

## **ABSTRACT**

*This research work was on the internal control as a basis of fraud prevention in Nigeria financial institutions. However, for a more detailed study a case study was carried on first bank of Nigeria plc enugu main.*

*This study necessitated because of the increasing wave of bank fraud in Nigeria in recent times as reported by the Nigerian dailies. Therefore, we need to investigate these reports in a financial institution to confirm that there is an effective internal control system.*

*All aspect of this work is very relevant in one way or the other to the Nigeria banking industry, as a whole, and for those who may be interested in carrying out further study in this topic.*

*The research designed is a descriptive research which requires the selection of respondents from a population. The population of the study is made up of 43 staffs. 30 (thirty) persons were used as the sample size, which is 69.7% of the entire population.*

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 BACKGROUND OF STUDY**

It is feared that the inability of management to ensure effective enforcement of rules and regulation has rendered that operations of internal control system as the banking industry open to abuse.

The net effect could be that every one carries out his schedules of duties in any manner he likes which consequently gives those wishing to commit fraud their long expected golden opportunity.

Prior to 1952, there was no form of Banking act or ordinance to regulate the establishment and operations of commercial banks or a central bank to supervise the control of banking in Nigeria.

During that time many banks were registered some of which never operated and ever since that period, fraud has remained a permanent feature in our banking industry. This resulted as a loss of faith and trust in the financial institutions by Nigerians and consequently, underdevelopment of the banking habit in country.

However, with the introduction of the first bank ordinance in 1952, and the central bank of Nigeria (CBN) Act in 1959 and other, subsequent Acts and Ordinance with their amendments over these years, used to regulate and control the activities and operations of financial institutions in the country. Frauds in financial institution have rather increased in magnitude and the methods used to perpetrate them acquired greater sophistication day after day.

Now with the introduction of modern procedures and advancement in information technology such as those in communication system, automatic electric gadgets and computer into the banking system coupled with the various precautionary measures taken by bank agent rather than taken nuclear dimensions and the size of sums involved increased at a geometric rate.

Anikpitan (1976), a banker of repute maintained that: -

Discoveries during investments show that banks now take extra precaution for clearing a cheque because of rampant incident of fraud and forgery which a bank boss placed on the average of N1m per working day of the year in Nigeria. I. Ashimi (1976 p.6) maintained that: -

Fraud has become sophisticated as to make a forged signature on a cheque leaf look good enough for the rightful owner to think that it was his signature.

But a situation, as is being experienced now, where incessant cause of bank fraud are being reported, could if not immediately checked, erode depositors confidence in the nation's banking system. Such a situation could also scare foreign investors from the country.

Ughamadu. N. in his article on celebrating bank fraud "In Business Times 29 July 1991 observed that: -

The logic for establishing a viable and enabling environment for any country will be meaningless if its banking sector is very porous to fraud.

Ojo A.T. (1982) emphasized that; As an open secret, financial institutions do not have very large resources of their own in relation to the total resources at their disposal. They depend mainly on other people's funds which have been entrusted to them because of the confidence the people have on them as models of responsibility and safety. Consequently, the confirmed existence of financial institutions rest delicately on the maintenance of public confidence. This calls for the establishment of an effective system of internal control, which among other things will help to ensure that the organization's accounting are in accordance with the lay down procedures standard and statutory requirements.

To establish a sound internal control system, various organizations adopt various devices and methods based on their nature of business and the scope of their operation.

Internal control system requires a continuous check and re-checking of day-to-day activities of the business; in order to ensure the correctness and fairness of the accounting records and to detect and expose deviation when it has occurred.

Most financial institutions lose confidence of the people not only through fraudulent use of funds but also through some defects in fraudulent practices/or syndication of some dishonest staff facilitated by defects of the bank internal control. There is therefore, a great need to eliminate or minimize the defects or loopholes and make money effective and operational to guard against the occurrence and re-occurrence of fraud in our financial institutions.

## **INTERNAL CONTROL SYSTEM AS A BASIS OF FRAUD PREVENTION AND CONTROL IN NIGERIA FINANCIAL INSTITUTIONS (A CASE STUDY OF FIRST BANK OF NIGERIA PLC ENUGU MAIN)**

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