people to circumvent prescribed controls and do things their own way. Management must view seriously, responsibility for actions and stipulated procedures. Otherwise management would undermine itself.

C **Adequate Segregation of Duties**

Fundamental to all systems of internal control is the segregation of all incompatible functions. The basic underlying idea is that there exist within all enterprises, certain functions which if combined under the control of one person would increase the temptation to perpetrate and/or conceal errors and irregularities in the course of his duty. Mautz and Schlosser (1975:45) stressed that, from a control point of view, such functions should be regarded as being incompatible and as such, they must be separated.

Segregation of duties is a situation where multiple checks are built into a system. No single official should initiate an action, and carry it through the negotiation, implementation, and recording stages alone. Various stages of the transaction should be broken down in such a way that a different official is charged with each stage, so that the work of one is routinely checked by another. This segregation of work should be done in such a careful way that no one

individual is in charge of related tasks, for example, requisitioning, approving, ordering, receiving, inspecting, custody, paying, and recording.

Howard (1982:23) identified four functions which need separation. These are authorization, execution, custody, and recording.

In fact, four general types of segregation of duties for the prevention of both intentional and unintentional errors are of special significance:

- ❖ Segregation of operational responsibility from financial record-keeping responsibility;
- ❖ Segregation of the custody of assets from accounting for these assets;
- ❖ Segregation of the authorization of transactions from the custody of related assets;
- ❖ Segregation of duties within the accounting function.

In their own contribution, Dupree and Marder (1984:421) said, “Proper separation of duties reduce the likelihood of wrong doing by employees and increases the probability that wrongful acts that do occur will be discovered.”

In the words of Nwoko (1997:24) “Proper separation of duties, for instance, would make the work of one individual incomplete without that of another, affording a routine and automatic check. It will be a sign of weak internal control system for the cashier, who lodges monies with the bank, or the clerk in charge of the cash book, to be assigned the duty of reconciling the cashbook and the bank statement at the end of

the period. A better check would be to ask somebody performing tasks unrelated to cash or bank to perform this task, in order to afford a reasonable check”

d) Proper Authorization of Transactions

Every transaction in an enterprise must be properly authorized if control is to be satisfactory. Authorization means approval for the commencement of action. Proper authorization implies that the designated official for the granting of the required approval, and who would normally be held accountable for the transaction, is the one to grant the approval.

Authorization should be distinguished from approval. Approval is concurrence that the conditions required by the authorization have been met. Authorization may be general, whereby management authorizes certain transactions to be processed with no other authorization; or specific, usually required for non-regular transactions. It is also required for any deviation from generally accepted procedures, or to carry out some specific assignments. Specific authorization lapses after the transaction is concluded.

Anderson (1976:161) agreed fully that authorization may be general or specific. The delegation of authority from shareholders of an enterprise to the Board of Directors constitute a form of general authorization. Within the management structure, general authorization usually takes the form of policy statements or directives such as authority to fix interest rates, acquire capital assets, or hire employees. In contrast to this, specific authorization is concerned with individual transactions, the particular condition of these transactions and the

parties involved. Where specific authorizations are issued, such is made by persons or officials acting within the scope of their general authority.

Finally, authorization needs to be strict, but never stifling and time wasting, otherwise, such delays may result in wasted opportunities and loss of profit.

e) **Adequate Documents and Records**

Documents and records include such diverse items as invoice and order forms, accounting books, time cards, and EDP disks, tapes and punched cards. The documents of original entry and the records in which transactions are entered must be adequate to identify and trace transactions from initiation to completion, and should provide evidence of controls performed during the processing of the transactions through the accounting systems.

Adequate recording and storage of records and facilities are an indispensable part of a good internal control system. Records serve to:

- ❖ Provide enough prima-facie evidence or even proof of the details of an action, from initiation to completion,
- ❖ Document information and data; thus easing the planning and decision making process;
- ❖ Minimize unnecessary arguments and disputations regarding the processes and details of a transaction;
- ❖ Provide a good basis for corrective actions;
- ❖ Enable the recollection of relevant past events, etc.

Recording documents should be controlled in such a way as to make errors and frauds as difficult as possible. Documents should bear secret security marks to make forgery more easily detectable. They should be serially numbered and held under authority for accountability purposes.

f) **Proper Procedures for Record Keeping**

To ensure proper record keeping there must be efficient procedures. One way of doing this is to prepare a procedures manual which specifies the correct procedure and sequencing for each routine transaction in the enterprise, complete from initiation through to correct documentation. A good internal control system should not be lax about enforcing the procedures it lays down. The internal audit unit should continually monitor the procedures, advising management on possible improvements in the procedures to promote efficiency and reporting on violations in the handling of transactions or procedural defects.

g) **Physical Control Over Assets and Records**

The need to protect assets against waste and theft has been identified as a basic reason for setting up an internal control system. Physical precautions, such as the use of store rooms, should be used for safeguarding all assets and records of the organization. Physical control will also include periodic count or measurement of assets and the comparison of such counts or measurement with records. These records also need physical protection.

Commenting on this, Nwoko (1997:31-32) said, “Book records are important for the sake of documentation and reference, but they represent no conclusive evidence that the assets exist exactly as they are recorded. The physical assets may have deteriorated and wasted. They may have been stolen. Yet the book records would not automatically re-adjust their values to agree with changes in the value of the assets. It becomes necessary that in addition to providing “Paper” or “documentary” security, the assets must also be physically guarded and protected to reduce or prevent pilferage and tampering.

Materials must be stored in a safe environment. Temperature should be conducive for those assets subject to temperature changes. Special racks, bins and protective storage equipment should be provided to reduce access to assets by inclement weather and unauthorized persons.

Security safes, locks and guards which generally minimize unnecessary access to assets are important. Documents and important agreements ought to be protected in fire-proof safes or with institutions offering such safety services.

There should be regular, periodic physical reviews by independent staff cross-checking with book records to ensure that asset values agree with both physical and book values”

h) **Careful Selection and Training of Employees**

Employees should be carefully selected and trained. No one can under rate the importance of training the employee adequately in the organization’s procedures. It is equally important that employees are

given duties and responsibilities commensurate with their ability, experience, and interest if they are expected to work efficiently. This goal is often achievable through training which unfortunately many employers tend to ignore. A few writers have actually expressed dismay over this negligence. For instance, Horngren (1977:650) noted that many employers use low cost talents that may prove exceedingly expensive in the long run not only from the point of view of fraud, but also from the point of view of productivity.

i) Rotation of Duties

Rotation of duties within an organization, where it is possible, is a good practice and as such should be encouraged. It helps staff to acquire necessary experiences on the various aspects of the work.

Nwoko (1997:33-34) noted thus: "When a member of staff overstays in a position, this provides him with avenues for short-cuts to side-track policies and actually perpetrate frauds and errors. A lot of fraud is committed by officials who, due to longevity in one office, develop the technique to 'milk' the organization while covering up their tracks. Usually, they refuse to go on annual leave from year to year, pointing to heavy work schedules as an alibi.

To counter this, regular rotation of staff is a good administrative control. Rotation ensures that one does not stay in an office long enough to develop the ability and confidence to defraud the enterprise and escape detection. The direction of the rotation should not follow a predictable pattern so as to avoid collusion and cover-ups. Rotation should be done whenever possible, especially

where the job does not require the possession of special skill or training but merely the acquisition of experience on the job. General management functions and some junior establishment duties lend themselves more readily to such rotations. However, the rotation should not be too frequent and reckless. This, in itself can undermine the internal control system by defeating the acquisition of necessary experience through learning and practice.”

j) **Independent Checks on Performance**

Adequate instruction, however, will not in itself ensure good performance. The work of the employee must be carefully reviewed to determine that procedures are being followed and, if not, the causes must be promptly determined and corrective measures taken. This review should apply to all levels of responsibility, and may be conducted by a variety of methods:

- ❖ By other employees, where the work of two or more employees is complementary and the work of one provides a check on the accuracy of the other.
- ❖ Review on the part of the supervisors or department heads of the operation of their subordinates.
- ❖ A well devised system of reports to management, which, when properly prepared and analyzed, would indicate weaknesses in the chain of responsibility.

- ❖ Utilization of special control devices such as standard costs, a system of budgetary controls, or an internal audit staff, and, at the production level, time and motion studies and quality standards.

Contributing to this, Millichamp (1987:99) said, “All actions by all levels of staff should be supervised. The responsibility for supervision should be clearly laid down and communicated to the person being supervised.”

Attwood and Depaula (1982:73) have this to say, “An important feature of effective internal control is that directors should review the company’s financial operations and position at regular and frequent intervals by means of interim accounts and reports, operating summaries, and other appropriate financial and statistical information.”

The need for a system of independent checks arises for the following reasons:

- i) A system tends to change over time unless there is a mechanism for frequent review. People may forget procedures, become careless, or intentionally fail to follow them unless their performance is checked.
- ii) Both fraudulent and unintentional errors are always possible, regardless of the quality of the controls.

iii) There is a need to compare records with assets periodically in order to check the controls for safeguarding the assets and to determine the existence of possible unrecorded or improperly recorded transactions.

k) Adequate Remuneration

in his book, Nwoko (1997:36) commented, " Staff must be properly remunerated, otherwise they can puncture even the most well knit internal control system. When staff are paid less than a subsistence wage, they are pushed into stealing company assets or time to try to make ends meet. A good internal control system will pay staff an above subsistence level wage. A social wage which enables staff compare with their peers and meet their family and social obligations is preferable.

Also, maintenance of competitive and rewarding workmen compensation scheme will enable an average staff live above poverty line and shun temptations to defraud his/her employer.

i) Bonding

Bonding is not a particularly distinct part of the internal control system but it has been found useful and consequently applied in some organizations. Bonding is the act of taking out insurance covers against embezzlement by staff. One way of doing it is ask the employee to bring a surety to guarantee him up to a certain amount of money.

Holmes (1958:81) views bonding as protecting device to the employer, and that it serves as a psychological deterrent to tempted employee. Supporting this view, Settlers (1957:39) has this to say, "Bonding offers the following three way protection:

- i) Each employee to be bonded is carefully investigated by the bonding company, giving assurance that the employee's past records and overall honesty are above reproach.
- ii) Bonding places an additional pressure on the employee to remain honest; and
- iii) The business is protected if an employee submits to temptation and embezzles company funds." Commenting on this still,. The American Institute of Certified Public Accountants (1949:15) results from a sound policy of fidelity bond coverage is the fact that underwriters almost invariable investigate the past records of employees to be bonded. These investigations on occasion will develop information which has not been disclosed by inquiries of the personnel department."

2.5 **THE IMPROTANCE OF INTERNAL CONTROL SYSTEM**

Internal controls are important both to the clients and their auditors. The client uses internal controls to achieve the objectives stated in the definitions of internal control system which are clearly outlined and explained in 2.3 above. Auditors rely on the client's internal controls where possible so that they can reduce the amount of audit procedures, which would otherwise be necessary, in some cases, this is the only practical way of performing the audit; in others it provides the benefit of greater efficiency in an audit. Furthermore, auditors rely upon internal controls to satisfy themselves that all transactions are recorded in a client's books.

