EVALUATION OF INTERNAL CONTROL SYSTEM OF BANKS IN NIGERIA

BY

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APPROVAL PAGE

This is to certify that this research project was carried out under our strict supervision and has been approved for submission to the Department in partial fulfillment of the requirements for the award of Doctor of Philosophy (PhD) Accounting of St. Clements University.

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DECLARATION

I, Ifiok Charles Etuk do hereby declare that this work is entirely my own effort and where works of other persons have been used or referred to, the sources have been duly acknowledged.

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DEDICATION

This work is dedicated with love to my dear wife, Asari and my wonderful children, Emmanuella, Inyang, Ifiok, Inemesit and Idara for their love, support, patience, encouragement and understanding.

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ABSTRACT

All organizations whether profit oriented or not, operates within conditions of resource constraints. As a result, various steps are taken and procedures established to ensure that the use of these resources is maximized in achieving organizational goals.

One of such measures involves control. The purpose of this study therefore is to evaluate the effectiveness of internal control system in Nigerian banks. The emphasis was to establish the effect of internal control on the effectiveness and efficiency of operations, the reliability of accounting and management reporting and compliance with applicable laws and regulations in Nigerian banks.

In evaluating the effectiveness of internal control system in Nigerian banks, five (5) banks – Diamond Bank Plc, Ecobank Nigeria Plc, First Bank of Nigeria Plc, United Bank for Africa Plc and Zenith International Bank were chosen from the twenty four (24) existing banks in Nigeria.

Data were obtained from the various departments/sub business units (SBUs) of the selected banks through the use of questionnaires, observation and personal interviews. The data obtained were subjected to extensive analysis.

The entire literature of internal control system was enumerated in chapter two (2), through search of relevant textbooks, journals and other publications in order to ascertain the accounting measures of internal control.

The study confirmed that the presence of Internal Control system in the banks has provided reasonable assurance regarding the effectiveness and efficiency of operations of banks in Nigeria, the reliability of financial and management reporting and guarantees compliance with applicable laws and regulations.

Though controls were observed to be generally effective, there were some lapses noted as there was a high level of bad loans and laxity on the collateralization of margin loans granted by the banks. The study indicates a rise in the level of successful frauds as reported by the regulatory authority. These instances are indications of clear failure in the control process.

We could not also have access to the exception reports generated by the internal control departments of these banks so as to rate the level of policy infractions recorded by the banks neither could we access their periodic and ad-hoc reports to the respective management of these banks.

In chapter three (3), the various methods employed in collecting data for the study were highlighted.

In analyzing the data as shown in chapter four (4), the researcher made use of statistical tools such as Spearman's Rank Correlation model, Pearson Product Moment Correlation and Chi-Square model in testing the hypotheses. Also there was the use of descriptive statistics and simple percentages.

In chapter five (5) the result of the presentation and data analysis as presented in chapter four (4) was discussed and the findings enumerated while chapter six (6) presented the summary of the findings and went further to draw conclusion and recommendations, making suggestions for improvements on gray areas identified in the study.

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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Banking institutions occupy a central position in the nations' financial system and are essential agents in the development process of the economy. By intermediating between the surplus and deficit spending units, banks increase the quantum of National savings and investments and hence national output. By granting credits, banks create money thus influencing the level of money supply which is an essential item in the growth of national income as it determines the level of economic activities in the country.

Banks are central to the payments system by facilitating economic transactions between various national and international economic units and by so doing encourage and promote trade, commerce and industry.

For banks to be able to function effectively and contribute meaningfully to the development of a country, the industry must be stable, safe and sound. And for these conditions to be obtained there must be a sound accounting system, which is occasioned by an internal control system.

In view of the economic growth in companies' size and complexities, proper management of modern business understandings is not possible unless they have an effective system of internal control.

A system of effective internal controls is a critical component of bank management and a foundation for the safe and sound operation of banking organizations. A system of strong internal controls can help to ensure that the goals and objectives of a banking organization will be met, that the bank will achieve long-term profitability targets and maintain reliable financial and managerial reporting. Such a system can also help to ensure that the bank will comply with laws and regulations as well as policies, plans, internal rules and procedures, and decrease the risk of unexpected losses or damage to the Bank's reputation.

The Auditing Practice Committee (APC)defines the Internal Control System as" ……… 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 ensure so far as possible the completeness and accuracy of the records".

There are two essential components of an internal control system

1. Prevent Control

   These are control that prevent errors

2 Detect Controls

   These are controls that detect errors and fraud, which have occurred.

Internal Control System therefore is an essential pre-requisite for an efficient and effective management of any organization including Banks, which is the main focus of this study.

1.2.0 PROBLEM DEFINITION

Internal control system is considered to be essential in accounting system as this will enhance the effectiveness and efficiency of the management of an enterprise.

An effective and efficient internal control system ensures that all recorded transactions are:-

(i) Real

(ii) Properly valued

(iii) Recorded timely

(iv) Correctly classified

(v) Correctly summarised

(vi) Correctly posted

However, whether or not the internal control system has helped the management in having a sound accounting system, particularly in the areas of prevents controls' and detects controls' for which most organizations are facing remained debatable and controversial.

Therefore, the question being asked is whether the controls in internal control system are sure that errors and fraud can be discovered with reasonable promptness, and whether the control procedures as prescribed and applied in practice are successful in preventing and detecting material errors and fraud in the accounting system. Other questions being asked are:

a) Can reliance be placed on the internal control system of banks Nigeria?

b) Can the presence of internal controls leads to the effectiveness in the management of banks in Nigeria?

c) Is Internal Control System responsible for the efficiency of operations of banks in Nigeria?

d) Is there a positive correlation between internal control and the reliance placed on the financial and management reporting?

e) Is there a positive correlation between internal control and Banks compliance with applicable laws and regulations?

f) Is there is a significance relationship between internal control, profitability and liquidity of the banks in Nigeria?

An adequate system of internal control reduces but does not eliminate the possibility of fraud or irregularities and error. An internal control system therefore, can only provide reasonable assurance that the management objectives in establishing the system are achieved. This is propelled by certain problems and limitations inherent in the internal control system.

They include:

(i) Controls have to be cost effective

(ii) Most controls are directed at transactions of a usual nature.

(iii) However, the potential of human error remains in any system of control

(iv) No system however efficient can prevent fraud through collusion between two or more persons.

(v) A member of the management may himself override the controls

(vi) Controls may not keep pace with changes in conditions.

(vii) Finally management itself may manipulate transaction or estimates.

Due to these inherent problems/limitations, the question being asked again is, how deep rooted and fundamental are these problems?

1.3.0 OBJECTIVES OF THE STUDY

The main purpose of this study is to evaluate the system of internal control in Nigerian Banks. In other words to assess control measures that management of the Nigerian banks can adopt within their organizations to ensure the effectiveness and efficiency of operations; reliability of financial and management reporting; compliance with applicable laws and regulations; prevent fraud, intentional errors in accounting records and misappropriation/embezzlement of the organization's assets in order to achieve its goals effectively and efficiently.

Therefore the study intends to:

(i) Examine and evaluate the adequacy or otherwise of the relevance of internal control system in Nigerian Banks.

(ii) Examine the contribution of internal control components (Prevent Controls' and Detect Controls') to the effectiveness and efficiency or Nigerian Banks' management.

(iii) Determine the degree of reliance to be placed on the system of internal control in Nigerian Banks.

(iv) Determine the level of correlation between internal control and the effectiveness and efficiency of operations in Nigerian Banks.

(v) Determine the link between internal control and the reliance placed on the financial and management reporting of the Banks.

(vi) Determine whether internal control ensures compliance with applicable laws and regulations

(vii) Identify and analyse the prevailing problems associated with the internal control system and to examine the extent to which these problems affect the banks.

(viii) To offer useful suggestions and recommendations for overall company improvement in areas of lapses in internal control procedures to the management.

1.4.0 STATEMENTS OF HYPOTHESIS

The following hypotheses will be tested in this study. The testing will determine whether or not to accept the hypotheses.

They are:

1) H_o: Reliance can be placed on the internal control system of banks in Nigeria

2) H_o: The presence of internal controls has led to effectiveness in the management of banks in Nigeria.

3) H_o: Internal Control System has led to efficiency of operations of banks in Nigeria.

4) H_o: Internal control system of banks in Nigeria ensures reliability of financial and management reporting.

5) H_o: Internal Control System of Banks in Nigeria ensures compliance with applicable laws and regulations.

6) H_o: There is a significance relationship between internal control, profitability and liquidity of the banks in Nigeria.

1.5.0 RESEARCH METHODOLOGY

In order to carry out the research, primary and secondary data will be collected through the following methods as appropriate:

(i) Questionnaires: This will be administered on some employees of the banks who will be carefully selected by both stratified sampling techniques and simple random sampling.

(ii) Personal interview.

(iii) Review of relevant literature, including newspapers, magazines, professional accounting journals and so on.

(iv) Review of past research findings.

The data so collected will be analyzed using statistical tools, tables, charts and diagrams including narratives as may be considered suitable. The purpose will be to establish trends, make inferences, draw conclusions and proffer suggestions and recommendations to the problems and questions already enumerated.

1.6.0 SIGNIFICANCE OF THE STUDY

In spite of the official efforts being made to tackle the problem of distress in the nations' financial system, it is unfortunate that a number of banks are still showing signs of distress thereby threatening the very existence of these banks.

The global financial crisis occurred on account of concentration of the credit portfolio of financial institutions on overvalued sub-prime mortgage related assets, built up till 2006. By mid 2007, most of the assets had suffered default. The crisis was felt in Nigeria though lower oil prices, a decline in capital inflow, pressure on foreign resources, and a sharp decline in the performance of the stock market. The impact of the meltdown was felt by Nigerian Banks that were significantly exposed to the capital market, the oil and gas sector and through the drying up of foreign credit lives. This development and the resultant illiquidity experienced by the sector compelled the Central Bank of Nigeria (CBN) to intensify reforms in the Nigeria Banking System.

Several reform measures were deployed by the CBN which include: Reduction in monetary Policy Rate (MPR); Reduction in cash reserve ratio; directive for restructuring of margin loans; suspension of liquidity mop up; enforcement of CBN Code of Corporate Governance for Banks in Nigeria; deployment of Resident Examiners to banks; Review of the Contingency Plan for Systemic Distress in Banks; and Intervention in the inter-bank market though guaranteeing of transactions. Despite these pressures, the challenges of illiquidity persisted. The situation was reinforced by the poor asset quality of some banks which engendered concerns about the systemic risk arising thereon.

Consequently, a special examination to review, evaluate and determine the quality of the banks' portfolios, corporate governance issues, as well as their risk management framework was jointly undertaken by CBN/NDIC (Nigeria Deposit Insurance Corporation) in June 2009.

The exercise revealed various infractions including substantial non-performing loans; poor corporate governance; weaknesses in capital adequacy; and illiquidity in the system. These infractions would have been proactively uncovered and prevented had there been an effective internal control system in place.

Consequently, the Central Bank of Nigeria (CBN) approved new Managing Directors (MDs)/Chief Executive Officers (CEOs) and Executive Directors for eight (8) of the ten (10) weak banks out of the twenty five existing banks and task them with the responsibility of continuing the business of the banks as going concerns. Furthermore, the CBN injected a total of N620billion into the affected banks in the form of Tier II Capital.

As instability continues to ravage the banking industry, it becomes apparent to scrutinize logically the system of internal control in operation in the banking industry. And realising that banking institution are essential agents in the development process of the economy, every Nigerian scholar should endeavor in one way or the other to offer useful suggestions to save them from business failures. It is this concern for the sustenance, increased productivity and operational efficiency in the banking industry that motivated the researcher to understudy the internal control measures or procedures appropriate for Nigerian Banks.

It is the researcher's conviction that inefficiency and ineffectiveness resulting in low production fixity, low profitability and chaos in organisations are the products of inadequate and poor internal control measures in the organisations concerned. If this holds true, then a study such as this will help organisations to assess their internal control system and make amends where need arises, if their survival, effectiveness, efficiency and profit maximization objectives among others are to be achieved in an orderly and efficient manner.

Research studies and even text books on internal controls are not exhaustive. It is in this view that the researcher claims that this study will be a valuable reading material for students and researchers. The study will also serve as a manual to managers of banks as well as other business organisations.

It is hoped that the work would provoke further research into internal controls in other arms of the financial sector (insurance, mortgage institutions and investment companies as well as other non banking organizations.

1.7.0 RESEARCH LIMITATIONS AND CONSTRAINTS

Although there are many banks in operation in Nigeria today, it will be very difficult to attempt coverage of these banks in a study as the current one. Time and financial constraints tended to cripple the extent and depth of this study.

The combination of a demanding banking career with a research project and other stress of life in Lagos are very burdensome. Therefore on account of both resources and constraints, the researcher has decided to select a few but prime banks – Diamond Bank Plc; Ecobank Nigeria Plc; First Bank of Nigeria Plc; United Bank for Africa Plc and Zenith International Bank Plc amongst the twenty four (24) banks in Nigeria.

Another limitation for smooth research is the inadequacy of facilities. This is in form of data collection. Some banks officials deliberately refuse to provide some necessary information's due to what is being referred to as 'classified and confidential information'.

The researcher could not obtain interview with executive management of these banks to enable him appreciate their understanding, approach and appreciation of control related activities.

We could not also have access to the exception reports generated by the internal control departments of these banks so as to rate the level of policy infractions recorded by the banks neither could we access their periodic and ad-hoc reports to the management of these banks.

It is hoped however, that the findings on the sample will provide approximate conclusions regarding the other banks in Nigeria and will therefore, apply and be generalized.

1.8.0 BRIEF HISTORY AND BACKGROUND OF THE SELECTED BANKS

The brief history and background of the selected banks are as presented by BGL Securities Limited in its January 2010 Banking Reports "getting banks to lend again" posted on the company's website, www.bglsecuritiesltd.com.

1.8.1 DIAMOND BANK PLC.

Diamond Bank Plc was incorporated on December 20, 1990 and began as a private limited liability company on March 21, 1991. In February 2001, it became a universal bank. In January 2005, following a highly successful private placement share offer which substantially raised the Bank's equity base, Diamond Bank became a public limited company. In May 2005, the Bank was listed on the Nigeria Stock Exchange and in January 2008, its Global Depositary Receipts (GDR) was listed on the Professional Securities Market of the London Stock Exchange. Diamond Bank Plc is a Primary Dealer and Market Maker (PDMM) in Federal Government of Nigeria (FGN) Bonds.

In 2007, Actis, a leading private equity investor in emerging markets, led a US$134m investment in Diamond Bank Plc, giving it a 14.8% stake in the bank. The investment comprises Actis's two pan-African private equity funds (Actis Africa Fund 2 and the Canada Investment Fund for Africa which is jointly managed with Cordiant) together with additional investment from CDC, the UK government-backed private equity emerging markets fund of funds investor and an anchor investor in Actis's funds.

Diamond Bank scaled through the stress-test of its operations carried out by the Central Bank of Nigeria (CBN) in 2008. The balance sheet of the bank shows a margin loan portfolio of N20.2Billion, made up of N19.6billion granted to individuals and stock brokers and N0.6billion granted as facilities to other corporate bodies. Its total loan port-folio jumped to N250billion in 2008 from N108billion in 2007 representing an increase of 132%. Despite the growth of Gross

Loans and Advances, it was able to reduce its non-performing loan ratio to 4.4% in 2008 from 7.7% in 2007.

