

PDF - EVALUATION OF EFFECTIVENESS IN INTERNAL CONTROL SYSTEM IN BANKING INDUSTRY A CASE STUDY OF FIRST BANK NIGERIA PLC ABA - researchcub.infoAbstract

This study exposed the researcher to the evaluation of the effectiveness of the internal control system in the banking industry. "internal control is the whole system of control, 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 control system has the following element. Organization: The enterprises must have clear corporate objective, plan policy and duties of the employee should be clearly defined segregation of duties: Basic to the concept of internal control system is the segregation of duties of the employee to ensure that no one person is able to record and process a complete transaction. Physical:

These involve procedural and security measures designed to ensure that access to asset is limited to authorized personnel. Authorization and approval: All transactions require authorization and approval by appropriate and responsible personnel. Personnel: there should be procedures to ensure that personnel have capabilities commensurate with their responsibilities. Supervision: any system of internal control should have means of supervision by responsible officials for the day to day transactions and their recording thereof. Arithmetical and Accounting; these are the controls within the recording function which check that transactions to be recorded and processed have been authorized and that they are complete and accurately processed. Internal control which can be likened to the heart which regulates the business, it helps to adhere to prescribed managerial policy, it also promotes operational efficiency.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Every business unit has certain goals and objectives to accomplish, no matter the size and scope, management has the responsibility of establishing, maintaining a goal of its objectives. The role is not an easy one especially in organizations that are large in size and scope. It is not possible to exercise first hand supervision of operations as such, the installation of internal control system as an indispensable aid to efficient management is inevitable.

According to Pyle, and Larson, (1981), Fundamental Accounting Principles traced the origin of internal control to the complexity of modern business techniques. Although an effective system may be operated, in large companies, but smaller enterprises may have to rely less on formal controls due to personal involvement of management in the enterprise itself.

Internal control is very necessary for every business unit whether large, medium or small. It does not only increase the efficiency of business, but also helps to self-guard the assets and secure accuracy of the record against error. From textbooks and research work done by other people on this, it is generally accepted that internal control is an indispensable aid to efficient management due to the fact that it provides assurance to management. It keeps management informed if the financial position is sound.

Internal control is as important as the organization itself and should be carefully designed and effectively carried out. Failure to do this results in creation of loopholes, which encourages all forms of fraud. At this point, it is necessary to define internal control. According to auditing standard guidelines, it is the whole system of control, 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 control is divided into accounting control and administrative controls and it is elucidated according to Horngren and Foster (1990-1910).

1. Accounting control comprises the method and procedures that are mainly concerned with the authorization of transactions, the safe-guarding of assets and the accuracy of the accounting records. Good accounting controls help increase efficiency; they help decrease waste, unintentional errors and fraud.

2. Administrative controls comprise the plan of organization and all management planning and control of operation.

First Bank Nigeria Plc is one of the universal banks in Nigeria. It was founded in the year 1894, more than a century ago, by Sir Alfred Jones, a shipping magnate from Liverpool. The bank started out as a small operation in the office of Elder Dempster and company in Lagos. They render universal banking services to the public, some of which are acceptance of cash lodgments and savings deposit. They were among the first banks that introduced western Union Money Transfer Services to the public. Another interesting aspect of services which the researcher found they render to the public is the Automated Teller Machine (ATM) services, which they offer to the public recently. These three services, you need not to have account with them to affect such transactions.

Telegraphic transfer is an aspect of transaction where by a customer or potential customer come up to a bank and request for a transfer of fund to another branch of first bank in another town which if affected by Fax and receives a spontaneous remittance at the correspondence branch. Equally they have the same effect of transfer, but in the case of draft the purchaser handles the drafts to the paying branch unlike the telegraphic transfer whereby the fund is already at the branch.

On a daily basis First Bank open more than fifty (50) new savings bank accounts, and their internal rate is as stipulated by the central bank of Nigeria (CBN).

STATEMENT OF THE PROBLEM

Every financial institution strives for fair public recommendation, efficiency, strong management and profitability. However, with complexities in modern day business network, overwhelming introduction of information technology and other human factors, these objectives seems unachievable except with the infusion of strong internal control system into the main stream of the organization process.

No internal control system can by itself guarantee efficient administration, completeness and accuracy of records. This could be attributed to

1. Employment of incomplete and dishonest personnel

Inadequate documents and records
Lack of proper procedures for records keeping

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