Although auditors will not always be able, or even choose, to rely upon internal controls for the purposes of their audit, it is unlikely that a client's operations, however small, could function without some internal controls.

2.6 **INTERNAL CONTROL AND MANAGEMENT**

2.61 **Design And Installation Of The System**

It may be necessary to ask, who takes the responsibility for the installation and maintenance of a system of internal control within an organization? Is it the responsibility of the external auditor or the management of the organization? Quite a good number of, if not all, writers have unanimously agreed, as could be evidenced from the various definitions of internal control system, that it is the sole responsibility and function of management. "it is the responsibility of

management to decide the extent of the internal control and extent of controls will vary between enterprises and also from one part of an enterprise to another.” (Howard: 1982:25) Holmes: 1958:80.

Management is therefore responsible for installing and maintaining the system of internal control. The system of internal control installed should be appropriate to the internal control installed should be appropriate to the enterprise. As has already been stated in this study, there can be no ready-made internal control system designed to suit all organizations. Each organization has its own peculiarities. The individual organizational set-up and peculiarities must be taken into consideration at the design stage of the internal control system. Management should ensure that the cost of installing any control does not exceed the benefits to be derived from it.

Nwoko (1997:40) said, “The cost-benefit values of the particular system should be properly assessed. The aim proper discharge of management’s total responsibility as to require that management be prepared to demonstrate the steps taken to attain it. A chart of accounts testifies to the adequacy of a plan of accounts, and a properly prepared procedures manual provides a standard with which the actual procedures in use may be compared to detect departures which may afford opportunities for irregularities whether fraudulently conceived or otherwise. Detailed description in a procedures manual may be greatly simplified if management will develop and utilize a visual plan of organization and of the flow of transactions. Wholly apart from the day-to-day contribution which they make to good management, soundly conceived charts of accounts, well written and complete manuals of accounting policies and procedures, and organization and

flow charts obviously greatly facilitate the public accountant's review of internal control and, by their orderliness, contribute materially to a higher quality of review."

2.6.2 **Operation Of The System**

The responsibility of management does not end with the installation of control procedures initially deemed necessary. A system of internal control must be operated to achieve all the objectives of the system. Aside from the design/installation, the operation of a system, is, perhaps, the major determinant of its success or failure. While the design/installation calls for expertise, the operation/implementation calls for dedication and commitment.

To obtain expected results, there must be a code of conduct and ethics which would be strictly adhered to. It is essential that such code be accompanied by strict disciplinary measures. For a smooth operation of an internal control system, there is the need to inculcate a business culture oriented to profit-making, into both management and staff. One easy way to do this is to ensure proper separation between ownership and control. Undue interference by the owners in management functions should not be encouraged because it would undermine control and reduce the chances of making satisfactory profit. Also, the smooth operation of the internal control system would be enhanced by the selection, from the start, of a management staff that is a professional.

2.6.3 Performance Evaluation And Monitoring Of The System

The responsibility of management extends to performance evaluation and monitoring, and these are the functions of the Internal Audit.

Nwoko (1997:42) noted that a well designed internal control system, operated with dedication and commitment can still mal-function. The system may not be perfect in design and operation, as it is unlikely to be. It becomes necessary then that a mechanism for performance continuously appraise it and check for unsatisfactory results.

Also, The American Institute of Certified Public Accountants (1949:18) pointed out thus: "A system of internal control must be under constant surveillance to determine:

- i) that prescribed policies are being interpreted properly and are being carried out,
- ii) that changes in operating conditions have not made the procedures cumbersome, obsolete or inadequate, and
- iii) that where breakdowns in the system appear, effective corrective measures are taken promptly. Any system, regardless of its fundamental soundness, will deteriorate rapidly if not reviewed periodically. Laxity becomes contagious and, if permitted to spread, will soon render any measures of control useless."

It is, therefore, the responsibility of the management to review the system of internal control on a continuous basis so that they can have reasonable assurance that the enterprise is efficient and effective.

It must be recognized that the purpose of discussing internal control within an auditing context is to reflect on the importance of a control system to an external auditor in the course of an audit work. Therefore, an audit does not relieve management of its responsibilities and can never be considered as a substitute for an adequate system of internal control. Perhaps, this was why Woolf (1979:62) commented that the responsibility of management with regard to internal control is paramount and is based upon statutory requirements as derived from the principles of stewardship. He opined that the presence of the auditor should never 'lure management into an attitude of complacency'.

26.3.1 **Internal Audit**

It has been pointed out that performance Evaluation and Monitoring are the functions of Internal Audit. Therefore, a discussion on Internal Audit is desirable.

2.6.3.2 **Definition Of Internal Audit**

Meigs (1980) described internal audit as: "An independent appraisal activity within an organization for the review of accounting, financial and other operations as a basis of service to management. It is a managerial control, which functions by measuring and evaluating the effectiveness of other controls."

In his own view, Santocki (1972:10) defined internal audit as: "A review of operations and records, sometimes continuous, undertaken

within a business by specially assigned staff. The scope and objective of the internal audit vary widely in different business. On accounting matters the main objective of an internal audit is to assure management that the internal check and the accounting systems are effective in design and operation.”

Furthermore, Stettler (1967:65) viewed internal audit as: “Independent appraisal activity within an organization for the reviews of accounting, financial and other operations as a basis of service to management. It is managerial control, which functions by measuring and evaluating the effectiveness of other controls.”

The overall objective of internal audit is to assist all members of management in the effective discharge of their responsibilities by furnishing them with the objective analysis, appraisals, recommendations and pertinent comments concerning the activities reviewed.

The main features in all these definitions are as follows:

- i) Internal audit as well as internal check are the responsibility of the management, and not of the external auditor;

- ii) The scope of duties of an internal auditor is generally understood, but it can be extended or limited by the management; internal auditors

are both appointed to and responsible to the management of the company;

- iii) The method of work is normally continuous; as employees of the company, they check and report on the work done by other employees of the company.

A good internal audit should be installed so that there could be careful and continuous review of all the elements of internal control system. To be incorporated in the internal audit function is internal check. According to Vickery (1983:702) internal check denotes, “the systematic organization of clerical duties and routine procedures in such a way as to ensure that fraud and irregularities are impossible without collusion, and that innocent mistakes are detected and corrected at an early stage.”

Furthermore, Santocki (1972:8) opined, “By internal check is meant the checks on day-to-day transaction which operate continuously as part of the routine system whereby the work of one person is proved independently or is complementary to the work of another, the object being the prevention or early detection of errors or frauds.”

2.6.3.3 Functions of the Internal Audit

As a basis of service to management and as a managerial control, internal audit performs the following functions:

- ❖ To review the data and various management information made available to management for decision making.
- ❖ To review on a continuous basis the system of internal control within the organization for adequacy to report and recommend to the management any required amendment.
- ❖ To carry out on a continuous basis a review of the transactions of the organization for compliance with the established procedures.
- ❖ To carry out special investigations on the specific aspects of the business as may be directed by the management or the audit committee.
- ❖ To provide technical support and know how to management for the establishment, implementation and improvement in the system of internal control.

It should be noted that it is not the duty of the internal auditor to establish the system of internal control. This remains the duty of management. However, being skilled in accounting and auditing and being part of the management team, the internal auditor is expected to make substantial contributions in setting up a good system of internal control.

2.7 **INTERNAL CONTROL AND THE AUDITOR**

While the primary responsibility for the establishment and enforcement of internal control measures rest with management, the degree to which such measures exist and are carried out is of great concern to the external auditor.

It is the duty of the independent auditor to review the system of internal check and accounting control so as to determine the extent to which he considers that he is entitled to rely upon it. To exhaust the possibility of exposure of all cases of dishonesty or fraud, the independent auditor would have to examine in detail all transactions. It takes an experienced systems auditor to recognize potential weaknesses and assess the extent to which the basic controls are adequate. More also, even when this is done, the auditor must recognize inevitable limitations on the extent of internal control in at least some areas of every undertaking: as the Auditing Guideline on Internal Controls says, ‘management is frequently in a position to override controls which it has itself set up, and, any system of internal control is always subject to the possibility of human error.’”

The degree of internal control in the client’s system will affect the auditor’s examination in terms of:

- i) The selection of audit procedures to be utilized in the particular engagement.
- ii) The timing of the application of the procedures that is, whether they are applied on a preliminary basis before the date of the financial statements or are applied after the statement date.
- iii) The amount of testing that is necessary to support the auditor’s opinion of the financial statements.

It is worthy of repetition that the extent of sampling and g should be based upon the independent auditor's judgment as to the effectiveness of internal control, arrived at a result of investigation, tests and inquiries. Depending his conclusions in this respect, the independent auditor conclusion extend or may restrict the degree of detailed examination.

2.7.1 System Of Internal Control

The auditor's review of the system of internal control service two purposes: first, it enables him to formulate an opinion as to the reliance he may place on the system to the id that, by adjusting his audit procedures accordingly, he express an opinion as to the fairness of management's financial statements, and secondly, where the review indicates apparent weaknesses, recommendations for corrective measures may be conveyed to management. This secondary aspect of his review frequently enables the auditor to render broader services than those generally associated with his capacity as an independent reporter to stockholders upon management's conduct of stewardship responsibilities. His aid to management in attaining more efficient operation can and should be an equally important function. Determining the effectiveness of the organizational plan, division of responsibilities, and such special control procedures as budgetary controls, reports, analyses, and cost systems are

among the areas which the independent auditor should cover in his review. It is not anticipated that the independent auditor will be able to review all the control procedures within the course of any one audit. The review may very well be so arranged as to entail complete coverage

over a period of several years. However, the review of those controls which relate directly to the accounting record should, if practicable, be conducted each year.

Where feasible, the auditor's review of internal control may be conducted as a separate phase of the examination, preferably at an interim date, by applying appropriate auditing procedures directed particularly to appraising the effectiveness of the client's system. Where this is not feasible, the review will usually be done in conjunction with other phases of the audit program, such program to be subject to either limitation or expansion depending upon the degree of internal control present as evidenced by the tests made. On completion of the review, a documentary record- systems descriptions-in some suitable form shall be prepared.

When the system of internal control is found to be unsatisfactory in some respects, the auditor should advise his client of such observed weaknesses in internal control so that the client may take what action he thinks is appropriate. Where the observed weaknesses in internal control have resulted in the extension of audit procedures beyond the scope which otherwise would have been necessary, the client should be advised that the correction of those weaknesses would make it possible for the auditor to reduce the scope of his work.

2.7.1.1 **Systems Descriptions**

In their book, Attwood and Depaula (1982) stated: "It has already been explained that the basic approach of modern auditing

procedures is founded upon 'systems auditing' designed to achieve its audit objectives by the examination, evaluation and testing of the client's accounting procedures so that the auditor can assess the degree to which he considers it safe to rely on the accuracy of the figures produced to him."