1.8.1.1 International partnership

The bank has on-lending facility arrangements with several International Development Financial Institutions (DFIs), including International Finance Corporate (IFC); European Investment Bank (EIB); and Afrieximbank, guarantee line with USEXIM and trade finance facilities with IFC and many Export Credit Agencies (ECAs), such as USEXIMBANK, ECGD, SACE and HERMES. The bank also partners with Crown Agents Investment Management Limited for external reserves management – currently manages US$400M. International Banking partners include Citibank; HSBC Bank; ANZ Banking Group; ING BHF Bank AG; Standard Chartered Bank; Belgolaise Bank S. A.; Deutsche Bank; Commerzbank; and Nordea Bank Plc.

1.8.1.2 Preeminent position outside its origin

Diamond Bank became the first African Bank to be listed on the Professional Securities Market (PSM) of the London Stock

Exchange (LSE) following the official listing of its $500m Global Depositary Receipts (GDRs). The bank was also the first Nigerian Financial Institution to venture into Francophone West Africa with the establishment of subsidiary in Republic of Benin.

1.8.1.3 West African expansion drive…leveraging on Republic of Benin franchise

Leveraging on Diamond Bank Benin S. A. and with the expectation of the approval from the regulators of the West African Monetary Union (WAMU) zone, the bank aimed at expanding to Cote d'lvoire, Senegal and Togo. The strategy is to take advantage of business opportunities within the region.

1.8.1.4 How sustainable is the bank's liquidity?

The difficult operating climate, occasioned by the global meltdown, capital market crisis, among others affected the bank's liquidity. Cash and balances with Central Banks dipped to ₦62.8 billion in 2008 from ₦85.7 billion representing a decline of 26.6% while assets due from other banks Increased by 81% to ₦137.2

billion in 2008 as against the ₦26.1 billion recorded the preceding period.

1.8.1.5 Subsidiaries growth still minimal

The subsidiaries' contribution to profit before tax (PBT) grew to 7.1% in 2008 from 2.4% in the preceding year, while the bank currently dominates the group's performance. The contribution of the subsidiaries to the group's Gross Earnings Increase to 6.3% from 3.3% for the previous year with Diamond Bank Benin (DBB), Diamond Securities Limited (DSL) and Diamond Mortgages Limited (DML) leading the others.

1.8.1.6 Retail banking

Its retail banking business contributed 40.3% of the bank's total deposit liabilities. The savings account deposit is also yielding results with a growth of 42.4% while the customer base grew significantly by 52.1%. The growth is expected to continue in the medium to long-term.

1.8.1.7 Structure of Business

Diamond Bank Plc provides banking and financial products and services to corporate and individual customers in Nigeria. The bank's operation is streamlined into three distinct strategic business segments: Retail banking, Corporate Banking and Public sector.

It also focuses on the development and management of business relationships with multinational and local large corporations in the manufacturing, oil and gas, and specialized industries. The bank offers pension custodial services; provides mortgage services; acts as broker/dealer, registrar, investment adviser/portfolio manager, and trustee; and offers life and non life Insurance, as well as bancassurance services. As of May 20, 2008, it operated 162 branches and had a total of 2.889 employees.

Table 1.8.0 Diamond Bank's subsidiaries

Subsidiaries	% Holding
Diamond Bank Benin	95%
Diamond Securities Limited	80%
Diamond Pension Fund Custodian Limited	100%
Diamond Mortgages Limited	100%
ADIC Insurance Limited	95%

Source: Diamond Bank's Annual Report, 2009

1.8.1.8 Key Strengths

(i) Strong risk management team: The focus on effective risk management in its 2009 financial year was a major contributory factor to its escape of the CBN's hammer, as it emerged among the five banks that scaled through the apex bank's recently concluded stress-test.

(ii) Strong capital adequacy ratio and liquidity ratio which remain high at 19.4% and 43.7% compared to statutory minimum of 10.0% and 25.0 respectively.

(iii) Strong market perception as one of the leading brands in the banking sector.

1.8.1.9 Key Weaknesses

Reach/Availability: Diamond Bank appears to be lagging behind In terms of local branch expansion when compared with its peers in the banking Industry.

Slow opportunities taker: Slow to unwind its retail strategy especially in non-cash transaction opportunities surrounding Debit/Credit Cards using ATM machines, because of high default risk. This has weakened the growth and competitiveness of the bank in the banking space.

1.8.1.10 Strategy

The primary growth strategy of the bank is to continue to develop products in order to win more customers and increase the deposit base. Collaborating with customers and partners remains one of the key central policies. With their strategic expansion, the bank continues to have presence in the Francophone and Anglophone countries. With targeted strategic international partnerships, the bank is leveraging on International alliances and joint ventures to facilitate access to long-term debt funding.

1.8.1.11 Ownership Structure

Actis, a leading private equity investor in emerging markets is the largest shareholder of the bank, holding more than 5% of the issued share capital as at 30 April, 2008.

Table 1.8.1 Diamond Bank's shareholder structure

Shareholder	% Shareholding
Actis Investment Corp.	14.8%
Foreign Investors	4.6%
Nigerian Investors	80.6%

Source: Diamond Bank Report

1.8.1.12 Financial Performance

Its report for 2009 review indicates a 51.4% increase in Gross Earnings which hit N60.1 billion as against N39.7 billion the previous year. Profit before Tax for 2008 stood at N16.21 billion, representing growth of 112.2% over the N7.64 billion recorded in 2007. The bank's provisioning for bad and doubtful accounts for the year under review grew by 115.02% to stand at N4.80 billion. Profit after Tax Increased by 122.2%.

The bank's Deposit base, which is a measure of its service delivery performance, achieved 92.8% growth, moving from N217.2 billion in 2007, to N419.7 billion in 2008, while Total Assets rose to N625.7 billion, a growth of 94.9 over last year’s figures. Gross Loans and Advances grew by 131.7% to N250.3 billion in 2008.

1.8.2 FIRST BANK OF NIGERIA PLC

This is Nigeria's pioneer bank with over 100 years of existence. First Bank of Nigeria Plc (FBN) was founded in 1894 as Bank for British West Africa (BBWA) and immediately absorbed African Banking Corporation which had earlier been established in 1892. In those early days, the bank performed Central Banking functions for the British Colonial Government in the West African sub-region. Along with local rival, Union Bank of Nigeria Plc (UBN), First Bank was listed on the Nigerian Stock Exchange (NSE) in 1971. Having gone through a series of name changes, the bank finally settled for the "First Bank" appellate in 1979.

In 1998, FBN embarked on a new business transformation Initiative-Century II. At the turn of the millennium, the BIG 4 as they were then known, FBN and its peers UBN, United Bank for Africa Plc (UBA) and Afribank were largely perceived by the banking public as old-generation banks, a synonym for their conservatism and poor customer service. These banks were under increasing threats from competition posed by the newly established new generation banks riding on the back of modern banking trends and better customer service. Thus FBN embarked on Century II, to counter this threat and to retain its leadership position. The Century II initiative led to the bank dropping its old-school toga and adopting modem banking methods and new investments in technology.

FBN's leadership size has gradually been eroded by UBA riding on the back of its merger with the then Standard Trust Bank (STB) as well as its Pan-African expansion. Amidst growing Investor inertia, FBN has resumed merger talks with Ecobank Transnational lnc. (ETI) (presence in 26 African countries) for the umpteenth time. The bank's chances of catching up with

UBA might be hinged heavily on the success of such merger plans.

FBN achieved a higher Pre-tax Profit of N53.8billion representing 12.3% growth (N47.9 billion 2008. However, the Group's Net Profit dropped by 65.7% to N12.6 billion from N36.7 billion in 2008 as a result of the write-down of N26.11 billion from the diminution in value of funds under management of its subsidiary First Trustees Nigeria Ltd. The effect of this reduced profit and the dilutive effect of the N250 billion in fresh equity capital raised in 2007 was a lower Return on Equity (ROE) of 3.7% (10.4%, 2008).

1.8.2.1 STRUCTURE OF BUSINESS

FBN currently operates across three countries in two different continents - France, Nigeria and the United Kingdom with 523 branches. However, the bank's France representative office was floated by FBN Bank (UK) Limited to handle banking Interests from Francophone West Africa. The bank has also received regulatory approval from the China Banking Regulatory Commission (CBRC) to open a Representative Office in Beijing, China.

FBN's Nigerian banking operations like most of its peers still remains the stronghold of the group. The Nigerian operations of the bank contributed 96% of the Group's revenues in 2009 (95%, March 2008).

FBN operates as a well diversified financial conglomerate with interests across different spheres of the financial industry. However, the banking business remains the mainstay of the bank in terms of contributions to revenue and profitability, generating 90% other group's revenues by March 2009 (89%, March 20008) and 95% of net profits by March 2009 (80%, March 2008) while the other business segments accounted for the balance.

Table 1.8.2 FBN's Subsidiaries and Associate Companies

	Country	% Holding	Principal Activity
FBN Bank (UK) Ltd.	Nigeria	100%	Banking
FBN Bureau de Chance Ltd.	Nigeria	100%	Bureau de change
FBN Capital Ltd.	Nigeria	100%	Assert Management
FBN Insurance Brokers Ltd.	Nigeria	100%	Insurance Broker
FBN Microfinance Bank Ltd.	Nigeria	100%	Banking
FBN Mortgages Ltd.	Nigeria	100%	Mortgage finance
First Funds Ltd.	Nigeria	100%	Financial services
First Pension Custodian Ltd.	Nigeria	100%	Pension custody
First Registrars Nigeria Ltd.	Nigeria	100%	Secretarial services
First Trustees Nigeria Ltd.	Nigeria	100%	Financial services
Kakawa Discount House Ltd.	Nigeria	37.70%	Financial services

Source: Company Data

FBN has adopted a largely organic growth structure though the merger talks with ETI show the bank is open to brown field options. Outside these merger talks, FBN has pursued a largely home-based policy wherein the bank's operations have been mostly domiciled in Nigeria. It has shunned the West African rush of its peers.

1.8.2.2 Key Strengths

(i) **Strength of brand positions: FBN as safety nest for customer deposits:** FBN has built a legacy of trust and this perception positions the bank to benefit from a flight to safety of deposits amongst Nigerians. Thus, in the midst of the liquidity contraction, FBN grew deposit liabilities by 70.6% to ₦1.2 trillion (₦700.2 billion, 2008).

(ii) **Well diversified network of branches:** FBN has a well diversified branch network across Nigeria (total of 523) which gives the bank a comparative advantage over its peers to mobilize cheaper demand deposits and provides a formidable platform to distribute its products.

(iii) **Renewed marketing vigour:** FBN has embarked on increased marketing and growth of its brand presence to remain competitive. This renewed marketing vigour combined with the existing strength of the bank's brand will see the bank increase its market share.

(iv) **Quality of management:** Banks in Nigeria have often been criticized for sliding into a one-superman oligarchy with no top-leadership succession plans. FBN has a successful track of transitions of Chief Executives, while its 15-man board which comprised of eight Independent non-executive directors ensures adherence to the code of corporate governance.

(v) **Higher Disclosure levels:** Though First Bank will only be adopting IFRS accounting standards for the first time in its December 2009 accounts, it is on note that amongst quoted companies on the NSE, First Bank has a higher than average disclosure level in its audited accounts. The high ethical standards of the bank also increase the level of reliance on its financial statements.

1.8.2.3 Key Weaknesses

(i) **High dividend payouts:** Between 2005 and 2009, FBN had an annual average dividend payout of 92%. We note that this high payout ratio for the five years was largely distorted by the 267% payout ratio of 2009 when ₦1.35 Dividend Per Share (DPS) was paid on an Earnings Per Share (EPS) of N0.51, which implies that dividend was funded from the company's reserves. Prior to 2009, dividend payout was 48%

of net profit. The high dividend payout in Nigeria can be attributed to high investor expectation and shareholders' activism which places high pressure on quoted companies for high dividend payouts.

(ii) **High Interest Expense:** Though First Bank is renowned for its large retail numbers (4.2 million customers); its strategy of "sourcing low cost deposits by attracting small saver" has not been particularly effective. Amongst its peers. First Bank has the highest deposit costs (computed as the ratio of interest expenses to total deposits) of 4.60%, Zenith Bank (4.52%), GTBank (3.54%, and UBA (3.10%).

(iii) **Dipping shareholders' Returns on equity:** A high Investor expectation for dividend payouts in Nigeria has often been at the expense of retained earnings for future business expansion and on the other hand overlooking Return on Equity (ROE). First Bank's ROE has been on a steady decline from its five year high of 27% in 2005 to 4% in 2009. The biggest year-on-year drop in ROE occurred in 2008 when it dropped from 22% the year before to 10%. With more CBN induced write-downs, it is expected that the 2009 ROE of its peer to dip in similar pattern.

1.8.2.4 Strategy

(i) **Lower cost of deposit liability through small savers:** FBN has traditionally adopted for a strategy of attracting small savers whose principal consideration is the safety of their funds at a relatively low cost: To this end, savings deposits account for 20.25% of total deposit liabilities, the highest amongst its peers, while accounting for 10.41% of interest expense. However, as earlier stated. FBN has the highest cost of deposits in 2009 at 4.60%. To fully achieve the purpose of bringing down the cost of deposits, FBN will need to mobilize more sayings deposits. The common year end policy of the CBN will also mean a greater fight for deposits and a higher cost of deposits. Banks will offer higher yields to attract deposits and we believe to remain competitive. FBN may incur higher interest on deposits.

(ii) **Infrastructure funding:** FBN has become very bullish in the more long-term project financing business, serving as the lead arranger in majority of the big-ticket project financing deals. The bank has signed a number of Memorandum of Understanding (MOUs) with Chinese firm which is believed to have encouraged the desire for a representative office in China. First Capital has also benefited by providing financial advisory services for these deals.

(iii) **Upgrading Its IT Infrastructure and communication technology:** First Bank's ability to place its entire branch network operations at the reach of its large customer base could be the cutting edge strategy that will help increase the bank's market share.

1.8.2.5 OWNERSHIP STRUCTURE

Official data from FBN states that no single shareholder of the bank owns up to 5% of the bank's issued share capital. Amongst the Board members, the Chairman, **Dr. Otudeko, AyooIa Oba** holds 1.94% in direct and indirect holdings and is the single largest shareholder on the board while former Chairman, **Alhaji U. A. Mutallab** ranks behind him with 1.17%. Altogether the company has over 1.3m shareholders and has the most diversified ownership structure amongst listed companies on the Nigerian Stock Exchange.

1.8.2.6 FINANCIAL PERFORMANCE

FBN has traded at a 52 week high of ₦28.71 (1 September 2008) and a 52 week low of ₦12.70 (21 August 09). However, we recollect that the bank remains the only Nigerian company to have crossed the ₦1 trillion naira mark (US$84.96m) in market capitalization (11 February 2008) when its share price reached ₦52.25.

Following the regulatory-induced consolidation of 2006, triple digit growth year-on-year amongst Nigerian banks became common place. However, First Bank has had a more conservative growth level with most of its financial indices growing by double digits.

