INTERNAL CONTROL AND FRAUD PREVENTION IN NIGERIAN BUSINESS ORGANIZATIONS: A SURVEY OF SOME SELECTED COMPANIES IN WARRI METROPOLIS

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ABSTRACT

The aim of this study was to examine internal control and fraud prevention in Nigerian business organizations. A survey was undertaken in some selected firms in Warri Metropolis. It was discovered that internal control has a significant relationship with fraud prevention. We therefore concluded that internal control was a necessary safeguard which assures absentee owners of business that their fund is being utilized efficiently. It was recommended among others that proper accounting record should be kept at all times and authorization and approval limits of jobs and funds should be setup and communicated to all concerned interest groups.
Keywords: *Internal control, Fraud prevention, Organisations, Companies*

INTRODUCTION

The management of modern businesses requires the investors to put their hard earned resources in a business that will yield the desired returns. This is made possible by the fact that such business would operate by full adherence to the principles of good corporate governance. Some of such principles are that of internal control and fraud prevention. Internal control is the whole system of controls, financial in nature established by the management in order to carry on the business 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. There are two major classes of control. These are preventive and detective controls.

Preventive control is a control that prevents error from occurring. It ignores the cost of correcting errors because it is aimed at nipping errors in the bud. However, there is no system that is eror free. Therefore where there is an error, adopting corrective control suffices the most. Hence, it is not out of place saying that corrective control os one of the classes of controls in an organisation. On the other hand, Detective control detects and controls errors that have occurred. This earns additional cost for the organization because transaction would have been processed before control is performed. Okolo (1987) in differentiating internal control, internal check and internal audit says that internal check is the aggregate of check and balances imposes on the day to day transactions in an organization whereby the work of one person is verified independently by another. The objective is the prevention or early detection of errors and fraud. Internal control therefore starts from allocation of authorities and proper division of work in such a manner that one person alone does not see a transaction from the beginning to the end.

Gayasi (2000) regards internal audit as the independent view or appraisal within an organization of the accounting, financial and other operations as a basis for protective and constructive service to management. It is conducted by the company's own specially assigned staff and while dealing primarily with accounting and financial matters, may be applied also to any, other aspect of the operations of the organization. An internal audit is part of internal control but is quite distinct from internal checks. It is the responsibility of the directors to see that the controls established by management are sound and working fine. In addition, the external auditor will carry out compliance test on control in their audit work and if found effective and efficient, the degree of reliance on them will be high but if not substantive test will then be carried out on them. Therefore, the essence of internal control according to Aguotu (2002) are:

- To detect errors, frauds and irregularities.
- To ensure that all transactions are correctly processed.
- To ensure that assets are safeguarded through restriction of access to authorized persons.
- To enable work to be performed by a person and any omission or error can be traced to that person.
- To make the work of the auditors easier.

Ovuakporie (1994) states that fraud is any activity that amounts to dishonest and or unfair dealing. Consequently, fraud connotes dishonest intention to benefit the perpetrator at the detriment of another person or organization. Also Mill Cham (2002) opined that fraud involves the use of deception to obtain an unjust or illegal financial advantage. The types of fraud in an organization include:

- Misappropriation or defalcation of cash and goods.
- Fraudulent manipulation of accounting information.
- Forging of cheque and documents and using one approval more than necessary.
- Carry over fraud, computer/electronic fraud in an organization.

Aguotu (2002) sees error as an unintentional mistake. This may occur at any stage of the transaction of a business. Such stage may be at negotiation, documentation and summarization or preparation of financial reports. This work is therefore primarily aimed at x-raying the need for internal control and the extent to which such control can go in safeguarding the assets of present day business.

METHODOLOGY

This study adopted a suvey technique. The study's population comprises all business entities that are humans in legal nature operating in Warri Metropolis in Delta State. Five companies were randomly selected for sampling. Research questionnaire was designed and administered on 80 senior staff in the accounting sections of the firms. The questionnaire was designed to elicit respones of "Yes" or "No" from the respondents. The method of data analysis was the use of tables and simple percentage.

RESULTS AND DISCUSSION

Table 1: Companies studied with number of respondents

Name of Companies	No. of Respondents
Nigeria Bottling Company	16
Beta Glass Plc Ughelli	16
Delta Steel Structure	16
Delta Steel Company	16
Chevron oil Company	16
Total	80

Table 2: Internal control and its significant relationship with fraud prevention

Option	Frequency of occurrence	Percentage
Yes	75	93
No	5	7
Total	80	100

Table 3: Internal control and its significant relationship with growth of the business

Option	Frequency of Occurrence	Percentage
Yes	70	87
No	10	13
Total	80	100

The table 1 displays the sampling frame and the sampling drawn from each of the companies selected. It is revealed that each of the five companies selected has equal spread of the number of respondents. From the above data as contained on table 2, it is obvious that a good internal control system helps in fraud prevention and control. This is evident in the fact that out of the total respondents, 93% of the respondent answer in the affirmative. Only an insignificant percentage (13%) answered in the negative

Similiarly, table 3 indicates that place of a good system of internal control in the enhancement of the growth and productivity of a business. Though the table revealed that 13% of the respondents are holding negative views that a good system of internal control does not enhance the productivity and growth of a business, yet 87% of the respondents are of a positive view.

CONCLUSION AND RECOMMENDATIONS

This work primarily aimed at x-raying the need for internal control and the extent to which such control can go in safeguarding the assets of present day businesses in terms of preventing of fraud. In conclusion therefore, we state that the need for internal control in modern business organizations can not be over emphasized. It is one of the safe guards which assure the companies shareholders that their funds are utilized efficiently. Therefore, authorization and approval limits should be communicated to all concerned in the organization. Proper accounting record should be kept. An internal appraisal of budget with actual results and causes of variance should be investigated. Duties and functions of each department and section should be defined. Good and strong reliable internal control in authorization; recording and processing of transaction should be put in place. An effective internal audit which is only responsible to the chief executive should be put in place. Work should be schedule to give room of checks and balances. Good promotion and remuneration package for staff should be put in place. Finally, management should take charge of running the day to day business in the organization and ensure that all cases of frauds and irregularities are adequately dealt with.

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