The systems descriptions do not necessarily have to be prepared by the audit staff. If the client's staff has the skills to prepare them in the form and with the content which auditors need, then they can obtain them from the client for their files.

2.7.1.2 **Form Of Systems Descriptions**

Most systems descriptions will be in flowchart form. Only rarely will it be more useful to have narrative systems descriptions.

Flowcharts:

According to Attwood and Depaula (1982), "A flowchart

is a method of representing systems graphically by showing:

- a) A record of documents in existence and their movements.
- b) A record of the operations performed and their sequence.
- c) A record of check procedures built into internal control system, at which stage these are performed, and by whom.
- d) How staff duties are segregated.
- e) How accounting procedures relate to other facets of the business."

Flowcharts probably represent the most satisfactory method of recording important accounting systems, consistent with a disciplined approach to systems audit.

Before beginning to flowchart any system in detail, auditors' should obtain a general idea of the system and the nature of the transactions they will be dealing with. Auditors source of information will include:

- a) Prior year's working paper.
- b) Auditor's knowledge of the business review and their identification of material transaction types.
- c) Manual on accounting policies and procedures.
- d) Interviews with senior accounting officials, the people responsible for the various systems, and with the internal auditors. On recurring audits, auditor should also consider the following questions:

- a) Which of the auditor's recommendations from the previous year did the client adopt, when, and what were the effects?
- b) Which recommendations did the client not adopt and why?
- c) Has the client introduced any other changes in the accounting system since the auditor's last audit?
- d. Does the client plan any changes in the accounting system during the current period (for example, the introduction of a computer?)

- e) If the auditor gave the client copies of his prior year's flowcharts, have these been updated?
- f) Are there any matters to which client would like auditor to pay particular attention this year?

Advantages In Flowcharting:

Flowcharts provide the following advantages:

- i) Essential information is provided at a glance or in considerably less time than would be possible with narrative description.
- ii) Weaknesses and superfluous information are discovered more readily. Unnecessary documentation is also exposed.
- iii) Clients are more likely to understand any weakness in a system by means of flowcharts than by internal control questionnaires

7.1.3 Obtaining Detailed Systems Information

Detailed information on the systems should be obtained from the client's procedural manuals or other written instructions, through interviews and informal discussions with the employees who perform the different functions, in the systems, and through observations of the systems and data processing facilities at work. Formal interviews are generally conducted on all engagements.

2.8 INTERNAL CONTROL IN COMPUTERISED ORGANISATIONS

The speed with which business decisions must be made given the competitive nature of modern business, places enormous pressure on management to seek better ways of improving the quality of information and its time of preparation. The computer, more than any other device has been able to meet this need. In recognition of the enormous importance of the computer in modern data processing, Gray and Johnson (1973:32) commented, "The large volume of data and its numerous combinations frequently make computer based processing systems the only means of producing reports in an efficient and timely fashion."

However, every benefit has its own price. Woolf (1986:197) cautioned that inspite of the computer's vast potentials for producing information both in terms of volume and speed, its potentials as a vehicle of manipulation and fraud could equally be great. Apart from the question of fraud, the dependence on the machine for the production of vital information means that if things go wrong, they must likely would go wrong on a truly large scale. It becomes very essential therefore, that the inter-related issues of data integrity and security be given careful consideration in the design and use of business computer systems. There is a great need to control the storage, retrieving and reproduction elements involved in data processing within a computerized environment, if negative effects and consequences associated with theft, fraud and accidental or malicious destruction are to be avoided. Obviously then, the importance of internal control within a computerized environment cannot be over-stressed. The

introduction of computers in the operations of an organization will often require a re-examination of the control procedures existing, especially as it affects a very important element of control — the segregation of duties. The reason for this is not difficult to locate. In non-computerized systems, data processing operation is typically separated between employees involved. For instance, initiation of orders is separated from authorization and these two are further separated from recording. The arrangement ensures that a group is able to check on the accuracy of the work of the other in the course of its operation and in the absence of collusion, an arrangement like this can effectively prevent fraudulent practices. In computerized systems however (especially real time systems), a consolidation of some of these processing steps is frequently noticed. With fewer departments involved and the likelihood of fewer people cross-checking data items, the use of computers often appear to reduce internal control considerably in such organizations. When the reduction occurs in an adequately controlled environment, the following related results can be produced:

- i) Knowledgeable employees can steal data or programmes, using them to support an on-going fraud or embezzlement. No doubt, this represents a clear example of failure to safeguard assets.
- ii) Failure to maintain data integrity. The integrity of data refers to the protection of data against invalid alteration. Because more and more routine business decisions are based on information stored within a computer system, management has to rely more on accuracy and completeness of input data going into the computer system. It implies that where the integrity of input data is questionable, or more precisely tampered with, inaccurate business

decisions would be made. We must not forget the fact that computerization itself entails that transactions that were formerly recorded on ledger cards are being translated into invisible magnetic impulse on a computer memory. As noted by Perry and Cooke (1984:67) the result of all these changes is that greater dependence is made on operations of the data processing department of an organization for the running of the business of the organization and for the production of reliable financial information. No doubt, this development calls for an adequate system of internal control.

2.9 LIMITATIONS OF INTERNAL CONTROLS

As important as internal controls are to an organization, none of such a system is one hundred percent reliable. Therefore, in considering the potential effectiveness of these systems, it is important to take cognizance of certain inherent limitations in them. No foolproof system of internal control has yet been devised and it is doubtful if any will ever be devised.

In the performance of any procedure, errors often result from misunderstanding of instructions. Besides, error of judgment, carelessness, or other personal factors such as distraction or fatigue can all contribute to undermine the effectiveness of any system of internal control.

Talking about fraud, no one can assure that realistic internal controls will completely remove fraudulent conducts within an

organization even though the possibilities of their occurrence can be reduced materially. As pointed out by Corns (1968:898), defalcations and embezzlements cannot be wholly prevented as long as we are dealing with people. However, their frequencies can be held to a minimum “through the establishment of routines and procedures known as internal controls.” What is noteworthy here is that frauds are definite possibilities in any organization and that a system of internal control does not guarantee their nonoccurrence. Horngren (1977:649) made a very interesting submission on this issue. According to him, “the task is not total prevention of fraud nor is it implementation of operating perfection, rather, the task is the designing of a cost effective tool that could help achieve efficient operations and reduce temptations.”

The issue of cost is often advanced as a limitation for establishing a very effective system of internal control. Belvis (1955:48) indicated that within any organization, a complete control of all details will rarely be found, because the cost of safeguarding certain transactions would be greater than the losses to be expected. Increased cost of additional scrutinizing might, for instance, not be worthwhile when compared with the expected savings to be derived from frustrating fraudsters or from unintentional mistakes. A general tendency is that an internal control measure will be adopted in the light of expected benefits which, invariably are projected to exceed the costs. However, Dupree and Marders (1984:433) were of the view that since potential benefits are often

difficult to pin down, decisions necessary have to be based on subjective judgment regarding the net benefit to be so derived.

More specifically, control procedures whose effectiveness depends upon segregation of incompatible duties can be circumvented by collusion. The best laid system of internal control can be upset by this action. If determined, management can override prescribed controls — often manifested in the form of execution and recording of transactions, or in the form of inaccurate estimates and judgment required in the preparation of financial statements. Moreover, the competence and integrity of operating personnel may be altered by pressures exerted both within and outside the organization. It becomes very clear therefore, that no framework for internal control is perfect.

The whole point was summed up in the Auditing

Guideline on Internal Control (1 960:112) as follows:

“No internal control system however elaborate can by itself guarantee efficient administration, and the completeness and accuracy of the records, nor can it be proof against fraudulent collusion, especially on the part of those holding position of authority or trust.

In spite of all these limitations, the importance of internal control with respect to quality management: detection and prevention of fraud can really not be swept aside. The possibility of collusion between dishonest employees stands out as a major set back for internal control system. However, we must realize that an employee who participates in a collusive fraud is always at the mercy of his co-conspirator. This on its own is a powerful disincentive for

indulging in fraud by collusion. It is reasonable to conclude that far more incidence of frauds, irregularities, embezzlements or misappropriation of

funds/assets, mismanagement or poor management would have been recorded in organizations if internal controls were not in place.

2.10 **FOUNDATION**

It has been pointed out at the background of this study that everything in this present world has a foundation and it determines, to a great extent, the strength, durability, quality and success, or otherwise, of that very thing.

Chambers (1981:514) defined foundation as: “Act of founding: the base of a building; the groundwork or basis.”

From this definition, it could clearly be said that foundation is the ‘basis’ of something. For instance, ‘Internal Control System is the foundation of quality management’

2.11 **QUALITY**

According to Hornby (1974:685) quality is defined as: a, especially high degree, of) goodness or worth; something that is special in, or that distinguishes, a person or thing.

Therefore, when we talk of quality management, we talking of a distinguished management of high degree of or worth. In fact, this is the type that a good internal control system will help to ensure.

2.12 CONCEPT OF MANAGEMENT

Management is one of the most important human activities that permeates all organizations. Every organization whether public enterprises, private enterprises, churches, schools, even an entire household requires good management to function effectively. Organizations which do not realize their objectives often turn to blame the quality and standards of management. As important as this concept may be, one is tempted to ask: what is management? In this regard, many definitions have been posited. Harris (1968:215) quoting the American Institute of Management (1959:227) defined management thus;

It is used to designate either a group of functions or the personnel who carry them out, to describe either an organization's official hierarchy or the activities of man who compose it, to provide autonomy to either labour or ownership. This definition though explicit but concentrated more on the description rather than on the dynamics of management. Eminent scholars have equally attempted at defining the concept of management, notable among them are Taylor (1911:150), Gullick (1937:44), Allen (1958:52), Drucker (1967:346), Koontz et al (1984:22), Akpala (1990:3), and a host of others.

Allen (1958:52) defines management as "a means of co-operation, and coordination" Management is conceived as cooperation and coordination of activities which will eventually lead to the attainment of goals. If management is conceived in such terms then how is attainment of goals coordinated? Management is not a static concept. It is a social system.

Keeling (1972:117) defines management as being concerned with the achievement of objectives. This definition points out the most crucial element in management such as achievement of objectives. But it failed to tell us the nature the process of management.

Terry (1968:3) defines it as “a distinct process of planning, organizing, activating and controlling performance to determining, accomplishing the objectives by use of people and materials resources” Management is a series of actions by a leader who has human and materials under him for the purpose of achieving some goals. George Terry further comments that without effective management, no enterprise can accomplish its goals.