In Nigeria, the Total Asset Size of banks is a major ego Index. First Bank has the largest asset size in the Industry; this crossed the ₦2 trillion mark in 2009 when it hit ₦2009 trillion, a 31% growth over 2008's figure (1528 trillion). The major drivers of the growth in Total Assets were the loan books and placements with local and foreign banks. Placements with local banks Increased by 49% to ₦452 billion (₦304 billion, 2008) while placements in foreign banks grew by 21% from ₦256.9 billion to ₦312 billion.

FBN is the largest lender in Nigeria with 8.8% market share of total industry loans and a 7% market share of deposits placing it in the fifth position. In September 2009, the bank improved its loan to Deposit ratio to 72% from 103% in September 2008 through deposit growth of 41% to ₦1.2 trillion (₦851 billion September 2008) and a 1% drop in loans in September 2009.

1.8.3 UNITED BANK FOR AFRICA PIC

United Bank for Africa Plc's (UBA) history dates back to 1948 when the British and French Bank limited (BFB) commenced business in Nigeria and then in 1961, UBA was incorporated to take over the business of BFB. In 1970 UBA became the first bank to be listed on the Nigerian Stock Exchange. Today's UBA is the product of the 2005 merger of Nigeria's third (3^{rd}) and fifth (5^{th}) largest banks, namely the old UBA and the erstwhile Standard Trust Bank Plc (STB) respectively, and a subsequent acquisition of the erstwhile Continental Trust Bank Limited (CTB).

1.8.3.1 Adds 148 branches to network through CBN's Purchase Assumption window

UBA has been the most active bank in the CBN's cherry picking programme for liquidated banks as a result of the 2005 regulatory induced banking consolidation. In 2007, the bank acquired Trade Bank. Metropolitan Bank, City Express Bank and African Express Bank. Liberty Bank and Gulf Bank were also acquired in 2007. As a result, the bank added 148 branches to its network from these liquidated banks and has been able to retain 70% of the deposits acquired from these banks.

1.8.2.3 Branch Network

In Nigeria alone, UBA has 613 branches, which means it has well more than 100 branches over its closest rival-First Bank. Globally the bank has 694 branches and retail outlets. UBA has about 6.6m customer accounts while First Bank has about 4.5m. UBA's focus on consumer and retail banking is premised on the following: intense competition for corporate deposits amongst banks, high costs and lower margins on corporate deposits, low cost efficiency and higher margins of retail market. Its wide branch network also gives it easier access to cheaper customer deposits.

The company's 9 months interims released on July 31, 2009 reveal Gross Earnings growth of 34% over the same period of 2008 to ₦160.6 billion while PBT and exceptional items fell slightly by 3% to ₦33.7 billion. The 63% dip in Q3'09 pretax earnings to ₦12.4 billion was due to ₦21.3 billion in provisions. The bank's total exposure to margin loans currently stands at ₦24 billion out of which it restructured ₦16 billion and made provisions for ₦11.7 billion; representing 55% of total loan loss provisions.

1.8.3.3 STRUCTURE OF BUSINESS

UBA operates with 694 branches in 14 countries across three continents including Nigeria, Benin. Cameroun, Uganda. Ghana, Cote d'ivoire, Liberia, Sierra Leone, Senegal, Burkina Faso, Cayman Island, USA, UK and France. The bank has filed applications for banking licenses In China, UAE and nine other African countries.

The company's September 2009 interim results show that its ex-Nigeria operations contributed 11% of Gross Earnings (1.6%, Q3'08). This is a historical high for the bank. Of this figure, New York contributed 32% while the Burkina Faso operations contributed 28%. The Ghanaian operations earned 18%, Benin Republic 9%, Cameroun 7% while the others contributed 6% to the segment's gross earnings during the period. Burkina Faso remained the highest contributor within the African continent. We recall that unlike in other African countries where UBA adopted a brown field approach, the bank acquired the state owned Banque Internationale du Burkina Faso (BIB) of Burkina Faso, thus possessing a formidable structure from commencement of business in the country. Deposit liabilities from outside Nigeria also attained another historic high in Q3 of 2009 when it accounted for 12% (2%), 03’08) of the Group's deposit liabilities.

Table 1.8.3 UBA's Subsidiaries and Associate Companies

Subsidiaries	Country	% Holding	Principal Activity
UBA Ghana Limited	Ghana	51%	Banking
UBA Cameroun SA	Cameroun	100%	Banking
UBA Cote d'ivoire SA	Cole d'ivoire	100%	Banking
UBA Liberia Limited	Liberia	100%	Banking
UBA (S L) Limited	Sierra Leone	100%	Banking
UBA Uganda Limited	Uganda	100%	Banking
Banquet Internationale Du Burkina Faso SA	Burkina Faso	51%	Banking
UBA Microfinance Bank Limited	Nigeria	100%	Banking
UBA Asset Management Limited	Nigeria	100%	Asset management
UBA Capital (Africa) Limited	Nigeria	100%	Investment Banking
UBA Capital (Europe) Limited	Nigeria	100%	Investment Banking
UBA Pension Custodian Limited	Nigeria	100%	Pension Custody
UBA Metropolitan Life Insurance Limited	Nigeria	100%	Insurance
STB Capital Market Limited	Nigeria	100%	Investment Banking

Source: Company's Annual Reports, BGL Research

1.8.3.4 Key Strengths

(i) **Large distribution network:** Amongst Nigerian Banks, UBA has the largest distribution network of branches, Automated Teller Machine (ATMs) and Point of Sale

(POS) machines. As at 30th June, 2009, the bank had 694 branches (621.June 2008), 1.592 ATMs (1,205, June 2008), 3,713 POS machines (3.296. June 2008. This has translated into over 6.6m customers in the retail and corporate maker segments-the largest for any Nigerian bank and a large deposit base.

(ii) **Quality of management:** UBA has one of the strongest management teams in the industry. The management of the bank has also imbibed a rich culture of communicating its strategies, goals and plans while achievement of these plans has been relatively impressive. UBA has a 20 man board of directors which comprised 11 non-executive directors and nine executive directors.

(iii) **Higher disclosure levels:** UBA currently prepares its accounts based on Nigerian GAAP accounting standards and will only be adopting IFRS accounting standards for the first time in its December 2009 accounts.

Nevertheless, we note that the bank has high disclosure levels relative to its Nigerian peers. This obtains not Just for audited financial statement, but. But for its un-audited interim reports during the financial period.

1.8.3.5 Key Weaknesses

(i) **Week customer service:** UBA is perceived to have weak customer service compared to its peers. This is largely linked to stringent operational procedures at its branches, large customer base and I.T weaknesses. UBA Prestige was established in 2008 to serve the affluent and high net worth social classified in Nigeria. However, it is believed that UBA Prestige might not be a sustainable approach to redeeming its poor customer service image and there is need for a more holistic approach.

(ii) **High Cost to Income Ratio:** The high cost of doing business In Nigeria especially pertaining to the poor infrastructural framework increases the cost burden of businesses. In its Q3'09 interim results, UBA's Cost to

Income ratio increased by 8% to 67.2%. First Bank – 66.8%. The bank has a targeted cost to Income ratio of 50% by 2011.

(iii) **Unexploited capacity to create risk assets:** UBA's Q3'09loan to deposit ratio dropped by 6.2% to 46.4% (52.6% Q3’08). This falls way below the bank's internal limit of 60% and the 80% regulatory cap. Amongst its peers, only Zenith Bank has a lower loan to deposit ratio of 39% whilst others maintain higher ratios First Bank 64%, GTB 91%.

1.8.3.6 STRATEGY

(i) Pan-African strategy: UBA has a target of having local presence in 30 African countries by 2010 and earning 30% of the group's revenues from operations outside Nigeria. The bank currently operates in 10 African countries while it awaits regulatory approval in nine others. UBA has a three year plan towards becoming one of the top six banks in sub-Saharan Africa. According to the bank, Africa-wide expansion is based on the following:

(ii) Asset and revenue diversification to reduce risk;

(iii) Need to facilitate trade and investment flows across Africa as intra-continental trade improves;

(iv) UBA also says that many of the African countries are growing more rapidly than Nigeria and with lower levels of banking sophistication. The bank wants to pursue growth opportunities by adapting products and services developed in Nigeria to its operations in other countries.

The other key corporate objectives are:

a) Increase market share to 25% - 30% by 2011

b) Attain top 3 position in each business segment

c) Presence in all major global financial centres

d) Dominate retail banking

e) Achieve cost to income ratio of 50% by 2011

f) Deploy risk management standards in key areas of operations

Overall the bank seeks to become the leading bank in Nigeria as measured by total assets, deposit liabilities, gross earnings, profit before tax, ROE, market capitalization and branch/ATM network.

1.8.3.7 OWNERSHIP STRUCTURE

Official data from UBA shows that the top 10 shareholders own 35.4% of the bank, with the balance of 64.6% owned by other Nigerians. Members of the Board of Directors collectively control 6.6% of the bank's shares in direct and indirect holdings. Altogether the company has over 240,000 shareholders.

Table 1.8.4 UBA's Shareholder Structure

Shareholders	% Held
First Dominion Investment Ltd.	6
The Bank of New York Mellon	6
BGL Plc	6
Consolidated Trust Funds Ltd.	5
Others	77

1.8.3.8 FINANCIAL PERFORMANCE

The financial year end 2009 came during the gloomiest of times marking the start of a series of negative earnings from industry participants. UBA posted a loss of ₦7.24 billion in 2009 a drop of 117.86% from ₦40.83 billion profit recorded in the same period of 2008. The bank recorded a 5-year Compound Annual Growth Rate (CAGR) of 52% in Gross Earnings which increased from ₦24.50 billion to ₦198.15 billion between 2004 and 2009. Interest Earnings also show a 5-year CAGR of 45.52% in corresponding years making up 73% of total Gross Revenue, up from 69% in 2008. Correspondingly, Interest Income per Earning Assets rose to 11.72% in 2009.

Total Loans and Advances increased by 27% to ₦587.74 billion in 2009 from ₦461.70 billion in 2007. This resulted in an increase in the percentage of Classified Loans from 3.51% in 2008 to 9.02% in 2009. Deposits and other accounts dropped by 5.33% to ₦1.26 billion in 2009 from ₦1.33billion in 2008. In terms of total assets, UBA grew moderately over the past five years, with a 5-year CAGR of 39.50% from ₦212 billion in 2004 to ₦1,562 billion in 2009.

1.8.4 ZENITH INTERNATIONAL BANK PIC

Within 20 years of incorporation Zenith Bank has arguably ascended to the top of the banking Industry with assets growing a remarkable 1488.69% from ₦112.53 billion in 2003 to ₦1.787 trillion in September 2009.

Zenith Bank has achieved phenomenal growth & recognition across the financial landscape in Nigeria and beyond. It is a well appreciated name in terms of professionalism, efficiency and customer satisfaction. Through aggressive marketing strategies via media publications and street awareness the bank has claimed a spot amongst Africa's top banking enterprises.

Zenith Bank has consistently seen its public offers oversubscribed which is a testament to market sentiment towards the company and investors belief in its brand, management and ability to compete fiercely within the Industry. In 2004 the bank raised about ₦20.39 billion from approximately 290,000 subscribers, at that time, a record in history of the capital market with a 556% subscription rate. Yet again in February 2006, the bank raised ₦53.63 billion by way of a public offering of 3 billion shares and immediately succeeding those with an outstanding ₦130 billion combined public offer and rights Issue.

Zenith Bank has traditionally placed high emphasis on the customer, seeking new ways to satisfy the customer by producing sustainable value in a more competitive manner. The bank is upgrading its technological platform to improve transaction efficiency with an increase in POS service machines, and other forms of e-payment technology.

The bank’s shareholders fund hit ₦346 billion in 2008, 198% growth over the previous year, and to this end paid out what is the highest dividend by a bank in the history of the industry, a whopping total of ₦28.5 billion. The bank's consistency over the years has earned it excellent ratings by domestic and International business/credit rating agencies, for example Augusto & Co rated Zenith Bank Aaa for the last decade, while on the global scene Fitch recommends AA-. Standard & Poor rates it at a BB-.

1.8.4.1 STRUCTURE OF BUSINESS

The bank is shaped like most of its competitors, having mostly an organic growth strategy. The bank is divided into four business segments, the largest by way of revenue generation being Corporate & Retail banking, with this unit alone generating more than 96.1% of the bank's total income. The other business segments are Investment management & Securities Trading, General Health and Life Insurance.

Table 1.8.5 Zenith International Bank's Subsidiaries

Subsidiaries	Country	% Holding	Principal Activities
Zenith Capital Limited	Nigeria	100	Investment banking
Zenith Securities Limited	Nigeria	100	Stock broking
Zenith Registrars Limited	Nigeria	100	Capital Market
Zenith General Insurance Company Ltd.	Nigeria	100	Insurance
Zenith Pensions Custodian Limited	Nigeria	100	Pension
Zenith Life Assurance Company	Nigeria	100	Insurance
Zenith Trust Company Ltd.	Nigeria	100	Trusteeship
Zenith Medicare Limited	Nigeria	100	Health Insurance
Zenith Bank (Ghana) Limited	Ghana	100	Banking
Zenith Bank (UK) Limited	UK	100	Banking
Zenith Bank (Sierra Leone) Ltd.	Sierra Leone	100	Banking
Zenith Bank Representative Office (South Africa)	South Africa	100	Banking
CyberSpace Networks Limited	Nigeria	100	Info. Tech

Source: Company’s Annual Reports, BGL Research

1.8.4.2 Key Strengths

(i) Zenith Bank possesses a large balance sheet which would enable it absorb large write-downs and ever increasing loan loss provisioning, which have become necessary following the CBN's push for greater disclosure in financial statements; with this it is believed Zenith bank has sufficient weight to survive this drastic change in policy.

(ii) Zenith Bank has a very large branch network spanning the whole country. With offices in every state capital and a deliberate push into the hinterlands, the bank has shown real intent to be closer to the customer which paid off over the last banking year with a 169.94% increase in deposits.

(iii) The bank has an experienced management team with diverse expertise and practical knowledge of the local market.

1.8.4.3 Key Weaknesses

(i) Zenith Bank had been viewed as a one-man bank with no obvious succession plan to the current chief executive of the bank who has been at the helm since inception, a potentially worrying factor to investors, customers and other stakeholders. However, the recent (CBN's limiting of bank CEO$' tenure to ten years has forced the bank to announced a successor. Industry watchers are still apprehensive of the bank's performance under the new dispensation.

(ii) Rapid expansion comes at a cost especially in this sector of the economy, aggressive marketing means huge capital outlay for recruitment and development of human capital as well as increased advertising costs which have reduced earnings and depleted shareholder value in the short term.

1.8.4.4 STRATEGY

The bank has identified key business paths for the future that will drive the growth strategy. These include:

(i) Understanding the business environment of their clients by forming substantial relationships with Individuals and corporate with solution provision at the core of intentions.

(ii) Customer orientation to ensure top quality services to every client.

(iii) Expanding its business by establishing non-bank financial services subsidiaries to complement its core trade. Also expansion into the West African sub-region and global financial capitals is top on the agenda.

(iv) Regular upgrading of its technological backbone and systems, while prospecting new capabilities, advancing operational efficiency and realizing economies of scale.