Nwachukwu (1988:71) defines it in a simplified manner as “the coordinating of all resources of an organization through the process of planning, organizing, directing and controlling in order to attain organizational objectives.” On his own view, Akpala (1990:3) defines it as “the process of combining and utilizing, or of allocating an organization’s inputs (men, materials and money) by planning, organizing, directing and controlling for the purpose of producing outputs (goods and services or whatever the objects are) desired by consumers so that the organizational objectives are accomplished. In the process, work is performed with and through organization personnel in an ever changing organizational environment.”

Another definition which brings out the nature of management was the one given in Fulton report on the British Civil Service (1968:72). It stated that, management, as we understand it consists of the policy of the enterprise. This can be seen as a continuum ranging from first line supervision through the financial or material have to be deployed in the manner best calculated to achieve particular objectives which contribute to the overall policy objectives formulated by the boards.”

It is the view of the researcher that the concept of management should be seen as a process involving the search for the best use of personnel, materials and financial resources, as well as establishing and maintaining controls (financial, and otherwise) and policies in order to carry on the business of the enterprise in an orderly and efficient manner to safeguard its assets and secure as far as possible the completeness and accuracy of the records, all in the pursuit of the organizational goals.

2.13 FRAUD

The incidence of fraud (whether it is titled embezzlement, misappropriation of funds/assets, irregularity, etc) has so increased these days that almost all the facets of the economy have been infested by this dreadful social vice.

What constitutes fraud tends to mean different things to different people. However, a number of definitions have been advanced by various writers.

Bennet (1960:5) defined fraud as “all acts dishonest or deceitful, the object of which is to deprive some people or corporations of property without knowledge or consent of the owner.” Elliot and Willingham (1980:4) viewed it as “an intentional act designed to deceive or mislead another party.” Aguola (1998:186) in his own view defined fraud as “the intentional distortion of the financial statements to secure particular advantages such as the misappropriation of assets. The term fraud is used when it refers to irregularities involving the criminal deception to obtain an illegal or unjust advantage. Fraud (irregularities) can take place in one of two forms:

- defalcations;
- manipulations’

Sander (1980:371) on his part sees fraud as “the intentional misrepresentation of the truth to deceive the owner.” He further stressed this definition with the remark that if an employee, for instance, steals and disguises the theft, this constitutes fraud. Leigh (1982:7) however held divergent view especially in relation to the view point expressed by Sander. He is of the opinion that an element of deception need not be proved for fraud to exist. To him, fraud can consist of depriving a person of what is his by any other dishonest means, including simple taking.”

A good number of other writers have also expressed varying views as to what constitutes fraud. While some brought such related crimes as embezzlement under the ambit of fraud, others did not. What is noticed is that fraud tends to vary according to the context in which it is used. Nevertheless, a view common to all the definitions is that necessarily have to become an essential ingredient in fraud, meaning that whatever

is done has to be disguised used in such a way that it appears to be regular.

One legal definition given by Black (1968:789) is that is “a generic term, embracing all multifarious means which ingenuity can devise and which are resorted to by one individual to get advantage over another by false suggestion by suppression of the truth, and includes all surprises, cunning, dissembling and any unfair way by which any person is cheated.”

From Black’s definition, it becomes clear that fraud compasses a wide range of acts and indeed quite extensive.

It is not surprising therefore, that accounting profession this definition too general to be used in describing proper acts relating to business entities. Often, accountants resort to the use of the term “irregularities.” indeed, to them, fraud exist within the framework of this term. Draft Auditing Guideline (1985) defined irregularities and 1 as follows:

“The word “irregularities” is used to refer to intentional distortion of financial statements and accounting records, for whatever purpose, and misappropriation of assets whether or not accompanied by distortion of financial statements and accounting records.”

2,13. Factors Responsible For Increase Of Fraud

In order to control fraud, one must be familiar with the “why of fraud.” As rightly pointed out by Steward (1969:44) crimes are best controlled by first understanding their causes.

A number of researches seem to have been conducted into this area, and many writers tend to agree on certain outcomes of these various research works.

Ekechi (1990), opined that the causes of frauds can be attributed to:

- Social and economic conditions;
- Misplaced social values;
- Insufficient internal control system; and
- Lack of corporate culture against fraud.

According to him, social and economic conditions may include unemployment, prevalent poverty, etc. Misplaced values have to do with worshipping wealth no matter how it was acquired. Inadequate internal control systems may result from sluggish and inefficient management, inappropriate recruitment that pushes aside open and aggressive recruitment, favoritisms in employing top managers and officers.

To Anderson (1981 :58), the motivation that plants the seed of crime in people may spring from the following sources:

- i) Problems which according to the wrong doer are unsharable (family, pressure, speculation, inadequate income or extravagant living standard).
- ii) Psychological needs such as an intense desire to succeed.
- iii) A criminal tendency within the individual wrong doer, which implies that if he finds it difficult to appease this desire through the perpetration of fraud, he will most probably, turn to other forms of crime.

If an employee steals to hide himself over some “unsharable” problems, within himself, he rationalizes this act by assuring himself that what has been stolen will be returned after the problem has been solved. Spraque (1965:34) noted that, in some cases, this intention to make restitution may be quite genuine, at least in the beginning, but certainly, and in most cases, such restitutions are never made before the act is discovered.

Another dimension to fraud was introduced by Woolf (1973:49). This is that the intention to commit fraud often arise after an employee has made genuine mistakes, finds out that such was not discovered by others and so, he is tempted to repeat it again, this time to his advantage. A situation like this is not uncommon, but even then, opportunities must be opened before such fraudulent acts could be carried out.

Other causes of frauds may include the following:

- Greed:- A drive to acquire gains far beyond one’s income. This is what Archibong (1992:108) describes as “get-rich-quick syndrome.”

- Lack of Proper Training:- When a staff is assigned a responsibility without adequate training or experience, errors are inevitable and fraud can be perpetrated through such errors.
- Poor Bookkeeping:- Inability to keep proper books of account or reconcile accounts may provide a fertile ground for fraudulent manipulations.
- Absence of Defined Job Schedule:- Staff who become a jack of all trades lack the grip of specialization, though they pretend to be very busy always. Frauds can occur unnoticed in this type of situation.
- Inadequate Staffing:- A poorly staffed organization may have a serious problem of work planning and assignment. In this type of situation, the fraudsters may capitalize on it to dupe the organization.
- Socio-Political Factors:- When the society is corrupt, wealth is glorified irrespective of its source. The desire to join the political and ruling class coupled with the societal misplacement of value may compel one to indulge in fraudulent practices; even the professionals to throw professional ethics to the winds for the same evil practices.

What can therefore be concluded from the above review is that lack of features (conditions) of good internal control system is the major cause of fraud in our society today, and also that the presence of these features is the recommended measures to control and reduce, if not to eliminate completely, the incidence of frauds in all the facets of the economy.

2.13.2 Types Of Business Fraud

Acts of fraud relating to business can be categorized in accordance with classes of victims and the means of perpetration. In this regard, a distinction can be made between employee fraud, management fraud and computer fraud.

a) Employee Fraud

The term “employee” is used restrictively here. It refers to those who are non-management employees of an organization, and the pattern of fraud committed is such that they are designed to convert cash or other assets of the employer to the employee’s own benefit. It is often very easy for a fraudulent employee to defraud his employer if he is in a position of responsibility. The greater his responsibility, the better his chances.

In clarifying a point, Steward (1969:44) noted that based on his experience, a large number of employees who perpetrate fraud are in a position of trust for a number of years before they take advantage of opportunities afforded them by such positions to defraud their organizations. What this indicates is that management’s responsibility need not cease with hiring of people of character and integrity, continuous surveillance of employees’ work habit is also important.

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a) **Management Fraud**

Management fraud is defined in the statement on Auditing Standards (SAS, No. 16, 1977: par.3) as “Deliberate misrepresentation by management which results in distortion of financial statement.” Elliot and Willingham (1980:4) also defined management fraud as “deliberate fraud committed by management which injures investors and creditors through materially misleading financial statement.” These definitions imply that in management fraud, the class of perpetrators is members of management, the victims are the shareholders, the instrument of perpetration being the financial statements and the act itself achieved through material alterations in the financial statements. The definitions also presuppose that management be taken to mean those who are high enough to override controls or those who are not bound by these controls; controls are overridden if an employee is caused to disregard certain procedures and record financial data in a manner not consisted with established patterns, It would also be recognized that the definitions do not place management fraud within the orbit of constructive fraud since the actions involved necessarily have to be deliberate before they can be constructed as such.

Two major types of management fraud often encountered in business organizations are:

- i) Those perpetrated to conceal inadequate performance. Management may conceal inadequate performances by manipulating accounting entries. Generally, such acts are executed when poor or unsound business decisions have been made and management feels the need to conceal this in order to maintain its position. Tax fraud may be included

under this category, but designed to benefit the organization rather than for personal benefits.

- ii) Execution and concealment of prohibited business activities. The prohibition may be ordered by the Government or by contractual agreements, and such prohibitions are often imposed on banks.

c) **Computer Fraud**

Computer fraud constitutes a category of business fraud of which the means of perpetration is a computer. It has not been quite easy getting a generally acceptable term which describes irregularities involving the use of the computer. Most of the works reviewed used such terms as “computer fraud” even though a few others used such terms as “computer crime” or “computer embezzlement”. However, because the word ‘fraud’ has a broad legal meaning, the term ‘computer fraud’ has been adopted for this research work.

In general, the most common computer frauds involve the alteration of genuine transactions for the benefits of the perpetrator. It has been found out that four basic dimensions exist to computer fraud perpetration. These are input manipulation, file manipulation, programme manipulation and operations manipulation. ‘

Based on studies conducted by Bryant and Allen (1977:53-59) input manipulation stands out as the method most frequently employed by fraudsters. Input manipulation may involve any of the following: adding fictitious transactions, to a collection of input data, altering transactions, deleting transactions.

File manipulation involves the direct manipulation of master or transaction files through maintenance programs-usually perpetrated by programmers or systems analysts. Program manipulation involves

unauthorized alteration to computer programs. A programmer may alter a maintenance program in such a way that fraction of charges made to each account is transferred to a fictitious account for onward withdrawal through fraudulent means.

2.13.3 Indications Of Errors And Frauds

The following factors are good indications that errors and frauds exist in an organization:

- Unexplained missing vouchers and original document of transactions.
- Unexplained alterations and falsification of documents and records.
- Unsatisfactory explanations on the part of management or staff of transactions which they had initiated, executed and recorded.:
- Disagreement between the records and third party documents available or received.
- Unexplained reconciling items in the bank reconciliation statements or suppliers' statements.
- Long outstanding reconciling items.
- Frequent departures from the established system of internal control.
- Evidence of lifestyles of officials over and above their known legitimate earnings.
- Inconsistency of ratios obtained by a skillful analysis of the financial statements.
- Reports of police investigations or government enquiry into the affairs of the company.

2.14 THE HISTORICAL DEVELOPMENT OF ONE OF THE BROADCAST MEDIA STUDIED - FRCN.

Having carried out a study of the Broadcast Media in Nigeria, it is worthwhile putting down in this chapter the historical development of one of them, and that is the Federal Radio Corporation of Nigeria.