Table 1.8.6: Zenith Bank's Shareholding Structure

Shareholders	**% Held**
Jim Ovia	9.5%
Institutional Investors Ltd.	8.8%
Lurot Barca Ltd	5.1%
Others	76.6%

Source: Company's Annual Reports, BGL Research

1.8.4.5 FINANCIAL PERFORMANCE

The 15 month financial year ending September 2008 showed strong profits in banking operations reflected in improvements in Gross and Net Earnings. The bank posted a PAT attributable to shareholders of ₦51.61 billion in 2008 an Increase of 181.18% from ₦18.35 billion 2007. Deposits grew by 68.95% from ₦701.98 billion in 2007 to ₦1.19 trillion in 2008, and Gross earnings rose by 119.53%, from ₦94.88 billion to ₦208.29 billion. Profit Before Tax also increased by 118.54% from ₦25M billion to ₦56.12 billion In spite of a 114.98% increase in the bank's total expenses for the year as a result of 100% increase in other Operating Expenses from ₦28.89 billion in 2007 to ₦49.28 billion in 2008, 181.5% increase in Interest Expenses, 131.68% increase in staff costs and remuneration and 88.30% growth in depreciation of assets. The bank recorded a 5-year CAGR of 54.15% in Gross earnings which increased from ₦17.84 billion to ₦208.29 billion between 2004 and 2008. Over the same period, after-tax Profit grew at a CAGR of 57.61% from ₦438 billion to ₦51.99 billion.

Total Loans and Advances Increased by 56.21% to ₦459.57 billion in 2008 from ₦294.21 billion in 2007, and a five-year CAGR of 30.38% from 2004 to 2008.

Despite the slowdown in lending activities by Nigerian banks, Zenith Bank's September 2009 Interim results show a 46% growth of its loam, the highest amongst its Tier1 peers. This growth in risk assets led to an improvement in the bank's loans to Deposits ratio of 60% (38%, September 2008). It also led to a 29% increase in Interest Earnings in September 2009 to ₦146.5 billion (₦113.9 billion, September 2008).

1.8.5.0 ECOBANK Nigeria PIC

Ecobank Nigeria Plc was established in 1986. The bank is a member of Ecobank Transnational Incorporated (ETI) operating in several West and Central African countries. Ecobank Nigeria Plc has grown its network to 131 branches across Nigeria, with the purchase and assumption of All States Trust Bank Plc (in liquidation), Hallmark Bank and acquisition of African international Bank (AIB) through a share sale and purchase agreement

ETI's a bank holding company with continental spread across 27 African countries. Traditionally, Ecobank Nigeria has contributed 40-50% of the holding company's revenues. However, bad margin loans and exposure to the telecoms industry led to a ₦12.5 billion loan loss provision in 2008. Consequently, the Nigerian affiliate's contribution to the Group's Pre-tax Earnings dropped to 9% in 2008 from 42% in 2007. Nevertheless, ETI's abiding faith in Ecobank Nigeria is typified in its injection of ₦45.1 billion in fresh capital thereby increasing its stake above 70%.

Over a three year period, it signed three memoranda of understanding (MOUs) with First Bank of Nigeria, Unity Bank and Sterling Bank. But the MOUs have all merely been long on ceremonies; neither ETI's nor Ecobank Nigeria has been able to merge conclusively with any bank. A successful marriage between first bank and ETI would have resulted in the establishment or a mega bank with total assets in excess of over $40 billion and over 1000 branches in over 25 African countries and beyond.

Ecobank has slowed down its retail lending business. The bank has slowed down on the issuance of new credit cards while existing cards are not being funded. We believe the bank will increase the credit risk management on this product to mitigate against default risks before commencement. However, the parent company's ₦45 billion infusion into the bank will boost liquidity in the short to medium term. The bank also received a US$25m on-lending facility from the IFC for small businesses and Ecobank's retail lending products.

Ecobank Nigeria's net earnings dipped by a record 260% from the same time the previous year in its 9 months Interim results. The bank's Net Profit of ₦5.18 billion in September 2008 dropped to a Net loss of ₦5.28 billion in September 2009, as a result of a ₦15.77 billion charge against the account as exceptional items from bad loam. However the positive of the interim results is that despite the losses, depositors' confidence in the bank grew as typified by the 63% growth in deposits over the same period last year.

1.8.5.1 STRUCTURE OF BUSINESS

Ecobank Nigeria Plc operates in a competitive environment, providing a full range of universal banking services and products to governments, financial Institutions, multinationals-International organizations, medium, small and micro businesses and individuals.

Ecobank Nigeria through its parent company has developed important strategic alliances with other world class institutions in specific areas such as Western Union Money Transfer, Mastercard e.t.c. designed to produce synergies and enhance value to their customers.

1.8.5.2 Key Strengths

(i) **Management Team:** Ecobank Nigeria has a dedicated and experienced management team. Senior management, supported by strong local teams, has been responsible for aggressive expansion of the business.

(ii) **Brand Recognition:** The Ecobank brand is recognized as one of the" leading names in the domestic market in which they operate. Its home-grown regional character as a pan-African bank distinguishes it from other multinational banks operating in the region and anchors the strong growth that has been experienced.

1.8.5.3 Key Weaknesses

Low deposit base compared to its peers: Ecobank Nigeria is being perceived as a foreign bank due to the location of its parent company, which has negatively impacted the size of its customer base and consequently, its deposit account.

1.8.5.4 STRATEGY

The vision of the bank is to be the foremost financial institution in Nigeria with a thrust from its parent company to be as a pan African bank. AII initiatives are geared towards positioning the brand as a symbol of convenient, accessible and reliable banking. Ecobank's strategy and actions are shaped by three key themes driving the banking Industry namely profitability growth, efficiency and scale with the aim of achieving superior shareholder value. Its growth strategy is driven by the quest to tap into the un-banked and under-banked sectors of the markets and increase market share through an increased branch network.

1.8.5.5 OWNERSHIP STRUCTURE

Ecobank Transnational Inc, is the largest shareholder of the bank, holding 71% of the issued share capital as at 31 December, 2008.

Table 1.8.7 Ecobank's Shareholding structure

Shareholder	Shareholding
Ecobank Transnational Inc.	71%
Nigerian Citizens and Association	29%

Source: Ecobank Nigeria Plc Annual Reports, 2008

1.8.5.6 FINANCIAL PERFORMANCE

Ecobank Nigeria announced a relatively unimpressive financial performance for the year ended December 31, 2008. The result showed a sharp drop in the bank's Profit after Tax by 71.43% or ₦5.319 billion, from the ₦7.45 billion recorded in the previous year to ₦2.13 billion. Gross earnings however rose from ₦32.71 billion recorded in 2007 to ₦55.16 billion, an increase of 68.62%. The drop in profit resulted from the 778% increase in Loan Loss Provision over the ₦1.422 billion recorded in 2007. The ₦12.496 billion provision made in 2008 was in recognition of some of the loans and exposures to the capital market.

The figures for the year ended December 31, 2008 were, however, lifted into positive territory by an extraordinary item of ₦2.135 billion The bank's Total Assets stood at ₦432 billion, an increase of 39% as against ₦311 billion in December 2007, while its deposits liabilities rose to ₦311 billion, an increase of 39.5% over the corresponding period of 2007.

Ecobank's loans & Advances hit ₦144.9 billion, an increase of 24.9% over ₦116 billion in 2007. Shareholders' Funds dropped 8.8% to ₦31.7 billion, from ₦34.8 billion as at 2007.

1.9.0 RESEARCH FORMAT

This research work will be presented in six chapters as follows:

The first chapter is the introductory part of the research. It consist of the introduction, problem definition, objectives of the study, statements of Hypothesis, research Methodology, significance of the study, research limitations and constraints, a brief history and background of the selected banks under study and the research format.

The second chapter provides a comprehensive theoretical review of the internal control system among others.

The third chapter is the Research Methodology; this deals with the methodology employed in the study. This consists of sources of data, methods of data collection, analytical techniques and problem of data collection.

The forth chapter involve data collection, Presentation, Analysis and Interpretation; this deals with results of data collection activities, their analysis and interpretation,

The fifth chapter deals with the discussion of the output of chapter four. The chapter specifically discusses and enumerates the findings of the result of data presentation and analysis obtained in chapter four.

The sixth chapter summarizes the findings in chapter five, draws conclusion and makes recommendations making suggestions for improvements of the gray areas noted in the research study.

1.10.0 DEFINITION OF TERMS

The definitions of terms presented below were obtained from the Auditing Glossary of Terms http://accounting.smartpros. com/x6645.xml. They include:

Acceptance sampling is sampling to determine whether internal control compliance is greater than or less than the tolerable deviation rate.

Accounting data includes journals, ledgers and other records, such as spreadsheets, that support financial statements. It may be in computer readable form or on paper.

Accounting principles are alternative ways of reporting and disclosing information in financial statements and related footnotes.

Adverse An audit opinion that the financial statements as a whole are not in conformity with U.S. GAAP.

Advisory services are a consulting service in which the CPA develops the findings, conclusions, and recommendations presented for client decision-making. This differs from attestation, where the CPA expresses a conclusion about a written assertion of another.

Analytical procedure A comparison of financial statement amounts with an auditor's expectation. An example is to compare actual interest expense for the year (a financial statement amount) with an estimate of what that interest expense should be. The estimate can be found by multiplying a reasonable interest rate times the average balance of interest bearing debt outstanding during the year (the auditor's expectation). If actual interest expense differs significantly from the expectation, the auditor explains the difference in audit documentation.

Analyze Identify and classify items for further study.

Application control Programmed procedure in application software designed to ensure completeness and accuracy of information.

Approve To authorize. A manager authorizes a cash payment by signing a voucher providing approval for the disbursement.

Ascertain An audit procedure to determine or to discover with certainty. For example, to ascertain the date on which an investment was purchased by examining source documents.

Assess To determine the value, significance, or extent of.

Assessed Determined. The level of control risk determined by the auditor, based on tests of controls, is the assessed level of control risk.

Assurance The level of confidence one has.

Audit committee A committee of the board of directors responsible for oversight of the financial reporting process, selection of the independent auditor, and receipt of audit results.

Audit documentation (working papers) are records kept by the auditor of procedures applied, tests performed, information obtained, and pertinent conclusions reached in the engagement. The documentation provides the principal support for the auditor's report.

Audit objective In obtaining evidence in support of financial statement assertions, the auditor develops specific audit objectives in light of those assertions. For example, an objective related to the completeness assertion for inventory balances is that inventory quantities include all products, materials, and supplies on hand.

Audit planning is developing an overall strategy for the audit. The nature, extent, and timing of planning varies with size and complexity of the entity, experience with the entity, and knowledge of the entity's business.

Audit risk A combination of the risk that material errors will occur in the accounting process and the risk the errors will not be discovered by audit tests. Audit risk includes uncertainties due to sampling (sampling risk) and to other factors (nonsampling risk).

Auditing Standards Board Statements on Auditing Standards are issued by the auditing standards board, the body of the AICPA designated to issue auditing pronouncements.

Authorize (authorization). To give permission for. A manager authorizes a transaction by signing a voucher authorizing the disbursement.

Backup A copy of a computer program or file stored separately from the original.

Classification Arrangement or grouping. Assets and liabilities are normally classified as current or noncurrent.

Collusion A secret agreement between two or more parties for fraud or deceit.

Competence of an internal audit staff is a function of qualifications, including education, certification, and supervision. Competent audit evidence is valid and reliable.

Completeness Assertions about completeness deal with whether all transactions and accounts that should be in the financial statements are included. For example, management asserts that all purchases of goods and services are included in the financial statements. Similarly, management asserts that notes payable in the balance sheet include all such obligations of the entity.

Compliance Following applicable rules or laws.

Computer controls Internal controls performed by computer (software controls) as opposed to manual controls. Also means general and application controls over the computer processing of data.

Consistency To achieve comparability of information over time, the same accounting methods must be followed. If accounting methods are changed from period to period, the effects must be disclosed consulted Sought advice or information.

Control A policy or procedure that is part of internal control.

Control environment is the attitude, awareness, and actions of the board, management, owners, and others about the importance of control. This includes integrity and ethical rules, commitment to competence, board or audit committee participation, organizational structure, assignment of authority and responsibility, and human resource policies and practices. Control policies and procedures Control activities are the policies and procedures that help ensure management directives are carried out. Those pertinent to an audit include performance reviews, information processing, physical controls and segregation of duties.

Control risk The risk that material error in a balance or transaction class will not be prevented or detected on a timely basis by internal controls.

Defalcation To misuse or embezzle funds.

Detection risk The risk audit procedures will lead to a conclusion that material error does not exist when in fact such error does exist.

Detective control A control designed to discover an unintended event or result.

Disclosure Revealing information. Financial statement footnotes are one way of providing necessary disclosures.

Document (documentary) (documentation) Written or printed paper that bears information that can be used to furnish decisive evidence. Could also be a recording, computer readable information, or a photograph.

Effective internal control Reasonable assurance that the entity's operational objectives are achieved, that published financial statements are reliably prepared, and applicable laws and regulations are complied with.

Effectiveness Producing a desired outcome. An audit procedure is effective if the evidence supports a correct conclusion.

Efficiency The ratio of the audit evidence produced to audit resources used.

Embezzlement To take assets in violation of trust.

Encryption is scrambling data so it is meaningless to anyone but the intended recipient, who has the key to unscramble the data.

Evidence (evidential matter) includes written and electronic information (such as checks, records of electronic fund transfers, invoices, contracts, and other information) that permits the auditor to reach conclusions through reasoning.

Examination is evaluating the preparation of prospective statements, support underlying assumptions, and presentation. The accountant reports whether, in his or her opinion, the statements conform to AICPA guidelines and assumptions provide a reasonable basis for the responsible party's forecast. The accountant should be independent, proficient, plan the engagement, supervise assistants, and obtain sufficient evidence to provide a reasonable basis for the report.

Existence Assertions about existence deal with whether assets or liabilities exist at a given date. For example, management asserts that finished goods inventories in the balance sheet are available for sale.

FASB or Financial Accounting Standards Board A nongovernment private organization that sets GAAP in the U.S. for profit making entities and not-for-profit nongovernmental organizations.

Flowchart A schematic representation of a sequence of operations in an accounting system or computer program. Also called a flow diagram or flow sheet.

Fraud A deliberate deception to secure unfair or unlawful gain. False representation intended to deceive relied on by another to that person's injury. Fraud includes fraudulent financial reporting undertaken to render financial statements misleading, sometimes called management fraud, and misappropriation of assets, sometimes called defalcations.

GAAP or Generally Accepted Accounting Principles According to Rule 203 of the AICPA Code of Professional Conduct, GAAP for nongovernment entities include (in a conflict the source earlier in the list prevails): 1. FASB Statements and Interpretations, APB Opinions, ARBs. 2. FASB Technical Bulletins, AICPA Guides and AICPA Statements of Position. 3. Positions of the FASB Emerging Issues Task Force and AICPA Practice Bulletins. 4. AICPA accounting interpretations, FASB staff "Qs and As", and widely recognized industry practices. 5. FASB Concepts Statements, textbooks, articles.

GAAS or Generally Accepted Auditing Standards The ten auditing standards adopted by the membership of the AICPA. Auditing standards differ from audit procedures in that "procedures" relate to acts to be performed, whereas "standards" deal with measures of the quality of the performance of those acts and objectives of the procedures.

General ledger A record to which monetary transactions are posted (in the form of debits and credits) from a journal. It is the final record from which financial statements are prepared. General ledger accounts are often control accounts that report totals of details included in subsidiary ledgers.

Independent In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditors. This means freedom from bias, which is possible even when auditing one's own business (independence in fact). However, it is important that the auditor be independent in appearance (that others believe the auditor is independent).

Information systems consist of infrastructure (physical and hardware components), software, people, procedures (manual and automated), and data.

Inherent risk The susceptibility of a balance or transaction class to error that could be material, when aggregated with other errors, assuming no related internal controls.

Input control Computer controls designed to provide reasonable assurance that transactions are properly authorized before processed by the computer, accurately converted to machine readable form and recorded in the computer, that data files and transactions are not lost, added, duplicated or improperly changed, and that incorrect transactions are rejected, corrected and, if necessary, resubmitted on a timely basis.

Integrity Consistent adherence to an ethical code. If client management lacks integrity the auditor must be more skeptical than usual.

Internal auditors are employees of the client responsible for providing analyses, evaluations, assurances, recommendations, and other information to the entity's management and board. An important responsibility of internal auditors is to monitor performance of controls. Internal control Policies and procedures designed to provide reasonable assurance that specific entity objectives will be achieved. It consists of: the control environment, risk assessment, control activities, information and communications, and monitoring.

Internal control questionnaire A list of questions about the existing internal control system to be answered (with answers such as yes, no, or not applicable) during audit fieldwork. The questionnaire is a part of the documentation of the auditor's understanding of the client's internal controls.

Internal control weakness A defect in the design or operation of internal controls. A material weakness is a reportable condition that does not reduce to a relatively low level the risk that material errors or fraud would not be detected in a timely manner by employees in the normal course of their duties.

Management controls are controls performed by one or more managers.

Manual controls are controls performed manually, not by computer.

Material (materiality) Information important enough to change an investor's decision. Insignificant information has no effect on decisions, so there is no need to report it. Materiality includes the absolute value and relationship of an amount to other information.

Material weakness A condition in which internal controls do not reduce to a relatively low level the risk that material errors or fraud may occur and not be detected in a timely period by employees in the normal course of their duties.

Misappropriate To embezzle or appropriate dishonestly for one's own use.

Misstatement Stated wrongly or falsely. Untrue financial statement information.

Mitigating Reducing in force or intensity.

Narrative A written description of an internal control system.

Nonsampling risk is audit risk not due to sampling. An auditor may apply a procedure to all transactions or balances and fail to detect a material misstatement. Nonsampling risk includes the possibility of selecting audit procedures that are not appropriate to achieve a specific objective. For example, confirming recorded receivables cannot reveal unrecorded receivables. Nonsampling risk can be reduced to a negligible level through adequate planning and supervision.

Operating effectiveness How an internal control was applied, the consistency with which it was applied, and by whom.

Password A sequence of characters required to gain access to a computer system. Passwords are used to restrict computer system access to only authorized persons.

Payroll Department that determines amounts of wage or salary due to each employee.

Plan Audit planning is developing an overall strategy for conduct and scope of the audit. The nature, extent, and timing of planning vary with size and complexity of the entity, experience with the entity, and knowledge of the business. In planning the audit, the auditor considers the entity's business and its industry, its accounting policies and procedures, methods used to process accounting information, the planned assessed level of control risk, and the auditor's preliminary judgment about audit materiality.

Preventative control A control designed to avoid an unintended event.

Reasonable assurance (in internal control) An internal control, no matter how well designed and operated, cannot guarantee that an entity's objectives will be met because of inherent limitations in all internal control systems.

Recomputation Perform procedures again and compare to original results.

Reconcile (reconciliation) A schedule establishing agreement between separate sources of information, such as accounting records reconciled with the financial statements.

Reliable (reliability) Different audit evidence provides different degrees of assurance to the auditor. When evidence can be obtained from independent sources outside an entity, it provides greater assurance of reliability for an independent audit than that secured solely in the entity. More effective internal controls provide more assurance about reliability of the accounting data and financial statements. The independent auditor's direct personal knowledge, from physical examination, observation, computation, and inspection, is more persuasive than information obtained indirectly.

Review To examine again. The overall review of audit documentation is completed after field work. A peer review is a practice monitoring program in which audit documentation of one CPA firm is periodically reviewed by independent partners of other firms to determine that they conform to professional standards. An analytical review is a type of substantive audit procedure. A review of financial statements of a nonpublic company is an engagement that results in the expression of less assurance than an audit, but more than in a compilation. A review of interim financial statements of a public company consists of analytical procedures and inquiries.

Sarbanes-Oxley Act of 2002 established the Public Company Accounting Oversight Board and added requirements for publicly traded companies, their officers, boards and auditors. It increased penalties for corporate financial fraud.

SAS or Statements on Auditing Standards are interpretations of U.S. generally accepted auditing standards.

Scope The type of engagement. The scope of an engagement might be a review, an audit, or a compilation. A scope limitation is a restriction on the evidence the auditor can gather.

Segregation of duties means assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets. Segregation of duties reduces the opportunities for one person to both perpetrate and conceal errors or fraud.

Test of controls (tests of the operating effectiveness of internal controls) Auditors evaluate the design of controls, then determine if the controls are in operation. In order to rely on the controls they must also obtain evidence as to whether the controls are operating effectively.

Valuation An assertion made by management that each asset and liability is recorded at an appropriate carrying value.

Vouch Prove accuracy of accounting entries by tracing to supporting documents.

Voucher A document in support of an expenditure. The signature of an appropriate official on the voucher is authorization for the treasurer to issue a check.

Working papers (written audit documentation) Records kept by the auditor of procedures applied, tests performed, information obtained, and pertinent conclusions in the engagement.

Write-off Cancellation of part or all of a balance. Costs incurred that have no future utility are charged (written-off) to an expense or loss account, not carried forward as an asset.

Write-up In dollar terms a write-up is an intentional over-valuation of assets. In narrative terms a description of something or some event.

Also the List of Financial Terms presented below in alphabetical order was obtained from Performance Solutions International
http://www.goto-psi.com/glossaryd.html

Advising Bank The bank which notifies the seller (exporter) that a letter of credit has been opened by the buyer (importer) for the specified trade transaction. The term is used in trade finance. (Please note: advising banks do not guarantee payment while a confirming bank does. A bank can be both the confirming and advising bank, in which case payment would be guaranteed. However, these roles can also be handled by two different banks.

Asset Financing (Asset-Backed Lending) Financing that converts assets (e.g., receivables, inventory, and real estate) into working cash in exchange for a security interest in those assets.

Asset/Liability Committee (ALCO) A management committee at a bank that is responsible for coordinating borrowing and lending strategy through the monitoring of interest rate fluctuations, pricing and profitability targets.

Authorization The act of approving the completion of a transaction or the issuance of funds. An example would be the authorization a merchant receives from a bank on a credit card transaction in which the bank indicates that the customer has available credit.

Automated Clearing House (ACH) A computer-based clearing and settlement network established for the exchange of electronic transactions among participating institutions within a domestic market. ACH also provides an automated, low cost method for processing and issuing checks.

Automated Payment Systems Systems that enable customers to transfer funds electronically, replacing the use of paper checks.

Automated Teller Machine (ATM) A terminal located either on the bank's premises or at a remote location (e.g., supermarkets, convenience stores) that allows customers to perform limited types of banking transactions 24 hours a day.

Balance Sheet A financial report that shows the status of a company's assets, liabilities and equity capital at a particular point in time, usually at the close of the calendar month or year. It is also sometimes referred to as a Statement of Condition.

Banker's Acceptance Time drafts drawn on and accepted by banks for payment on their maturity date. They are widely accepted as money market instruments. In trade financing, drafts that are authorized under a letter of credit in effect become a banker's acceptance when the bank places its acceptance on the draft, (i.e., acceptance is called aval).

Basle Committee on Banking Supervision An international committee that sets standards for banking supervisors and regulators. The committee is chartered by the Group of 10 (G10) and meets at the Bank for International Settlements in Basle, Switzerland.

Bill Often called a bill of exchange or draft, a bill is an unconditional demand for payment made by one party to another party. In the investment industry, it commonly refers to a U.S. Treasury bill or T-bill, a short-term discounted government security sold at weekly and monthly auctions.

Bond A negotiable certificate evidencing indebtedness. A legal contract sold by an issuer promising to pay the holder its face value plus amounts of interest at future dates. Bonds are also referred to as fixed income securities.

Central Bank A country's official bank that performs several functions, which include the administration of monetary policy. In some countries, the central bank acts as the main regulatory authority for banks. In the United Kingdom, the central bank is the Bank of England; in Japan, it is the Bank of Japan and in the United States, it is the Federal Reserve Bank.

Certificates of Deposit (CDs) negotiable instruments issued by a bank and payable to the bearer or the individual whose name appears on the certificate issued as evidence of a time deposit. CDs pay a stated amount of interest at a fixed rate and mature on a stated date. Maturities normally range from three months to five years. CDs may be bought and sold daily in the secondary market.

Collateral An asset pledged by a borrower to ensure payment to the lender or performance of an obligation. Collateral may include such things as goods, securities, intangibles, real estate assets and cash

Commercial Bank A term used to describe a bank that offers a full range of lending, deposit and other services for individual (retail) and business (wholesale) customers.

Commercial Paper A short-term, unsecured promissory note issued by corporations in exchange for cash. Issuers must maintain a high credit standing to continue issuing this instrument. Commercial paper is considered to be a highly liquid and relatively safe investment.

Confirming Bank Bank that adds its obligation to pay on behalf of the opening bank and will make payment under the Letter of Credit if the opening bank fails to pay for any reason.

Corporate Finance Financing services used to enable large corporate purchases, capital investments (equipment, plant, premises) and trade financing.

Debit Card A payment card issued by banks and other financial institutions that allows the cardholder to use the card as an alternative to cash or check payments for purchases and services. The amount is debited against (deducted from) the holder's account. In the case of on-line debit cards, the debit to the account occurs immediately. With off-line debit cards, it may take up to three days for the debit to the account to be recorded. The cardholder can also use the card to withdraw cash from their account.

Demand Deposit A type of account that pays funds on demand (e.g., a checking or current account) by checks, cash withdrawals or electronic fund transfers.

Due Diligence Investigation that is performed prior to underwriting a loan or an investment (acquisition) that considers all aspects that may affect the financial performance of that investment. Many times due diligence is performed by a buying firm before it purchases a firm being sold to gain an understanding of the true value of the assets of that firm.

Earning Assets Assets that create earnings for a financial institution. Earning assets can typically be loans and securities as they generate interest income for the institution.

Earnings Per Share A ratio used to determine the amount of profit generated per share of stock owned. It is determined by dividing net income (minus dividends) by the amount of outstanding common stock (shares).

Efficiency Ratio A measure of how a financial institution is utilizing its' employees, facilities and operations to create profits. The ratio is calculated by taking the non-interest expense and dividing it by the sum of the net interest income and non-interest income. Institutions continually try to lower their efficiency ratio as that will result in higher profits.

Electronic Funds Transfer (EFT) The transfer of funds between accounts electronically, bypassing paper-based methods. The two main categories are wire transfer systems such as FedWire that link banks in the federal reserve system with CHIPS and consumer electronic payment systems.

Equity Ownership interest held by stockholders in a corporation. In the context of a brokerage account, it refers to the market value of the securities minus debit balance and credit balance.

Exposure The term has a number of meanings: 1. The possibility of loss; 2. The possibility of loss due to the risks you are exposed to; 3. In the insurance industry, loss causing peril.

Fiduciary A person in a position of great trust and responsibility who supervises the financial affairs of others. In the financial services area, it can be a person or institution that manages money or property for another and must exercise proper and prudent judgment as stipulated by law.

Finance Companies Finance companies are similar to banks in that they issue loans to customers. However, finance companies cannot accept deposits. Instead, they raise funds by issuing debt, selling off assets and borrowing from other financial institutions. Since they do not accept deposits, finance companies are less regulated than banks and other depository institutions. Some finance companies focus specifically on loans to consumers (referred to as consumer finance companies) or loans to businesses (referred to as commercial finance companies). Some finance companies focus on one specific line of business, while others offer a wide range of diversified financial services.

Financial Planning Process of providing a client with impartial assistance in analyzing and organizing their financial affairs to achieve a financial goal or outcome.

Fixed Assets The tangible property used in operating a business. These items, which include plant, premises, machinery and equipment, are listed on the balance sheet at their depreciated values. Fixed assets are the least liquid assets held by a company.

Generally Accepted Accounting Principles (GAAP) Rules set forth by the Financial Accounting Standards Board (FASB) that outlines conventions and procedures for accounting practices in the United States.

Individual Savings Account (ISA) Savings accounts in the U.K. with annual contribution limits that are exempt from income tax and capital gains. This account replaces the personal equity plan (PEP) and the tax-exempt savings account (TESSA).

Initial Public Offering (IPO) The first offering of a company's shares (or stock) to the public ("going public"). IPO's provide existing equity investors in a company with the ability to profit from their initial investment since the shares at issuance will be given a market value based on the company's projected future growth. Company's typically go public to attract capital, increase the shareholder base of the company and provide the shareholders with a liquid market to trade their shares.

Interbank Market Any market in which the primary counterparties are banks or other financial institutions.

Letter of Credit (L/C) The written undertaking, or obligation, of a bank made at the request of its customer (a buyer) to honor a seller's drafts or other demands for payment upon compliance with the conditions specified in the Letter of Credit. There are different forms of L/Cs with different terms to meet different purposes.

Liability A term that refers to the funds owed by a bank or a company. These include time and demand deposits, funds borrowed from the Federal Reserve Bank or other banks and other debt including short- and long-term debt.

Liquidity The ability of a financial services organization to meet its current financial obligations. Also refers to the ease with which financial instruments can be quickly converted into cash with minimal loss in value.

Liquidity Ratio Strict cash ratios set by the Federal Reserve Bank for banks in the U.S. and by regulatory authorities in most countries for their local banks. The ratio is designed to monitor a bank's cash (bank notes, coin) relative to the amounts owed (liabilities) to its customers.

Loan Portfolio The combined holdings of multiple types of loan products with varying yields and maturity dates.

M**oney Market** The market for the purchase and sale of short-term financial instruments.

Non-performing Loans Loans on which payments, either principal or interest, are overdue by a specific amount of time, as stipulated by the relevant regulatory authorities or by the institution. For example, loans that are 90 days or more past due may be considered non-performing. This timeframe is becoming the international standard for classifying loans as non-performing.

Nostro Account A current (transactional) account maintained by a bank with a bank in another country, usually in the currency of the country where the account is held. The bank maintaining the account refers to it as a nostro account ("our account with you"). This account is typically viewed as a reciprocal arrangement related to the vostro account ("your account with us"). The terms "nostro" and "vostro" are frequently used in the context of foreign exchange transactions and the related transfer of funds.

Note Unsecured debt (promise to pay) that usually has a maturity of less than 15 years.

Off-Balance Sheet Items Broad term incorporating both contingent liabilities (guarantees, committed lines of credit, letters of credit) and off-balance sheet instruments (derivatives) that do not represent an obligation to pay at the time of the balance sheet date. The institution's risk structure is impacted by these items, which do not appear on the balance sheet. Information regarding these items is shown in the footnotes of the financial report in many countries.

Operational Risk Risk of direct or indirect loss from the failure of internal processes, personnel, systems, or external events. The loss could be catastrophic or occur incrementally over time. It includes fraud, theft and computer system failure.