1.14.1 The Establishment Of The Nigerian Broadcasting Service, NBS

In Europe, a company known as the British Broadcasting Company was formed in 1922. The Postmaster General licensed it on January 18, 1923 to carry out radio broadcasting. In 1927, it received the Royal Charter and changed its name to the British Broadcasting Corporation, (BBC). The fortunes of Radio Nigeria from inception were tied to BBC.

The BBC grew in leaps and bounds immediately after it was chartered and within a short while created a firm structure in engineering, programme development and even music. The fact therefore was that the BBC was well positioned to provide information about events at home, as well as entertainment to the colonial officers in Africa, and abroad.

A former Director-General of Federal Radio Corporation of Nigeria, the Rt. Rev. George Bako captured the beginning of radio transmission in Nigeria in a paper he presented at the Command and Staff College, Jaji, Kaduna in June 1983 thus:

“Radio Broadcasting was physically introduced into Nigeria in a form of a Radio distribution system in 1933. It was introduced by the then colonial government under the Department of Post and Telegraphs.

The main feature then was the reception of the overseas service of the British Broadcasting Corporation and re-broadcasting through wired system with loudspeakers at the listening end. It was later called Radio Diffusion System. The system was officially commissioned in 1935 by which time the system had spread from Lagos Island to Ikoyi, Ebute-Metta and Apapa. There were a total of about 500 boxes at various official residences and offices.

Although the main objective at that time was to propagate the efforts of the 'Allies' during the second World War by relaying BBC; at a later stage few live broadcasts were introduced from the studios set up at the then Glover Memorial Hall.

In 1939, a station was opened at Ibadan whilst in 1944, the Kano station was commissioned. Between 1945 and 1949, stations were opened in the following towns: Kaduna, Enugu, Abeokuta, Ijebu-Ode, Jos, Zaria, Calabar and Port Harcourt”

The aforementioned stations were only relay stations. In May 1949, the issue of setting up a fully fledged radio organization in Nigeria with transmitters in Lagos, Kaduna, Enugu, Ibadan and Kano transpired. After debating it on the floor of the House of Commons in London, the government decided to set up the Nigerian Broadcasting Service, NBS, and this was established on April, 1951, with Mr. T.W. Chalmers, Controller of the BBC Light Programme, as the head of the new Nigerian Broadcasting Service. In July 1952, the headquarters of the NBS was moved to Tugwell House, Marina from Glover Memorial Hall.

2.14.2 The Nigerian Broadcasting Corporation. NBC

On August 23, 1954, a motion was moved in the House of Representatives in Lagos, calling upon Government to consider setting up a corporation to take over the activities of the Nigeria Broadcasting Service in order to remove press critics that the Nigerian Broadcasting Service was an organ of the Nigerian Government. The motion was greeted with cheers and was unanimously approved by the next day. This marked the beginning of the NBC. In August 1956, a Bill was passed in the House of Representatives in Lagos setting up the Nigerian Broadcasting Corporation, NBC, as successor to the Nigerian Broadcasting Service, NBS. Consequently, the corporation was established

under the Nigerian Broadcasting Corporation Act. No. 39 of 1956, with Mr. J.A. C. Knott, O.B.E. as te Director-General of the corporation.

Shortly after independence, the Federal Government set in motion necessary machinery to establish an external wing of Radio Nigeria. The matter was approached with tenacity of purpose and so on 1st of January 1962, less than two years after independence, Voice of Nigeria was launched as the International Service of Radio Nigeria.

2.14.3 The Federal Radio Corporation Of Nigeria, FRCN

After 21 years of its existence, the Nigerian Broadcasting corporation was reorganized. It was asked to hand over all its state stations to the state governments. What was left of NBC-its original stations in Lagos, Ibadan and Enugu were merged with the Broadcasting Company of Northern Nigeria, BCNN to constitute Federal

Radio Corporation of Nigeria, FRCN. The event took place on April, 1978. A year later, the Decree that gave the reorganization strength of the law was promulgated.

The new FRCN was finding its feet during the transition programme of the military administration that handed over power to elected civilians in 1979. In essence, the task of nurturing FRCN was squarely in the hands of the incoming civilian administration of President Shehu Shagari. As it were, the supervisory Ministry, that is, the Ministry of Information, has no Minister under the structure put in place by the new civilian administration. Instead, Chief Olu Adebanjo was appointed as the Special Adviser to the President on Information. It was therefore his statutory responsibility to look after Radio Nigeria.

In 1992, the government asked the Technical Committee on Privatization and Commercialization, TCPC, to partially commercialize the corporation. Under the arrangement, Radio Nigeria was to be free from government support. Indeed, it was not easy, under this arrangement, for the corporation to cope with its operations. There were a lot of odds.

In spite of the odds, Radio Nigeria recorded some achievements. Although its voice was muffled, its programme presentation remained exceptionally professional. However, one of the most conspicuous achievements of FRCN was the speedy establishment of Radio Nigeria, Abuja. While many government establishments were still ruminating on how to realize the Abuja dream, Radio Nigeria was already transmitting from Gwagwalada with the call sign, "This is Radio Nigeria, Abuja". The station was commissioned by the then Minister of the Capital Territory,

Mr. John Kadiya at a colourful ceremony on October 1, 1980. And from a virtual virgin land, FRCN began to build its Headquarters in Garki, which is today situated in the heart of the expanding new capital. The building is known as Radio House.

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CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

31 RESEARCH DESIGN

The research design serves as the framework for collecting relevant data in any field of study. This research work is designed as a study to determine whether good internal control system is the foundation of quality management. This work is both descriptive and analytical. The choice of this topic is necessitated by the frequency of the incidence of frauds, embezzlement, misappropriation of funds/assets and so on, in almost all the facets of the economy in this modern day Nigeria.

The design will be divided into five main sub-heads:

- I) Population of the study
- ii) Sample size determination
- iii) Sources of data
- iv) Questionnaire administration and collection
- v) Statistical tool for data analysis

3.2 POPULATION

The population of this work is made up of all the Broadcast Media in Nigeria, Prominent amongst them for In depth study are: Federal Radio Corporation of Nigeria,

FRCN; Nigeria Television Authority, NTA; and Minaj Broadcasting International, MBI.

Table 3:1 Population Distribution of the Broadcast Media

Broadcast Media	No. of Respondents	Percentage
FRCN	150	50
NTA	90	30
MBI	60	20
	300	100

The above table shows that a population of 300 respondents, consisting of 150 or 50% from FRCN, 90 or 30% from NTA, and 60 or 20% from MBI, was used.

3.3 SAMPLE SIZE DETERMINATION.

Among the senior staff, from the three Broadcast Media used in this study, a random selection was made, using the statistical formula for sample size according to Yamene (1964: 280)

$$n = \frac{N}{1+N(e)^2}$$

Where,

n = the desired sample size,

N = the population of the study,

e = the acceptable error limit (i.e. margin of error),

and usually put at 5% (95% confidence limit),

1 = constant.

Therefore,

$$n = \frac{300}{1 + 300(0.05)^2} = \frac{300}{1 + 0.75} = \frac{300}{1.75} = 171$$

Table 3.2 Sample Size of the population

Broadcast media	No. of Respondents	Percentage
FRCN	86	50
NTA	51	30
MBI	34	20
	171	100

Computation of sample size of the population

FRCN	171 x 0.50	=.	86
NTA	171 x 0.30	=	51
MBI	171 x 0.20	=	<u>34</u>
			<u><u>171</u></u>

From the above table, 86 or 50% of the respondents were from FRCN, 51 or 30% were from NTA, while 34 or 20% of the respondents were from MBI. Also, the above table shows that 171 questionnaires were distributed and returned.

3.4 SOURCES OF DATA

All relevant data were obtained from primary and secondary sources. The criteria used in selecting a particular source of data depended on its relevance to the research topic.

The nature of this study required the use of personal interview, questionnaire, and literature review; to this end, these three techniques of data collection were used.

Primary data collected entailed the use of personal interview schedules. Appropriate questions were drawn up and asked during these interviews. Questions were drawn in such a way that they were general and specific in nature. Primary data collection also involved the examination of some of the accounting and audit manuals of the organization.

For the collection of secondary data, relevant publications, journals obtained from within and outside of the organization, textbooks, and the library were used.

3.5 QUESTIONNAIRE ADMINISTRATION AND COLLECTION

A total of fifty questionnaire items were constructed and administered for the purpose of eliciting the desired information needed for the study. They were distributed by hand and collected same way.

There were two sections in the questionnaire. Section 'A' dealt on bio-data of respondents and section 'B' on relevant questions on the areas of need for the purpose of analysis of data for the entire work. Items included in section 'A' (bio-data) were sex, age, qualification, experience, etc, which were not all analyzed.

3.6 STATISTICAL TOOL FOR DATA ANALYSIS

The tools used for the analysis of the data collected for the study include tables, simple percentages and absolute numbers. However, a chi-square (χ^2) technique was employed to test the hypothesis formulated in the study. The formula for the chi-square states thus:

$$\chi^2 = \frac{\sum_{i=1}^k (o_i - e_i)^2}{e_i}$$

where,

χ^2 = Value of the chi-square

K = Number of cells

Σ = Summation

i = Typical cell

o = Observed frequency

e = Expected frequency

The outcome of the test of the hypothesis will give rise to either the acceptance or rejection of the Null hypothesis, H_0 .

The expected value (i.e. expected frequency) for each cell is the product of the cell's column total and row total divided by the grand total. That is,

$$e_i = \frac{r \times c}{g}$$

where,

e_i = Expected value (expected frequency)

r = Row total

c = Column total

g = Grand total

3.6.1 Acceptance / Rejection Of Hypothesis

The null hypothesis is accepted if at the given level of significance, the calculated value of chi-square, X^2_o , is less than the expected, X^2_e . or that obtained from the statistical table at that given level of significance and degrees of freedom. It is rejected if the computed chi-square is greater than the expected. That is, $X^2_o < X^2_e$, Accept.

$$X^2_o > X^2_e, \text{ Reject.}$$

3.7 VALIDITY AND RELIABILITY OF THE QUESITONNAIRE

Borg et al (1983:89) posited that, "Validity is the finding out of the degree to which a researcher or test measures what it purports to measure." On the other hand, Ibanga (1981:19) opined that the reliability of an instrument is a process of obtaining information on

the degree to which a measure will yield similar results for the same subjects at different times or under different conditions on a consistent, dependable, predictable and accurate way.

Similarly, the measure adopted in this work maintained internal consistency. The questions and questionnaire synchronized with one another. Pilot test technique according to Runkel et al (1983:158) and Odo (1992:60) employed by the researcher helped in no small measure in establishing the reliability of the instrument used. Furthermore, corrections and amendments were made to ensure that the questions were constructed in a precise and unambiguous style in order to enhance consistency and sustain interest.