Price/Earnings Ratio (P/E, P/E multiple) Ratio that is used in determining the value of a stock. It is calculated by taking the latest closing price of a stock (share) and dividing it by the earnings per share for the most recent twelve month period. A stock selling at $60 per share with earnings of 3% ($3.00) per share has a PE of 20.

Private Placement Describes the offering and selling of any security by a brokerage firm to a select group of investors and does not involve a public offering. Historically, the buyers of private placement securities have been banks, insurance companies and pension funds. The term is also referred to as direct placement.

Provision for Loan Losses An item on a bank's profit and loss statement that shows the amount of funds the bank has set aside in the current reporting period to increase its allowance for loan losses. See also Allowance for Loan Losses.

Receiving Bank A bank or depository in any payment system that is eligible to send and receive transactions for credit and debit entries posted to customers' accounts.

Reputation Risk The risk to capital or risk that would adversely affect profits as a result of negative publicity whether true or untrue. Reputation risk for financial institutions can cause loss of customers, reductions in profits and sometimes costly litigation.

Return On Assets (ROA) A ratio that measures how well a company is generating profit from its assets. It is calculated by dividing a company's annual earnings (net income) by its total assets.

Return On Equity (ROE) An indicator that measures a company's profitability relative to the equity invested in the company. It is calculated by dividing net income by average shareholders' equity.

Risk The uncertainty that a loss may occur or that an asset may fail to provide an expected rate of return. Since financial institutions invest most of their funds in interest sensitive assets, they monitor the following types of risks: capital, credit, delivery, exchange, interest rate, liquidity, operational, political, reinvestment, and payment systems risks.

Alternatively, in the insurance industry referring to "risk" can mean that you are referring to what is insured or the risk assumed.

Real Time Gross Settlement (RTGS) Funds settlement system used in many countries, such as the G10 countries (in the U.S., the FedWire system uses RTGS), Hong Kong, Korea, Thailand and the Czech Republic, and planned for use by other country's payment transfer systems. Real-time refers to the transfer of ownership of the funds quickly or immediately upon receipt of evidence that an obligation is covered by an account balance, a credit line, which may be a daylight overdraft, or pledged collateral. Gross means that a specific obligation is paid in full rather than netted against offsetting obligations.

SWIFT SWIFT is the acronym for the Society for Worldwide Interbank Financial Telecommunications. More commonly, SWIFT is the name given to the payment messages network operated by SWIFT. This network is used by banks to transmit high value payment messages internationally and operates through standardized message formats in a highly secure environment. Because of the standardization, banks can process these transactions on a totally automated basis, which reduces processing costs and virtually eliminates message transmission errors. The SWIFT system also generates detailed balance and transaction information on a daily basis to facilitate the reconciliation of customer accounts. SWIFT is only a communications network, not a payments network. Payment messages sent over SWIFT still need to be settled through one of the other systems. However, SWIFT messages automatically initiate payments in many financial institutions.

Tier I Capital A component in computing the capital adequacy of banks. It refers to the core capital, which consists of the sum of equity capital and disclosed reserves. Tier I or core capital is used to cover both credit and market risk in a bank's trading and lending books

Tier II Capital A secondary component in computing capital adequacy. It includes undisclosed reserves, general provisions/general loan loss reserves, asset revaluation reserves, hybrid debt-equity instruments and subordinated long-term debt. Tier II or supplementary capital is used to cover both market and credit risk in a bank's trading and lending books.

Tier III Capital An additional component to be faceted into the newly merged market risk and credit risk based capital adequacy framework. It refers to an additional type of capital, composed of short-term subordinated debt issues that meet specific criteria. Tier III or market risk capital can only be used to cover market risk in the calculation of capital adequacy.

Time Deposits A certificate of deposit or savings account at a bank or other financial institution where funds are not available on demand. Because the funds are promised to the bank for a predetermined amount of time, the bank can invest the funds in longer term, higher yielding investments.

Universal Banks A term originally used to describe the German banking system, where banks offered both bank and non-bank financial services and were formally linked to commercial firms through equity holdings and shared directorships. Universal banks in various forms are present not only in Germany, but also in Switzerland, Sweden, the Netherlands, Austria, Belgium and Luxembourg. In the U.S., there are no universal banks because U.S. law only allows banks to hold equity investments in commercial firms under limited conditions, such as holding equity that is exchanged for debt obligations in a company restructuring under bankruptcy protection.

Unsecured Loan A loan that is made based on the reputation and credit history of the borrower and is not secured (or backed) by collateral. The borrower signs a promissory note that states the loan conditions and terms. Credit card lending is an example of an unsecured loan offered to individuals.

Valuation In general, the term refers to determining the current worth of an asset. In the insurance industry, it specifically refers to examining the in-force business on a predetermined schedule (quarterly or annually) to calculate the policy reserve liability.

Yield The return on an investment. The rate of return on an investment is expressed as an annual percentage rate.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.0 INTRODUCTION:

Review of the work of other eminent writers on the subject matter of any research study helps to provide a conceptual framework of the study. Based on the review, actual practice is evaluated and recommendations are offered where variations occur between theory and actual practice.

The role of banks in economic development of any nation cannot be under scored. The banks as we are aware provide the financial intermediation, provide efficient payment system and serve as a conduit for implementation of the nation's monetary policies. Because of the strategic roles and position of banks in economic development of the nation, they become the most regulated sector of the economy. According to Donhi (2006) "the nature of banking, being highly geared and conducted with greater secrecy when compared with other real sector businesses, provide added reasons for strict supervision”. This calls for a well established internal control system in our banks.

All organisations whether profit oriented or not, operates within conditions of resource constraints. As a result, various steps are taken and procedures established to ensure that the uses of these resources are maximized in achieving organizational goals.

Primary among the steps taken is the setting up of a structure within which an orderly operation can take place. The organizational structure can be defined as the “arrangement and inter-relationship of the component parts and positions of a company”.

An organization’s structure specifies its division of work activities and shows the level of specialization of work activities. It also indicates the organization’s hierarchy and authority structure, and shows its reporting relationship. It is often depicted in charts, and specifies the level of authority, communication channels and the roles, responsibilities of officers throughout the organization.

The major sections are also supported by sub-structures. The problem of scarce resources notwithstanding, organisations runs a high risk of fraud and errors. Steps are therefore required to minimize this risk by establishing operating rules and regulations. Therefore Internal Controls are those procedures, rules and regulations which are set up by organisations faced with the problem of limited resources in order to ensure that the potential risk (intentional and unintentional) are reduced to a minimum. The American Institute of Certified Public Accountants in its statement on Auditing procedure defined Internal Control ‘’ as comprising the plan of the organization and all of the co-ordinate methods and measures adopted within the business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial polices’.

But the most widely accepted definition of internal control by auditing authors is in the Auditing Standards and Guidelines approved by the councils of the Accountants of England and Wales, the Institute of Chartered Accountants of Scotland and the Institute of Chartered Accountants in Ireland, as’’ .... the whole system of controls, financial and otherwise, established by management in other to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and ensure so far as possible the completeness and accuracy of the record''.

In order to support the above definition, Howard L. R. defines internal control as 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 another words the Statement of Standard Auditing Practices (SSAP) 6 defines system of internal control as ''the plan of organization and all the methods and procedures adopted by the management of an entity to assist in achieving management's objectives of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguard of assets, prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information''

The scope of internal control, according to these definitions, extends beyond accounting controls. Thus, operational controls such as quality control, work standards, budgetary control, periodic reporting, internal checks, internal audit, policy appraisals, quantitative controls, and so on, are all parts of the internal control system.

The individual components of an internal control system are known as **"Controls" or "Internal Controls".** The components are divided into two:

(i) Prevent controls - these are controls that prevent errors;

(ii) Detect controls - these are controls that detect errors and fraud which have occurred.

Literally, control is the activity of checking what actually happens with what was planned and feeding back information to the decision maker so that he can take whatever action seems necessary.

Control procedures provide check that the system is operating as planned. Examples of such procedures are control accounts, trial balance, double entry system and auditing.

The reason a company establishes a system of internal control is "to help meet its own goal".

The controls adopted are selected by comparing the costs to the organization relative to the benefits expected. One benefit to management, but certainly not the most important, is the reduced cost of an audit when the auditor evaluates the controls as good or excellent.

Arens A. And Locbbecke K. (1984) highlighted that management typically has five concerns in setting up a good system of internal control:

(i) **To provide reliable data:**

Management must have accurate information for carrying out its operations. A wide variety of information is used for making critical business decisions. For example, the price to charge for services rendered or goods produced is based in part on information about the cost of making the products, or carrying out the services.

(ii) **To safeguard assets and records:**

The physical assets of a company can be stolen, misused, or accidentally destroyed, unless they are protected by adequate controls. The same is true of non-physical assets such as important documents (confidential government contracts), and records (general ledger and journals). Safeguarding certain assets and record has become increasingly important since the advent of computer system. Large amounts of information stored on computer media such as magnetic tape can be destroyed if care is not taken to protect them.

(iii) **To promote operational efficiency:**

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

(iv) **To encourage adherence to prescribed policies.**

Management institutes procedures and rules to meet the goals of the company. The system of internal control is meant to provide reasonable assurance that these are followed by company personnel. There may, at times, be a conflict between operational efficiency and safeguarding assets and records or providing reliable information. There is a cost attached to fulfilling these two objectives and, to the extent the cost exceeds the benefits, the results may be operationally inefficient.

(v) **To comply with the Foreign Corrupt Practices Act of 1977:**

The concern of all companies subject to the Securities Exchange Act of 1934, is the requirement that the company maintain' proper record- keeping systems'. These have not been defined by the 1977 law, which amends the securities acts, but they include a sufficient system to enable the preparation of reliable external financial statements and to prevent off-the-book slush funds and payment of bribes.

The penalties for violation of the act are severe. They include both fines and imprisonment of company officials. The Securities Exchange Commission has brought several court actions under the law. The act makes maintaining proper internal control systems a high priority item for public companies. This last reason why a company established a system of internal control is most applicable and practiced in United States of America, this can however, be of help in Nigeria.

It is the responsibility of the management to decide on and establish an appropriate network of control in the organization.

The existing internal control in the banks must be able to produce reports that are in conformity with the requirements of: Central Bank of Nigeria, Nigeria Deposit Insurance Corporation, Security and Exchange Commission, Nigerian Accounting Standards, Provisions of Companies and Allied Matters Act, Prudential Guidelines for Licensed Banks, provision of Banks and Other Financial Institutions ACT, etc.

Additionally, the recent development in the world financial markets where giant in the Industry such as Citi Bank group are collapsing and some declaring huge losses e.g. Lloyds Banks. With this, there is great need to strengthen the internal control in the Nigerian Banks.

2.1.0 OVERVIEW OF THE NIGERIAN BANKING INDUSTRY

The Nigerian banking industry which is regulated by the Central Bank of Nigeria, is made up of; deposit money banks referred to as commercial banks, development finance institutions and other financial institutions which include; micro-finance banks, finance companies, bureau de changes, discount houses and primary mortgage institutions.

The development in the Nigerian Banking Sector dates back to 1892 when the first commercial bank (The African Banking Corporation) was established in Lagos. According to Adekanye (1986) "the bank experienced some difficulties which led to the establishment of British Bank of West Africa".

According to Jigyasu Prani (2006), no banking legislation existed until 1952, at which point Nigeria had three foreign banks (the Bank of British West Africa, Barclays Bank, and the British and French Bank) and two indigenous banks (the National Bank of Nigeria and the African Continental Bank) with a collective total of forty branches. The 1952 ordinance set standards, required reserve funds, established bank examinations, and provided for assistance to indigenous banks. Yet for decades after 1952, the growth of demand deposits was slowed by the Nigerian propensity to prefer cash and to distrust checks for debt settlements.

British colonial officials established the West African Currency Board in 1912 to help finance the export trade of foreign firms in West Africa and to issue a West African currency convertible to British pounds sterling. But colonial policies barred local investment of reserves, discouraged deposit expansion, precluded discretion for monetary management, and did nothing to train Africans in developing indigenous financial institutions. In 1952 several Nigerian members of the federal House of Assembly called for the establishment of a central bank to facilitate economic development.

Although the motion was defeated, the colonial administration appointed a Bank of England official to study the issue. He advised against a central bank, questioning such a bank's effectiveness in an undeveloped capital market. In 1957 the Colonial Office sponsored another study that resulted in the establishment of a Nigerian central bank and the introduction of a Nigerian currency. The Nigerian pound on a par with the pound sterling until the British currency's devaluation in 1967, was converted in 1973 to a decimal currency, the naira (=N=), equivalent to two old Nigerian pounds. The smallest unit of the new currency was the kobo, 100 of which equaled 1 naira. The naira, which exchanged for US$1.52 in January 1973 and again in March 1982 (or ₦0.67 = US$1), despite the floating exchange rate, depreciated relative to the United States dollar in the 1980s. The average exchange rate in 1990 was ₦8.004 = US$1. Depreciation accelerated after the creation of a second-tier foreign exchange market under World Bank structural adjustment in September 1986.

The Central Bank of Nigeria, which was statutorily independent of the federal government until 1968, began operations on July 1, 1959. Following a decade of struggle over the relationship between the government and the Central Bank, a 1968 military decree granted authority over banking and monetary policy to the Federal Executive Council. The role of the Central Bank, similar to that of central banks in North America and Western Europe, was to establish the Nigerian currency, control and regulate the banking system, serve as banker to other banks in Nigeria, and carry out the government's economic policy in the monetary field. This policy included control of bank credit growth, credit distribution by sector, cash reserve requirements for commercial banks, discount rates--interest rates the Central Bank charged commercial and merchant banks--and the ratio of banks' long-term assets to deposits. Changes in Central Bank restrictions on credit and monetary expansion affected total demand and income.

During the civil war, the government limited and later suspended repatriation of dividends and profits, reduced foreign travel allowances for Nigerian citizens, limited the size of allowances to overseas public offices, required official permission for all foreign payments, and, in January 1968, issued new currency notes to replace those in circulation. Although in 1970 the Central Bank advised against dismantling of import and financial constraints too soon after the war, the oil boom soon permitted Nigeria to relax restrictions.

The three largest commercial banks held about one-third of total bank deposits. In 1973 the federal government undertook to acquire a 40-percent equity ownership of the three largest foreign banks. In 1976, under the second Nigerian Enterprises Promotion Decree requiring 60-percent indigenous holdings, the federal government acquired an additional 20-percent holding in the three largest foreign banks and 60-percent ownership in the other foreign banks. Yet indigenization did not change the management, control, and lending orientation toward international trade, particularly of foreign companies and their Nigerian subsidiaries of foreign banks.

At the end of 1988, the banking system consisted of the Central Bank of Nigeria, forty-two commercial banks, and twenty four merchant banks, a substantial increase since 1986. Merchant banks were allowed to open checking accounts for corporations only and could not accept deposits below ₦50,000. Commercial and merchant banks together had 1,500 branches in 1988, up from 1,000 in 1984. In 1988 commercial banks had assets of ₦52.2 billion compared to ₦12.6 billion for merchant banks in early 1988. In 1990 the government put ₦503 million into establishing community banks to encourage community development associations, cooperative societies, farmers' groups, patriotic unions, trade groups, and other local organizations, especially in rural areas.