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CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

In this chapter, data collected by the use of questionnaire are presented and analysed to determine the objectivity of the findings.

4.1 RESPONSES TO THE QUESTIONNAIRE AND INTERVIEW

The researcher distributed 171 questionnaires to all the respondents who responded properly, representing 100% of the distributed questionnaires. Of twenty five (25) persons interviewed, twenty (20) representing 80% responded to all the questions while five (5) which is 20% of the respondents were indifferent to some of the questions.

TABLE 4.1: "THE BIODATA OF THE RESPONDENTS"

Biodata	No. of Respondents	Percentage (%)
Age Bracket:		
Under 30 years	-	-
Between 30 – 60 years	171	100
Total	171	100

<u>Educational</u>		-
<u>Qualifications:</u>	-	88.30
ND/NCE	151	
HND/B.Sc	20	11.70
Professional Certificate		
Total	171	100
<u>Work Experience:</u>		
Below 10 years	-	-
Between 10 -15 years	97	56.73
Between 15 – 30 years	74	43.27
Total	171	100

As could be seen, table 4.1 depicts some relevant characteristics of the researcher's working sample. The whole of 171 (100%) of the respondents are between 30 – 60 years of age.

On educational qualification, 151 (88.30%) hold HND/B.Sc, while 20 (11.70%) holds professional certificate.

Furthermore, on work experience, 97 (56.73%) have 10 – 15 years work experience, and 74 representing 43.27% have 15 – 30 years.

The above relevant information will enable one appreciate the more, the basic causative factors which may undermine their general views to issues. Moreover, it will most likely be of immense help to the researcher for reference purposes in the subsequent chapters/table.

TABLE 4.2

Question 8: Does your organization, have internal Control System in existence?"

Response	FRCN	NTA	MBI	Total	Percentage
Yes	86	51	34	171	100
No	-	-	-	-	-
Don't know	-	-	-	-	-
Total	86	51	34	171	100

The above table 4.2 shows that all the researcher's working sample responded that their organizations have Internal Control System in existence.

TABLE 4.3

Question 10: “If adequate and effective, do you agree that this control system is capable of checking the fraudulent activities of some dishonest employees?”

Response	FRCN	NTA	MBI	Total	Percentage
Yes	86	51	34	171	100
No	-	-	-	-	-
Don't know	-	-	-	-	-
Total	86	51	34	171	100

Table 4:3 above indicates that all the respondents agreed that the Internal Control System, if adequate and effective, is capable of checking the fraudulent activities of some dishonest employees of an organization.

TABLE 4.4

Question 12: “The persistence of frauds, embezzlements Or misappropriations of funds/assets and other fraudulent practices in any organization is not due to non compliance with established internal control system. Do you agree?”

Response	FRCN	NTA	MBI	Total	Percentage
Yes	1	0	0	1	0.58
No	5	51	31	67	97.67
Don't know	0	0	3	3	1.75
Total	86	51	34	71	100

The result from the above table shows that “respondents, representing 0.58%, agreed that the persistence of frauds, embezzlements or misappropriations of funds/assets and other fraudulent practices in any organizations is not due to noncompliance with established internal control system; 167 respondents (97.67%) **disagreed**, while 3 respondents (1.75%) said that they did not know.

TABLE 4.5

**Question 14: “Can you then agree with me that Internal Control System is the foundation of quality management.”
management?”**

Response	FRCN	NTA	MBI	Total	percentage
Yes	86	51	34	171	100
No	-	-	-	-	-
Not quite	-	-	-	-	-
Total	86	51	34	1	100

From the above table, it could be seen that all the respondents agreed with the researcher that Internal Control System is the foundation of quality management.

TABLE 4.6

Question 16: “whose responsibility is to design and install internal Control System in an organization?”

Response	FRCN	NTA	MBI	Total	Percentage
Management	86	51	34	171	100
External auditor	-	-	-	-	-
Total	86	51	34	171	100

From the above table, it is clearly seen that all the respondents opined that it is the responsibility of the management to design and install internal system in an organization.

TABLE 4:7

Question 17:“Do you agree with the researcher that competent,

honest and trustworthy personnel is the bedrock

upon which any successful Internal Control System rests?”

Response	FRCN	NTA	MBI	TOTAL	Percentage
Agreed	86	51	34	171	100
Disagreed	-	-	-	-	-
Don't know	-	-	-	-	-
Total	86	51	34	171	100

Table 4.7 shows that 100% of the respondents agree that competent, honest and trustworthy personnel is the bedrock upon which any successful Internal Control System rests, confirming that the most important condition for reliable Internal Controls is people who are competent and who act with good faith and integrity.

TABLE 4.8

Question 18: “Are there clearly written down job descriptions indicating responsibilities and authority for each official in your organization?”

Response	FRCN	NTA	MBI	TOTAL	Percentage
Yes	86	51	34	171	100
No	-	-	-	-	-
Don't known	-	-	-	-	-
Total	86	51	34	171	100

It could be seen from the above table that all the respondents agreed that there are clearly written down job descriptions indicating responsibilities and authority for each official in their organization. This has, indeed, shown that it is a very important step towards accountability, without which it may be very difficult to attach responsibility to action.

TABLE 4.9

question 19: “Is there an up-to-date procedures manual to guide each staff in routine operation?”

Response	FRCN	NTA	MBI	TOTAL	Percentage
Yes	86	51	34	171	100
No	-	-	-	-	-
Don't known	-	-	-	-	-
Total	86	51	34	171	100

As could be evidenced from the above table, 100% of the respondents answered that there is an up-to-date procedures manual to guide each staff in routine operation in their organizations in order to ensure proper record keeping and efficiency. Procedures manual specifies the correct procedure and sequencing for each routine transaction in an organization, complete from initiation through to correct documentation.

TABLE 4.10

Question 20: “Are duties properly and adequately segregated in your organization as to achieve effective checks and counter balances among staff in charge of related tasks?”

Response	FRCN	NTA	MBI	TOTAL	Percentage
Yes	86	51	34	171	100
No	-	-	-	-	-
Don't known	-	-	-	-	-
Total	86	51	34	171	100

The above table shows that all the respondents unanimously agreed that duties are properly and adequately segregated in their organizations as to achieve effective checks and counter balances among staff in charge of related tasks, demonstrating that no single official should initiate an action, and carry it through the negotiation, implementation, and recording stages alone.

TABLE 4.11

Question 22: “Does the practice of periodic rotation of duties usually take place in your organization?”

Response	FRCN	NTA	MBI	TOTAL	Percentage
Yes	86	51	34	171	100
No	-	-	-	-	-
Don't known	-	-	-	-	-
Total	86	51	34	171	100

As could be clearly seen from the above table, all the respondents said that the practice of periodic rotation of duties usually takes place in their organizations, proving that it is a good administrative control and as such should be encouraged. It helps staff to acquire necessary experiences on the various aspects of the work through learning and practice,.

TABLE 4.12

Question 25: “There are frequent incidences of errors, frauds, embezzlements or misappropriations of funds/assets, (give it any name), in this modern day Nigeria. Do you agree?”

Response	FRCN	NTA	MBI	TOTAL	Percentage
Yes	86	51	34	171	100
No	-	-	-	-	-
Don't known	-	-	-	-	-
Total	86	51	34	171	100

Table 4.12 indicates that 100% of the respondents agreed that there are frequent incidences of errors, frauds, embezzlements or misappropriations of funds/assets, (give it any name), in this modern day Nigeria.

TABLE 4.13

Question 26: “If yes in Q.25 above, what are some of the factors responsible for the increase of these social evils?” The respondents gave the following answers to the above question:

- i) Greed and lack of contentment;
- ii) Non-compliance with the laid down internal control procedures;
- iii) Non-strictly adherence to financial policies and guidelines;
- iv) Collusion; it is almost impossible to detect frauds where there is collusion.
- v) Employment of unqualified and incompetent personnel;
- vi) Poor remuneration;
- vii) Glorification of ill gotten wealth in Nigeria;
- viii) Delay in payment of salaries by some employers.

TABLE 4.14

Question 29: “There are no cases where errors, frauds, embezzlement or misappropriation of funds/assets remain undetected for quite a good number of years whereas the accounts of the organization are being audited by her internal auditors on regular basis and the external auditors yearly. Do you agree?”

Response	FRCN	NTA	MBI	TOTAL	Percentage
Yes	86	51	34	171	100
No	-	-	-	-	-
Don't known	-	-	-	-	-
Total	86	51	34	171	100

From the result obtained in table 4.14 above, it is clearly seen that a respondent (0.58%) agreed that there are no cases where errors, frauds, embezzlement or misappropriation of funds/assets remain undetected for quite a good number of years whereas the accounts of the organization are being audited by her internal auditors on regular basis and the external auditors yearly; 166. respondents representing 97.08% disagreed with the statement, while 4 respondents (2.34%) answered, "we don't know"

The 166 respondents attributed the situation where errors, frauds, embezzlements or misappropriations of funds/assets remain undetected for quite a good number of years to a number of reasons such as:

- i) Collusion: where there is collusion, it is almost impossible to detect errors and frauds.
- ii) Employment of inexperienced internal auditors.
- iii) Negligence on the part of external auditors.

However, they argued that the primary duty of the external auditors is not to detect errors and frauds, rather to express an opinion as to whether the accounts presented to the shareholders show a true and fair view. They strongly pointed out that it is the duty of the management to detect errors and frauds, though the auditors should always evaluate the reliability of client's internal controls in preventing or detecting potential errors.

TABLE 4.15

Question 32: “Are all intakes banked intact before being expended?”

Response	FRCN	NTA	MBI	TOTAL	Percentage
Yes	86	51	34	171	100
No	-	-	-	-	-
Don't known	-	-	-	-	-
Total	86	51	34	171	100

Table 4.15 shows that the whole 171 respondents affirmed that all intakes are banked intact before being expended. In fact, this is a good internal control system and, a good cash management.

TABLE 4.16

Question 33: “Is it the same person who keeps the cash book/records that handles the bank reconciliation?”

Response	FRCN	NTA	MBI	TOTAL	Percentage
Yes	86	51	34	171	100
No	-	-	-	-	-
Don't known	-	-	-	-	-
Total	86	51	34	171	100

From table 4.16 above, it is seen that all the respondents said No to the above question: “Is it the same person who keeps the cash book/records that handles the bank reconciliation?”

TABLE 4.17

Question 44: “When goods are received into the stores, are they properly checked against the local purchase order ‘LPO’ and Goods Received Notes (GRN) raised?”

Response	FRCN	NTA	MBI	TOTAL	Percentage
Yes	86	51	34	171	100
No	-	-	-	-	-
Don't always	-	-	-	-	-
Total	86	51	34	171	100

Looking at the above table, it could be clearly seen that all the respondents agreed that when goods are received into the stores they are properly checked against the ‘LPOs’ and that Goods Received Notes (GRN) are raised.