Other financial institutions included government-owned specialized development banks: the Nigerian Industrial Development Bank, the Nigerian Bank for Commerce and Industry, and the Nigerian Agricultural Bank, as well as the Federal Savings Banks and the Federal Mortgage Bank. Also active in Nigeria were numerous insurance companies, pension funds, and finance and leasing companies. Nigeria also had a stock exchange (established in Lagos in 1961) and a number of stockbrokerage firms. The Securities and Exchange Commission (SEC) Decree of 1988 gave the Nigerian SEC powers to regulate and supervise the capital market. These powers included the right to revoke stockbroker registrations and approve or disapprove any new stock exchange. Established in 1988, the Nigerian Deposit Insurance Corporation increased confidence in the banks by protecting depositors against bank failures in licensed banks up to ₦50,000 in return for an annual bank premium of nearly 1 percent of total deposit liabilities.

By 1980s there was liberalization in the licensing of new banks in Nigeria and most of the banks were under capitalized with weak internal control in place. This led to the collapse of most of these Banks. According to CBN (2005), "as at the end of 2002 there were 90 licensed/insured banks, 282 licensed primary Mortgage Institutions and 6 Development Finance Institutions".

In 2004 the CBN came out with a circular demanding that all commercial Banks in the country must increase their capital Base to a minimum of ₦25billion. This led to massive merger, acquisition and consolidation in the banking industry. At the end of the exercise only 25 banks were licensed and approved by the CBN to operate in the country. With improved capital base, the banks are expected to perform better and affect the real sector positively.

According to Achebe (2008) “the Nigerian Banking Industry grew Stronger in 2007 as indicated by the various performance measures. The industry showed stronger capacity to finance real sector activities with substantial credit flow to the core private sector” with this, the challenge to the internal control system became enormous.

The global financial crisis occurred on account of concentration of the credit portfolio of financial institutions on overvalued sub-prime mortgage related assets, built up till 2006. By mid 2007, most of the assets had suffered default. The crisis was felt in Nigeria though lower oil prices, a decline in capital inflow, pressure on foreign resources, and a sharp decline in the performance of the stock market. However, the effect of the global financial crisis on Nigeria Banks was minimal mainly because the banking Capitan was not fully integrated into the International Financial System. Notwithstanding, the impact of the meltdown was felt by Nigerian Bank’s that were significantly exposed to the capital market, the oil and gas sector and through the drying up of foreign credit lives. This development and the resultant illiquidity experienced by the sector compelled the CBN to intensify reforms in the Nigeria Banking System.

Several reform measures were deployed by CBN which include: Reduction in monetary Policy Rate (MPR); Reduction in cash reserve ratio; directive for restructuring of margin loans; suspension of liquidity mop up; enforcement of CBN Code of Corporate Governance for Banks in Nigeria; deployment of Resident Examiners to banks; Renew of the Contingency Plan for Systemic Distress in Banks; and Intervention in the inter-bank market though guaranteeing of transactions. Despite these pressures, the challenges of illiquidity persisted. The situation was reinforced by the poor asset quality of some banks which engendered concerns about the systemic risk arising thereon.

Consequently, a special examination to review, evaluate and determine the quality of the banks' portfolios, corporate governance issues, as well as their risk management framework was jointly undertaken by CBN/NDIC in June 2009.

The exercise revealed various infractions including substantial non-performing loans; poor corporate governance; weaknesses in capital adequacy; and illiquidity in the system. Consequently, the Central Bank of Nigeria (CBN) approved new Managing Directors (MDs)/Chief Executive Officers (CEOs) and Executive Directors for eight (8) of the ten (10) weak banks out of the twenty five existing banks and task them with the responsibility of continuing the business of the banks as going concerns. These affected banks include Afribank, Union bank, Oceanic bank, Bank PHB, Intercontinental Bank, FinBank, Spring Bank and Unity Bank. Furthermore, the CBN injected a total of N620billion into the affected banks in the form of Tier II Capital.

While the measures have hard salutary effects in the form of restoring confidence in the banking sector and reducing interest rate; the dearth of credit to the real sector of the economy, persisted.

Additionally, the competition in the industry and the increased application of information and communication Technology (ICT) has led to development of new banking products which are ICT based.

This has resulted in a shift from cash based transactions and thus improved the efficiency in fund intermediation.

At present the industry consists are 24 commercial banks, 5 discount houses, 5 development finance institutions, 50 class A bureau de change, 598 bureau de change, 98 Primary Mortgage Institutions, 84 finance companies and 914 Micro-finance institutions.

2.2.0 TYPES OF BANKING PRODUCTS/SERVICES OFFERED

Banking services are numerous and they include:

(i) Corporate Finance services

(ii) Mobilization of savings and other deposits

(iii) Extension of credit facilities to customers

(iv) Providing facilities for the transfer of funds

(v) Management of customers' investments and advising on insurance matters

(vi) Creating money

(vii) Providing facilities for the financing of international trade

(viii) Safekeeping of valuables

(ix) Brokerage services

(x) Providing foreign exchange facilities for travellers

(xi) Providing night safe facilities

(xii) Credit/Debit Cards

(xiii) ATM services

(xiv) Providing business status reports and references and

(xv) Business advisory services

2.2.1 CORPORATE FINANCE SERVICES

2.2.1.1 They provide financial services to corporate entities including governments, government parastatals and companies seeking to raise long-term or permanent finance for their operations. They do this by sponsoring their capital issues and the sales of their securities to the public. They provide advice on the correct type of capital structure and determine the most appropriate time to make an issue. In addition, they advise on relevant government regulations, legislation and policies and in preparing all the necessary documents (e.g. the prospectus required for an application for quotation on the Stock Exchange) and give banking to an issue in the form of underwriting.

2.2.1.2 Project Financing

Project financing (or project loans) are terms which describe the methods that banks, and other institutional lenders in Nigeria, use to finance the construction of new project on a basis whereby repayment is anticipated from the revenue stream generated by the project. Project financing often involves a decision based on the review of a projection or forecast after than of historical earnings or data.

The following characteristics are common to most project financing situations:

(a) The financing of a new project or a start-up operation or major expansion as an independent economic unit.

(b) The borrower represents the project itself, with the source of repayment being the project's own cash flow.

(c) The ventures are normally very large, complicated at times by government involvement, and a desire for off-balance sheet credit arrangements.

2.2.1.3 Advisory Services

These include:

(a) Advice in relation to project finance and joint ventures;

(b) Advice on, and the arrangement of mergers and acquisitions including re-organisation and debt financing; and,

(c) Advice to companies in relation to their financial structure.

It is important to note that since 1982 no major government financial advisory business has come up. However, a few finance houses during this period have provided financial advice to companies and government corporations including state governments on some relatively modest foreign funding or rescheduling exercises.

2.2.2 Banking services

2.2.2.1 Loans and advances

Banks provide loans and advances to industry and commerce. The Central Bank of Nigeria stipulates in their Credit Guidelines Policy that not less than 50% of these should be of medium or long-term nature. (A short-term loan is any finance or loan not exceeding one year duration. Medium-term loans usually mature between one and five years, while long-term loans are loans with a maturity of five year or more).

Banks are known to be very active in the short end of the market. The bank short-term lending is varied and covers a myriad of business finance requirements including working capital, plant expansion, trade finance, industrial re-equipment and agricultural development. The loans are normally made for a fixed period and can also be at call or at a very short notice. Medium and long-term loans include finance for major industrial and agricultural projects and real estate and related activities.

2.2.2.2 Deposits

Bank's deposits are provided in the form of savings and fixed term deposits, usually from corporate and non-corporate customers. Certificates of deposits are used for interbank transactions.

2.2.2.3 Acceptances

The banking service had its origins in the days when the then merchant banks were primarily merchants themselves. The big merchants were lending their names to lesser merchants for a fee in order to enable them to draw up their bills. Today, this adding of their names has become for the banks, a regular and more precise form of financial assistance to their customers. The customer draws a bill on his bank; it accepts the bill and as its acceptor becomes primarily responsible for its payment at maturity. In its purest form, the acceptance business is used for the finance of trade, often international trade. This method of financing is used by both importers and exporters. The mechanism for mobilising a bill for acceptance is quite straightforward. Take the case of a UK company exporting goods to the USA. As soon as it makes the shipment, the UK Company would draw a bill on its accepting house (bank) to mature at the time the payment is due from its customer. The accepting house would accept the bill and arrange it's discounting, paying the proceeds, after deducting the financial charges to the UK Company. Unfortunately, Nigeria is an importing nation-our banks are hardly involved in foreign trade which relies on acceptance business. However, as a result of the export promotion policy of the government, our banks, no doubt, sell acceptance services to exporters in an attempt to encourage export trade.

2.2.2.4 Foreign Exchange Services

Before any bank can provide foreign exchange services, the Central Bank of Nigerian must appoint or recognize the bank as an authorized dealer. Essentially banks cover three areas.

(i) Correspondent banking, which deals in the confirmation of lines for the letters of credit of the customers.

(ii) Act as intermediaries between the Central Bank of Nigeria and their clients in processing applications for foreign exchange allocation.

(iii) Provide services for opening letters of credit and handling direct remittances for both imports and exports.

2.2.2.5 Equipment Leasing

Leasing is a method of financing which enables a company to 'rent' industrial equipment instead of buying it outright. The lessor retains ownership of the asset, while the lessee has possession and use of the asset on payment of specified rentals over a period. Leasing is the hiring of an asset for the duration of its economic life. The asset is initially purchased by the finance company and then leased to the user who has no option to buy.

In June 1983, the Equipment Leasing Association of Nigeria (ELAN) was formed. It comprises 8 members; 7 merchant banks and one development bank – NAL Merchant Bank, Chase Merchant Bank Nigeria, International Merchant Bank Nigeria, ICON Limited (Merchant Bankers). Nigeria-American Merchant Bank, Nigeria Bank for Commerce and Industry. Nigeria Merchant Bank and First City Merchant Bank Nigeria (Banking Almanac 1985/86).

The financing of this facility is constrained in Nigeria by the low level of capital allowances. The uncertainty of tax treatment in Nigeria is also seen as another constraint where there are no specific tax codes for leasing and the tax impact on various lease contracts. In spite of this, equipment lease services are gradually gaining ground in Nigeria despite lack of business awareness of the potential benefits.

2.2.2.6 Money Market Services

As part of their money market activities, deposits are taken from other banks, institution, large corporations and rich individuals at attractive interest rates. Banks also accept call and time deposits from individuals, partnerships and corporate customers, as well as from other banks and government corporations. As they are actively engaged in the local money market, they are able to advise customers on the up-to-date conditions prevalent in the market. Banks are authorized issuers and dealers of Negotiable Certificates and Deposits which, it will be remembered, are attractive investments for customers.

2.2.2.7 Portfolio Management

Most banks in Nigeria have investment departments set up to manage the portfolios of customers. This includes arranging purchases and sales of securities (and offering advice on when and what to buy and sell) as well as attending to registrations, rights or bonus issues.

2.3.0 THE CONCEPT OF INTERNAL CONTROL

The structure of modern banking system and the high expectation from the investors and the society at large has called for a more tightened internal control system. Internal control has been variously defined.

According to Princeton (2008) Internal Control is a process effected by an organization's structure, work and authority flows, people and management information system, designed to help the organization accomplish specific goals or objective". From the definition, the objective of any internal control should be directed towards the attainment of the organizational objectives.

In the words of Okozie (1999) "Internal Control is 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 possible the completeness and accuracy of the records". A sound internal control system should provide the platform for recording and processing transactions in such a way that it form adequate basis for the preparation of the financial statement.

An efficient internal control system involved a clear definition and separation of duties for various employees or groups within a company. The intent of separating the duties is to protect against fraud, waste, abuse and mismanagement of resources. Effective internal control helps to assure the accuracy of reports to management and the various supervising bodies (in the case of banks).

According to Asuquo (2005) "Internal Control is made up of internal checks, internal audit, accounting controls and other forms of controls such as budgetary and physical control". Okozie (1999) posited that "the primary responsibility for the maintenance of the effective internal control rest with the management of any enterprise". Management responsibilities are normally discharged by:

- Installation of an effective accounting system;
- Ensuring that employees understand relevant codes of conduct.
- Monitoring relevant legal requirements and ensuring that operating procedures and conditions meet these requirements.
- The establishment of an independent Internal audit function.
- The appointment of an audit committee where appropriate.

According to Van Creveld (2005), Internal control has further been defined as a process effected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals and objectives. It is a means by which the organizations resources are directed, monitored and measured, It plays an important role in preventing and detecting fraud and protecting the organization's resources both physical machinery and property and intangible (e.g. reputation, intellectual property such as trademarks and patents). At the organizational level internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals and compliance with laws and regulations. At the specific transaction level, internal control refers to the action taken to achieve a specific objectives e.g. how to ensure the organization's payments to third parties are for valid services rendered.

A system of effective internal controls is a critical component of bank management and a foundation for the safe and sound operation of banking organizations. A system of strong internal controls can help to ensure that goals and objectives of a banking organization will be met, that the bank will achieve long term profitability targets and maintain reliable financial and managerial reporting. Such a system can also help to ensure that the bank will comply with laws and regulations as well as policies, plans, internal rules and procedures, and decrease the risks of unexpected losses or damage to the bank's reputations.

2.4.0 INTERNAL CONTROL OBJECTIVES

Internal control activities are designed to provide reasonable assurance that particular objectives are achieved, or related progress understood.

There are 'seven detailed objective that an internal control system must meet to prevent errors in the journals and records.'

Accounting to Aren and Loebbecke (1984), the client's system of internal control must be sufficient to provide reasonable assurance that:

(i) **Recorded Transactions are valid (Validity):**

The system cannot permit the inclusion of fictitious or nonexistent transactions in journals or other accounting records.

(ii) **Transactions are properly authorised (Authorisation):**

If a transaction that is not authorised takes place, it could result in a fraudulent transaction, and it could also have the effect of wasting or destroying company assets.

(iii) **Existing transactions are recorded (Completeness):**

The client's procedures must provide controls to prevent the omission of transactions from the records.

(iv) **Transaction are properly valued (Valuation):**

An adequate system includes procedures to avoid errors in calculating and recording transactions at various stages in the recording process.

(v) **Transactions are properly classified (Classification):**

The proper account classification according to the client's chart of accounts must be made in the journals if the financial statements are to be properly stated. Classification also includes such categories as division and product.

(vi) **Transactions are recorded at the proper time, (Timing):**

The recording of transactions either before or after the time they took place increases the likelihood of failing to record transactions or of recording them at the improper amount. If late recording occurs at the end of the period, the financial statements will be misstated.

(vii) **Transactions are properly included in subsidiary records and correctly summarised (Posting and Summarisation):**

In many instances, individual transactions are summarised and totalled before they are recorded in the journals. The journals are then posted to the general ledger, and the general lodger is summarised and used to prepare the financial statements.

Regardless of the method used to enter transactions in the subsidiary records and to summarise transaction, adequate controls are needed to make sure summarisation is correct.

In summary the internal control objectives are:

(a) **Show the existence of transactions:** That is only valid or authorized transactions are processed.

(b) **Occurrence:** The transactions recorded actually occurred during the correct period

(c) **Completeness:** All transactions that should be processed have been processed.

(d) **Right and objectives:** This shows that the assets represent the right of the bank and liabilities of its obligation as at a particular date.

(e) **Valuation:** Transactions are calculated using an appropriate methodology or are computationally accurate.