TABLE 4.18

Question 50: “How often is verification of Fixed Assets carried out in your organization?”

Response	FRCN	NTA	MBI	TOTAL	Percentage
Quarterly	-	-	-	-	-
Semi-annually	-	-	-	-	-
Annually	86	51	34	171	100
Total	86	51	34	171	100

From table 4.18 above, it is shown that all the respondents carry out their Fixed Assets verification annually. One of the facts that is established during the of fixed assets is the physical existence of the assets.

4.2 TEST OF HYPOTHESES USING CHI-SQUARE

4.2.1 Decision Rule:

The rule states that if the calculated X^2_0 value is greater than the expected X^2_e value (i.e. that obtained from the statistical table at that given level of significance and degrees of freedom), reject the null hypothesis, H_0 , and accept the alternative hypothesis, H_1 .

4.2.2 Hypothesis one:

The persistence of frauds, embezzlements or misappropriations of funds/assets and other fraudulent practices in any organization is not due to non-compliance with established internal control system.

The persistence of frauds, embezzlements or misappropriations of funds/assets and other fraudulent practices in any organization is due to non-compliance with established internal control system.

Test of this hypothesis was carried out using question twelve (12) in the administered questionnaire.

TABLE 4.2.2.1

Question12: “The persistence of frauds, embezzlements or misappropriations of funds/assets and other fraudulent practices in any organization is not due to non-compliance with established internal control system. Do you agree?”

Response	FRCN	NTA	MBI	TOTAL	Percentage
Yes	1	0	0	1	0.58
No	85	51	31	167	97.67
Don't know	0	0	3	3	1.75
Total	86	51	34	171	100

Calculation of chi-square (X^2):

Using the formula: $X^2 = \sum_{i=1}^k \frac{(o_i - e_i)^2}{e_i}$

where,

X^2 = Value of the Chi-square

k = Number of cells

\sum = Summation

i = Typical cell

o_i = Observation value (observed frequency) for each cell, which is obtained by the formula:

$$e_i = \frac{r \times c}{g}$$

where,

e_i = Expected value (expected frequency) for each cell

r = Row total

c = Column total

g = Grand total

oi	ei	oi-ei	(oi-n) ²	(oi-ei) ²
1	0.5029	0.4971	0.2471	0.4914
0	0.2982	-0.2982	0.889	0.2982
0	0.1988	-0.1988	0.0395	0.1988
85	83.9883	1.0117	1.0235	0.0122
51	49.8070	1.193	1.4232	0.0286
31	33.2047	-2.2047	4.8607	0.1464
0	1.5088	-1.5088	2.2765	1.5088
0	0.8947	-0.8947	0.8005	0.8947
3	0.5965	2.4035	5.7769	9.6845
				13.2636

X^2 (calculated) =

Calculation of Expected value for each cell (ei):

$e_i = \frac{r \times c}{g}$, as defined above.

$$\begin{array}{l}
 \text{(a)} \quad \frac{1 \times 86}{171}, \quad \frac{1 \times 51}{171}, \quad \frac{1 \times 34}{171} \\
 = \quad 0.5029, \quad 0.2982, \quad 0.1988 \\
 \\
 \text{(b)} \quad \frac{167 \times 86}{171}, \quad \frac{167 \times 51}{171}, \quad \frac{167 \times 34}{171} \\
 = \quad 83.9883, \quad 49.8070, \quad 33.2047 \\
 \\
 \text{(c)} \quad \frac{3 \times 86}{171}, \quad \frac{3 \times 51}{171}, \quad \frac{3 \times 34}{171} \\
 = \quad 1.5088, \quad 0.8947, \quad 0.5965
 \end{array}$$

To obtain the chi-square value (critical value) from the statistical table, we first find the degrees of freedom (df) and the formula is:

$$df = (r-1) (c-1)$$

where,

df = Degrees of freedom

r = Number of rows

c = Number of columns

Therefore, $df = (3-1) (3-1) = (2) (2) = 4$.

Using a 5% level of significance, and at 4 degrees of freedom, the X^2 value (critical value) can be read from the statistical table in appendix III. That is at 0.05 horizontal row and 4 vertically. The value is found to be 9.49.

Interpretation of the results of hypothesis one:

Following the decision rule which states that if the calculated X^2 is greater than the expected X^2 (critical value), reject the null hypothesis, H_0 , and accept the alternative hypothesis, H_1 , we reject the null hypothesis, H_0 , which states that the persistence of frauds, embezzlements, or misappropriations of funds/assets and other fraudulent practices in any organization is not due to non-compliance with established internal control system since the calculated X^2 (13.2636) is greater than the expected X^2 (critical value) (9.49). We then accept the alternative hypothesis, H_1 , which states: the persistence of frauds, embezzlements, or misappropriations of funds/assets and other fraudulent practices in any organization is due to non-compliance with established internal control system.

4.2.3 Hypothesis Two:

There are no cases where errors, frauds, embezzlements or misappropriations of funds/assets remain undetected for quite a good number of years whereas the accounts of the organization are being reviewed by her internal auditor on regular basis and the external auditors yearly.

There are cases where errors, frauds, embezzlements or misappropriations of funds/assets remain undetected for quite a good number of years whereas the accounts of the organization are being audited by her internal auditor on regular basis and the external auditors yearly.

Test of this hypothesis was carried out using question twenty nine (29) in the administered questionnaire.

TABLE 4.2.3.1

Question 29: “There are no cases where errors, frauds, embezzlements or misappropriations of funds / assets remain undetected for quite a good number of years whereas the accounts of the organization are being reviewed by her internal auditor on regular basis and the external auditors yearly. Do you agree?”

Response	FRCN	NTA	MBI	TOTAL	Percentage
Yes	1	0	0	1	0.58
No	85	51	31	167	97.08
Don't know	1	0	3	3	1.34
Total	86	51	34	171	100

Calculation of Chi-square (X^2):

Using the formula: $X^2 = \sum (O_i - E_i)^2$

\sum =

where,

X^2 = Value of the chi-square

k = Number of cells

\sum = Summation

E_i = Typical cell

O_i = Observed value (observed frequency) for each cell.

E_i = Expected value (expected frequency) for each cell

which is obtained by the formula:

$$E_i = \frac{r \times c}{g}$$

where,

E_i = Expected value (expected frequency) for each cell

r = Row total

C = Column total

g = Grand total

oi	ei	oi-ei	(oi-n) ²	(oi-ei) ²
1	0.5029	0.5029	0.2529	0.5029
0	0.2982	-0.7018	0.4925	1.6517
0	0.1988	-0.1988	0.0395	0.1988
85	83.4854	1.5146	2.2940	0.0275
50	49.5088	0.4912	0.2413	0.0049
31	33.0058	-2.0058	4.02332	0.1219
1	2.0116	-1.0116	1.02233	0.5087
0	1.1929	-1.1929	1.4230	1.1929
3	0.7953	2.2047	4.8607	6.1118
				10.3211

X² calculation =

Calculation of expected value for each cell (ei):

$$e_i = \frac{r \times c_j}{g} \text{ as defined above}$$

$$\begin{aligned} \text{(a)} \quad & \frac{166 \times 86}{171}, \quad \frac{1 \times 51}{171}, \quad \frac{1 \times 34}{171} \\ & = 0.5029 \quad 0.2982 \quad 0.1988 \end{aligned}$$

$$\begin{aligned} \text{(b)} \quad & \frac{166 \times 86}{171}, \quad \frac{166 \times 51}{171}, \quad \frac{166 \times 34}{171} \\ & = 83.4854 \quad 49.5088 \quad 33.0058 \end{aligned}$$

$$\begin{aligned} \text{(c)} \quad & \frac{4 \times 86}{171}, \quad \frac{4 \times 51}{171}, \quad \frac{4 \times 34}{171} \\ & = 2.0116, \quad 1.199, \quad 0.7953 \end{aligned}$$

To obtain the chi-square value (critical value) from the statistical table, we first find the degrees of freedom (df) and the

formula is:

$$df = (r-1)(c-1)$$

where,

df = Degrees of freedom

r = Number of rows

c = Number of columns

Therefore, $df = (3-1) (3-1) = (2)(2) = 4$.

Using a 5% level of significance, and at 4 degrees of freedom, the χ^2 value (critical value) can be read from the statistical table in appendix III. That is at 0.05 horizontal row and 4 vertically. The value is found to be 9.49.

Interpretation of the results of hypothesis two:

As stated earlier, the rule states that if the calculated X^2 value is greater than the expected X^2 (critical value), we reject the null hypothesis, H_0 , and accept the alternative hypothesis, H_1 . Here, the calculated X^2 value, 10.321 is greater than the expected X^2 (critical value) 9.49, we therefore reject the null hypothesis, H_0 , which states that there are no cases where errors, frauds, embezzlements or misappropriations of funds/assets remain undetected for quite a good number of year whereas the accounts of the organization are being audited by her internal auditor on regular basis and the external auditors yearly, and accept the alternative hypothesis, H_1 , which states that there are cases

where errors, frauds, embezzlements or misappropriations of funds/assets remain undetected for quite a good number of years whereas the accounts of the organization are being audited by her internal auditor on regular basis and the external auditors yearly.

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

This chapter presents discussions on the major findings of this dissertation, recommendations, suggestions for further studies, and conclusion, based on the observed facts in chapter four - data presentation, analysis and interpretation.

5.1 Summary of Findings:

After analysing and interpreting the data in the preceding chapter, the following findings were made:

- (1) That some of the factors responsible for increase of errors, frauds, embezzlements or misappropriations of funds/assets, in this modern day Nigeria are as follows:
 - Greed and lack of contentment: a situation where one is not satisfied with what he has (a drive to acquire gains far beyond one's income) will lead to fraudulent activities.
 - Non-compliance with the laid down internal control procedures: where internal control procedures are neglected, the intention is surely evil— errors and frauds.

- Non-adherence to financial policies and guidelines: inconsistencies in the operation of laid down financial policies and guidelines, will result to errors, frauds, and embezzlements -
- Collusion: where there is a collusion error and frauds can easily be perpetrated.
- Employment of unqualified and incompetent personnel: where this happens the operation of the established system will be faulty and consequently give room for errors, frauds and embezzlements.
- Poor remuneration: staff should be properly remunerated, otherwise they can puncture even the most well knit internal control system and begin to steal company assets or time in order to make ends meet.
- Glorification of ill gotten wealth in Nigeria: since everybody wants to belong and be known in the society, glorification of ill gotten wealth will surely increase the incidence of errors and frauds.
- Delay in payment of salaries by some 'employers: this situation can push staff into defrauding their employers.

(2) That undetected errors, frauds, embezzlements or misappropriations of funds/assets for quite a good number of years (whereas the accounts of the organization are being audited by her internal auditors on regular basis and the external auditors yearly) are due to the following:

- Collusion: where there is collusion, it is almost impossible if not totally impossible to detect errors and frauds.
- Employment of inexperienced internal auditors: if external auditors will rely on the reports of inexperienced internal auditors they will be bound

to form a wrong opinion about the truth and fairness of the financial statements of an organization.

- Negligence on the part of some external auditors:

auditors are known to be competent and honest. As their work is relied upon by others, they have a responsibility to do their work honestly and carefully. However, some of them may be negligent in carrying out their work and this may give room to, errors and fraud in an organization.

- Non-compliance of companies/organizations, to auditors' management letters (letters of weakness):

auditors report to their client's management on all significant weaknesses that they came across in the course of their audit; give recommendations for improvements. Having done these, the client management is expected to comply with all the recommendations so far made for improvements. Where this is not done, it can lead to errors and frauds in the subsequent years and their detection may be difficult.

5.2 Recommendations:

Based on the above findings, the following recommendations aimed at improving the situations are made:

i) **Adequate Accounting System and Effective Internal Control Measures:**

Management should always establish adequate accounting system, with effective internal control measures installed around it. For instance, duties should be properly segregated such that no one transaction is handled from the beginning to the end by one person. This means that

no one person should have control of two or three of the functional responsibilities, namely; authorization to execute a transaction, recording of the transaction and custody of assets involved in the transaction.

The first duty is a management function, the second is an accounting function, and the third is a custodial function. If different departments or persons are forced to deal with these different elements of transactions, then two benefits accrue:

- Deliberate introduction of errors is made more difficult because it will require collusion of two or more persons, and most persons hesitate to seek aid of another to perpetrate a wrongful act;
- By acting in a co-ordinate manner (handling different aspects of the same transaction), it is more likely that innocent errors will be found and corrected; this proves the saying that “two heads are better than one” in the idea of error detection.

ii) **Employment of honest, dedicated and competent personnel:**

In order to fight against collusion which is one of the reasons why there can be undetected errors and frauds existing for a good number of years in an organization, it is not enough to employ only paper qualified personnel but to employ, in addition to paper qualification, honest dedicated and competent personnel.

iii) **Proper supervision of staff:**

Staff should be properly supervised to see that they comply and adhere to laid down internal control procedures, financial policies and guidelines.

iv) **Compliance with Auditors' Management Letters:**

Client companies/organizations should always comply with the management letters (letter of weakness) of their auditors, for one of the purposes of these letters is to point out to the management areas of weakness in its accounting and internal control systems for improvement.

Furthermore, auditors could, in their management letters, point out to the client management areas where economies could be made or resources used more effectively. For example, unnecessarily large balances may occur occasionally in the client's bank account. The auditors could point out that facilities exist in the banking sector for short term investment of such surplus funds.

v) **Adequate Remuneration and Regular**

Payment of Salaries:

Staff should be adequately remunerated and paid regularly; otherwise they can puncture even the most well knit internal control system. When staff are paid less than a subsistence wage, they are pushed into stealing company's assets or time to try to make ends meet. But when they are properly remunerated and paid regularly too, they will be able to live

above poverty line and shun temptations to defraud their employers.

vi) **Reorientation of the Nigerian Communities:**

The Nigerian communities should be reorientated through Broadcast Media to see the evil impacts in glorifying ill gotten wealth in our society today. This can be done through religious broadcasts, film shows, dramas and other public enlightenments. People should be made to understand and believe that good name is better than ill gotten wealth.

5.3 SUGGESTIONS FOR FURTHER RESEARCH

Whereas this study has added to existing literatures on this topic: The Role of Internal Control As The Foundation of Quality Management, the extent of coverage has been limited due to some constraints. The researcher therefore, suggests that more studies should be carried out on the topic to:

- cover a larger scope;
- validate the findings of this work;
- improve on any shortfalls noticed in this work.

Furthermore, the contribution of economic and societal factors to fraud, embezzlement or misappropriation of funds/assets is another important area of further study.

5.4 CONCLUSION

In the light of the findings from this research work, one can rightly draw the conclusion that good internal control system is indeed the foundation of quality management, since almost all the problems outlined above in the summary of findings could be taken care of by good internal control system. Therefore, if the recommendations outlined above would be heeded to, the aforementioned problems will be completely put under control, if not completely eradicated.

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Appendix I

Department of Accountancy,
School of Post Graduate Studies,
University of Nigeria
Enugu Campus,
Enugu.
4th August, 2002.

Dear Sir/Madam,

I am a postgraduate student of the above institution carrying out a research dissertation on “The Role of Internal Control As The Foundation of Quality Management”. A Study of the Broadcast Media in Nigeria.

You have been carefully selected as one of my respondents based on your wealth of knowledge in management. You are therefore requested to assist me by answering the attached questionnaire objectively.

All information supplied will be treated with utmost confidentiality and used specifically for the purpose of this work.

Thank you for your cooperation.

Yours faithfully,

Eze, Anthony. O.

Appendix II
QUESTIONNAIRE

INSTRUCTION

Please, tick in the appropriate box selected or supply short answers where required.

SECTION A: BIODATA

- 1) Sex: Male Female
- 2) Age: Under 30 years Between 30 — 60 years
- 3) Marital Status: Single Married
- 4) Educational Qualifications:
- ND/NCE HND/B.Sc. Professional Cert.
- 5) Position:.....
- 6) Work Experience:
- Below 10 years 10 - 15yrs 15 - 30 yrs

SECTION B: MAJOR QUESTIONNAIRE

Bi) GENERAL

- 7) Does your organization have a standard organization chart?
(a) Yes (b) No (c) Not quite
- 8) Does your organization have Internal Control System in existence? (a) Yes (b) No (c) Don't know
- 9) If yes in (8) above, how would you rate the internal control system?
(a) Adequate and effective (b) Inadequate and effective

10) If adequate and effective, do you agree that this control system is capable of checking the fraudulent activities of some dishonest employees? (a) Yes (b) No (c) Don't know

11) If inadequate and ineffective, do you believe that an improvement in the system of internal control beyond what it is presently can effectively reduce, if not eliminate, fraudulent activities in your organizations?

(a) Yes (b) No (c) Don't know

12) The persistence of frauds, embezzlements or misappropriations of funds/assets and other fraudulent practices in any organizations is not due to non-compliance with established internal control system. Do you agree? (a) Yes (b) No (c) Don't know

13) If you do not agree, what in your own view is responsible for the persistence of fraudulent activities in most of our organizations today?

14) Can you then agree with me that Internal Control system is the foundation of quality management?

(a) Yes (b) No (c) Don't know

15) If you do not agree, what in your own view is the foundation or the bedrock of quality management? _____

16) Whose responsibility is it to design and install internal Control System in an organization?

(a) Management (b) External auditor

17) Do you agree with the researcher that competent, honest and trustworthy personnel is the bedrock upon which any successful Internal Control System rests?

(a) Agreed (b) Disagreed (c) Don't know

18) Are there clearly written down job descriptions indicating responsibilities and authority for each official in your corporation?

(a) Yes (b) No (c) Don't know

19) Is there an up-to-date procedures manual to guide each staff in routine operations?

(a) Yes (b) No (c) Don't know

20) Are duties properly and adequately segregated in your organization as to achieve effective checks and counter balances among staff in charge of related tasks?

(a) Yes (b) No (c) Don't know

21) In your own opinion, can you say that there are proper procedures for approval and authorization of transactions in your organization?

(a) Yes (b) No (c) Don't know

22) Does the practice of periodic rotation of duties usually take place in your organization?

(a) Yes (b) No (c) Don't know

23) Does your corporation have an Internal Audit department and is it separate from the Accounting Department?

(a) Yes (b) No (c) Don't know

24) If yes in (23) above, give your personal evaluation of the performance of the Internal Audit Department.

(a) Below average (b) Average (c) Above average

25) There are frequent incidences of errors, frauds, embezzlements or misappropriations of funds/assets, (give it any name) in this modern day Nigeria. Do you agree?

(a) Yes (b) No (c) Don't know

26) If yes in (25) above, what are some of the factors responsible for the Increase of these social evils?

27) Has your organization experienced frauds, embezzlements or misappropriation of funds/assets before?

(a) Yes (b) No (c) Don't know

28) If yes in (27) above, what was/were the cause(s)?

29) There are no causes where errors, frauds, embezzlement or misappropriation of funds/assets remain undetected for quite a good number of years whereas the account of the organization are being audited by her internal auditors on regular basis and the external auditors yearly. Do you agree?

(a) Yes (b) No (c) Don't know.

30) If yes in Q. 29 above, who shall be blamed for not detecting these undiscovered errors and frauds?

(a) Management of the organization (b) Auditors

Bii) CASH AND BANK

31 Are receipts issued for all cash collected?

(a) Yes (b) No (c) Not in all cases

32) Are all intakes banked intact before being expended

(a) Yes (b) No (c) Not in all cases

33) How often are cash and cheques banked?

(a) Daily (b) At holders convenience (c) Weekly

34) Is it the same person who keeps the cash book/records that handles the bank reconciliation?

(a) Yes (b) No (c) Don't know

35) How often is bank reconciliation exercise carried out?

(a) Every month (b) Quarterly (c) Randomly

36) Does Internal Audit Department carry out cash count without notice? (a) Yes (b) No (c) Don't know

37) If yes in (36) above, how often is it carried out?

(a) Weekly (b) At auditor's wish (c) Monthly

38) Does Internal Audit Department usually carry out prepayment audit before any payment is made?

(a) Yes (b) No (c) Don't know

39) Can cheques be signed in advance in your organization by the signatories? (a) Yes (b) No (c) Don't know

Bii) SALES AND TRADE DEBTORS

- 40) Does your organizations render some of her services on credit?
(a) Yes (b) No (c) Don't know
- 41) If yes in (40) above, is credit worthiness of the customer usually ascertained before the credit is given?
(a) Yes (b) No (c) Don't know
- 42) Are the trade debtors circularized at the end of the year or at any specified period?
(a) Yes (b) No (c) Don't know

Biv) PURCHASES AND TRADE CREDITORS

- 43) Can goods be ordered without the prior requisition of the stores department and authority duly obtained?
(a) Yes (b) No (c) It is possible
- 44) When goods are received into the stores, are they properly checked against the local purchase order 'LPO' and Goods Received Note (GRN) raised? (a) Yes (b) No (c) Don't know
- 45) Is bin card maintained for each item of stores in the stores department of your organization? (a) Yes (b) No (c) Don't know
- 46) Are Stores Issuing Vouchers (SIV) raised when stores are issued out? (a) Yes (b) No (c) Don't know
- 47) How often is stock-taking conducted?
(a) Monthly (b) Quarterly (c) As the need arises

Bv) FIXED ASSETS

- 48) Who authorizes the purchase and disposal of fixed assets in your organization? (a) Management (b) M.D (c) F. C.

49) Are the fixed assets received into the stores for proper documentation before being put into use?

(a) Yes (b) No (c) Not always

50) How often is verification of Fixed Assets carried out in your organization?

(a) Quarterly (b) Semi-annually (c) Annually