(f) **Presentation and Disclosure:** This ensures that components of financial statements are properly classified and described.

2.5.0 CLASSES OF INTERNAL CONTROL

Internal control can broadly be divided into administrative controls and accounting control.

2.5.1 Administrative Control

This consists of

(i) the plan of organisation and

(ii) all of the coordinate methods and measures adopted within a business to:

(a) promote operational efficiency and

(b) encourage adherence to prescribed managerial policies. Example include the formal organisation chart concerning who reports to whom, departmental budgeting procedures and reports on performance (e.g. variance analysis report).

2.5.2 Financial or Accounting control

Accounting control comprises

(i) the plan of organisation and

(ii) all of the coordinate methods and measures adopted by the management to

(a) ensure that all transactions are authorised,

(b) safeguard assets, and

(c) check the accuracy and reliability of its accounting records and data.

A good accounting control helps maximize efficiency as performance can be compared through information generated in performance reports. It also helps minimize waste, unintentional errors, and fraud. In this study, we shall focus our attention on financial or accounting controls because this is the area that mostly affects the duty of an accountant in an organization. Again, this control area is the one that affects the reliability of the financial statements prepared for external reporting purposes. Inadequacy of the controls affecting the reliability of financial data and the safeguarding of assets and records will also affect the correctness of the financial statements. Administrative controls do not affect the correctness of the accounts. This does not however imply that administrative controls which affect internal management information, such as statistical analyses, budgets, and internal performance reports should be completely ignored by and accountant. This is because if a company fails to follow the rules and procedures set forth by management, the accounting records are less likely to be accurate.

2. 5. 3 Purposes of Financial or accounting Controls

These are designed to provide reasonable assurance 16 that:

(a) Transactions are executed after proper authorisation by management. This is with a view to achieving management's general or specific purposes. It also helps to ensure that unauthorised transactions are not executed;

(b) Transactions are recorded as necessary in the correct amounts, periods and accounts. It ensures that no fictitious transactions are recorded unless unintentionally;

(c) Access to assets is permitted only on authorisation by management in order to minimise the risk of pilferage, shoplifting or theft of assets;

(d) Recorded assets compared with existing ones – for the purposes of establishing the existence of the assets;

(e) The value of assets remains at fair values – this aims at avoiding impairment of values and unnecessary write-offs.

Horngreen states that authorisation, recording, and safeguarding objectives relate to establishment of the system of accountability and are aimed at prevention of errors and irregularities. And that reconciliation and valuation (d & c) objectives aim at detection of errors and irregularities.

2.6.0 ESSENTIAL FEATURES OF INTERNAL CONTROL

It is necessary to restate here that the responsibility for internal Control in any organization is that of the management. Management must put in place the necessary structure to achieve the required control. These include the setting up of Internal Control Department which should report directly to the management.

To guarantee effective reporting mechanism, the independence of the internal controller must be guaranteed. He must not report to lower level management to avoid interference. His report must go straight to the top management.

The internal controller must seek to foster constructive working relationship and mutual understanding with management, external auditors, Central Bank of Nigeria, Nigeria Deposit Insurance Corporation, Audit Alarm Committee and other corporate bodies.

The internal Controller must exercise due care and skill in the discharge of his functions. He must have a daily planned scheduled and programmes for the entire organization. He must be very conversant with the organization's systems including its structure, work and authority flow, management information system, and the various legal and operational guidelines. Organization of the enterprise's structure is very important to the success of any internal control in place.

According to Andrew-Essien (2008) "the enterprise must have clear corporate objective, plan, policy and the duties of the employees should be clearly defined. There should be clear policy objectives from where control should be made". Organizational control is concerned with the inter-relationship of the whole complex activities of the enterprise, its divisions, units and standards methods or procedures of conducting the affairs of the enterprise and defines the precise functions and purpose of every section and its authority in relations to other sections.

Another key feature of internal control is the need for the segregation of duties of the employees to ensure that no one person is able to record and process a complete transaction. There must be total separation of Authorization, execution, custody and recording.

2.7.0 RESPONSIBILITY FOR INTERNAL CONTROL

Although every employee of the bank is responsible for the internal control in their area of operation but the final responsibility for internal control rest with the directors of the bank. According to Basle committee on banking supervision, (1998),"The board of directors should have responsibility for approving and periodically reviewing the overall business strategies and significant policies of the bank; understanding the major risks run by the bank; setting acceptable levels for these risks and ensuring that senior managements take the steps necessary to identify, measure, monitor and control these risks; approving the organizational structure; and ensuring that senior management is monitoring the effectiveness of the internal control system". The board of directors is ultimately responsible for ensuring that an adequate and effective system of internal controls is established and maintained.

The board of directors provides governance, guidance and oversight to senior management, it is responsible for approving and reviewing the overall business strategies and significant policies of the bank as well as organizational structure. The responsibilities for internal control rest squarely on the Board of Directors. Members of the Board of Directors should be objective, capable and inquisitive, with knowledge or expertise of the activities of, and risks run by the bank. While the board of directors is responsible for putting in place the necessary internal control mechanism, senior management is responsible for the implementation of the strategies and policies approved by the board. They are also to develop the process that identifies, measures, monitor and control risk incurred by the bank as well as maintaining an organizational structure that clearly assigns responsibilities, authority and reporting relationship. Senior management is to ensure that delegated responsibilities are effectively carried out and setting appropriate internal control policies and monitoring the adequacy and effectiveness of the internal control system.

2. 8.0 MANAGEMENT RESPONSIBILITY OF INTERNAL CONTROL SYSTEM

The establishment and maintenance of a functional system of internal control is the sole responsibility of the management of the organisation who design and operate such system as required by the needs and circumstances of the organisation. This equally follows the assertion of Cushin and Owen that ''the primary responsibility of safeguarding the assets of concerns and preventing and detecting errors and fraud rest on the management''

This duty is consequent upon increased recognition of the importance of internal control which arises from factors such as the expansion in the scope and size of the business of the company, acceptance that the primary responsibility for safeguarding company's assets, lies with management and the protection which a properly functioning system of internal control affords against human weakness.

This task involves the development and design of a cost effective tool that will help achieve efficient operation and reduce temptations. The system must provide reasonable assurance that the books and records reflect the transactions of the company and its established policies and procedures are carefully followed.

Management must also monitor the system and augment it with written policies, guidelines, careful selection and training of qualified personnel and a strong programme of internal audit. This continual survey or monitoring is essential in ascertaining that prescribed policies are being interpreted and carried out accordingly, that the system grows with changes in operating condition and that effective creative measures are rapidly introduced, where breakdowns and shortcomings in the system are discovered.

To heighten management's assurance of the adequacy and effectiveness of the system, the internal audit department which is an integral part of an organisation's system of internal control, is usually instituted in most companies, having numerous plants and offices.

The idea is for the department to perform the task of scrutinising and confirming the accuracy of book keeping records, the fact that the records conform to standard accounting procedure of the company, and the prevention and detection of irregularities and possible shortage.

2.9.0 Importance of Internal Control

Internal control in any organization serve as oil that lubricates the system and guarantee proper functioning. In modern business world, banks objectives and the environment in which they operate are constantly evolving. As a result risk facing banks are continually changing too. A successful system of Internal Control must therefore be responsive to such changes.

A good, efficient and effective system of internal control aims at preventing intentional and unintentional errors and fraud in the operations of a company. It also aims at early detection of errors and irregularities that may be committed by the employees. The system of internal control enables the organisation to meet its objectives more effectively. If the system of control is effective, and the external auditor evaluates it so, the cost of an audit will be reduced to the advantage of the organisation. Generally, from the definition adopted in this work, we can discern four concerns of management in setting up a good system of internal control. These are:

(a) **To provide reliable data –** Management cannot carry out its daily routine functions without accurate information. Business decisions such as transfer pricing, location of business, elimination of a product line, make or buy decision, decisions to process further or sell at split-off point, setting selling prices for products or services, etc, require a wide variety of information. Reliable data and records will enable management to be efficient in its decision-making function.

(b) **To safeguard assets and records:-** Physical assets are susceptible to theft, misuse and accidental destruction. For example, the NET Building fire disaster of 1982 and other public building arson have resulted in destruction of valuable property and records of those establishments. It therefore means that physical assets should be adequately protected by good control measures. Also, non-physical assets such as accounts receivable, important documents (e.g. confidential government contracts), and records (e.g. the general ledger and journals), should be properly controlled. Where computers are in use, adequate safety measures must be adopted because information stored on computer media such as magnetic tape can be destroyed permanently if there are adequate protection.

(c) **To promote operational efficiency –** Organisational controls aim at preventing unnecessary duplication of efforts, protecting against waste in all aspects of the business, and discouraging inefficient use of resources.

(d) **To encourage adherence to prescribed policies:-** In any organisation, the management usually sets down procedures and rules to provide a means of meeting the objectives of the company.

A good system of internal control therefore aims at providing reasonable assurance that these are followed by the company employees.

Internal control is also a concern to the external auditors. The study and evaluation of the company's internal control system are useful to the auditor in determining.

(a) Whether an audit is possible depending upon the adequacy or otherwise of the system;

(b) The audit evidence to accumulate based on the size of the company, timing of the tests and volume of transactions; and

(c) The recommendations to make to senior management and the board of directors of material weaknesses of internal control in the system.

Other benefits of effective internal control include:

(i) Enhanced ability to exploit business opportunities earlier than the competitors.

(ii) Increased chances of achieving business objective.

(iii) Its leads to increased market capitalization

(iv) More effective use of management team

(v) Lower cost of capital

(vi) Fewer unforecasted threats to business

(vii) More effective management of change

(viii) Clearer strategy setting

(ix) Fraud, misrepresentation will be reduced to the barest minimum

(x) Improved profitability

(xi) Compliance with laws, orders and government policies are made easy.

2.10.0 ELEMENTS OF INTERNAL CONTROL

These refer to the ways the objectives of internal control are achieved. They help to increase the likelihood of reliable accounting data and safeguarding assets and records. Various authors use different names to describe the features. Such include check-list, rules, principles, concepts, characteristics, or features. These elements will be used to appraise the procedures for cash, purchases, sales, payroll, etc.

What follows is a summary of the common features inherent in any system of internal control.

2.10.1 Competent, Trustworthy Personnel with clear lines of Authority and Responsibility.

This is the most important element of internal control. Employees must be carefully selected and trained. Adequate training ensures better performance and increase productivity. Low-talent employees are costly in terms of excessive errors, fraud and poor productivity. Responsibility for the performance of each duty must be fixed to ensure proper accountability. For instance, the sales clerks should be made to sign sales slips, inspectors should initial packing slips and workers sign time cards and requisitions. Fixing responsibility promotes care and efficiency, motivation and taking of corrective action by management where deviations in performance occur.

Employees should be given authority, responsibility and duties commensurate with their abilities, interest, experience, and reliability.

Authority and responsibility lines should be well spelt out in the organisation's chart to avoid conflict of authority, lack of unity of command and ensure adequate supervision by top management.

2.10.2 Adequate Segregation of Duties

Adequate segregation of duties helps ensure accurate compilation of data and limits the chances for fraud and intentional errors that would require the collusion of two or more employees. For the prevention of intentional and unintentional errors, this element is normally sub-divided into four categories.

(a) **Separation of the custody of assets from accounting:**

This is the most important segregation in any business. It helps to protect the firm against fraud and the temptation on the part of employees. An employee should not be in a position where he controls both the financial and accounting operations of a transaction.

If this happens, he may dispose of the assets for personal gains and adjust the records to relieve him of responsibility for the assets.

Proper segregation of duties should ensure that;

(i) The cashier does not have access to ledger accounts,

(ii) Bookkeepers should not have access to or handle cash,

(iii) The distribution of payroll cheques should not be done by the payroll clerk,

(iv) The storeroom employees should not maintain inventory records, etc.

In a computer (EDP) system, any person with custody of assets responsibility should not have access to programming or other input records such as punched cards. In the same vein, any programmer or input recorder should not have access to tempting assets.

(b) **Separation of the Authorisation of Transactions from the Custody of Related Assets**

Any person who authorises transactions should not have control over the related assets. This will reduce the possibility of fraud within the establishment. For example, (i) the same employee should not authorise the payment of a supplier's invoice and also sign the cheque in payment of the bill' (ii) authority for adding newly hired employees or eliminating those who have terminated employment should not be performed by the one responsible for distributing cheques to the employees, and (iii) an employee who handles cash receipts should be written off as uncollectible.

(c) **Separation of Duties within the Accounting function**

One employee should not be responsible for recording a transaction from its origin to its ultimate posting in the ledger. This reduces the likelihood that unintentional errors will remain undetected and it discourages shoddy performance of duties. Segregation of the duties of recording in the journals from that of recording in the subsidiary ledgers ensures automatic cross checking of employees work. Equally, recording in related journals can be segregated,

(d) **Separation of Operational Responsibility from Record-keeping Responsibility**

The entire accounting function should be divorced from operating departments so that objective, independent records may be kept either by other operation employees or by clerks. This will ensure unbiased information which will give a true and fair view of the financial statements. For instance, product inspectors, not machine operators, should count good units produced; stores record clerks or computers, not store-keepers, should keep perpetual inventory records.

The overall organization structure of a business must provide proper division of duties. It must promote operational efficiency and effective communication.

2.10.3 Proper Procedures for Authorisation

Proper authorisation prevents execution of invalid transactions, authorisation deals with unit or total price and the quality of goods and services acquired or sold, hence, it affects valuation of the financial statements items.

Authorisation can be specific or general.

General authorisation is always in writing and spells out the policy. Examples of general authorisation include the issuance of fixed price list for the sale of products, credit limits for customers, and fixed automatic recorder points for making purchases. Specific authorisation deals with individual transactions which the management may prefer to deal on a case by case basis. It implies that a superior manager must permit (in writing) any particular deviations from the limits set by general authorisation. For instance, the plant manager, instead of the plant supervisor, may have to approve overtime. Also, it may be required that all expenditures for capital assets in excess of a specific limit, should be approved by the board of directors.

2.10.4 Adequate Documents and Records

Documents and records are many and varied. They are the physical objects upon which transactions are entered and summarised. Documents and records include sales invoices, purchase orders, subsidiary ledgers, sales journals, bank reconciliation statements. Inadequacy of the above documents usually causes some control problems as sources of transaction may not be traced if source documents are missing.

Documents and records help to circulate information throughout the organisation and between different organisations. They ensure immediate, complete and tamper-proof recording; they also assure the organisation that all asset are properly controlled and all transactions correctly recorded.

The above aims and advantages can only be achieved if documents and records have the following features:

(a) They should be pre-numbered consecutively and accounted for. This will help in controlling missing documents and will also help to locate documents when they are needed in future.

(b) They should be prepared at the time of transaction or soon after to ensure credibility and reliability.

(c) Documents and records should be sufficiently simple to enhance clear understanding by its users – and ease of recording.

(d) They should be designed for multiple uses whenever possible, to minimise the number of different forms. For example, a properly designed sales invoice can be used for recording sales in the journals, the authority for shipment, the basis for developing sales statistics and the support for salesmen's commissions.

(e) They should be constructed in a way that encourages correct preparation. A degree of internal check can be included in the form. For example, a document might include instructions and proper routing, blank spaces for authorizations and approvals, and other columns for numerical data.

Immediate recording is especially important for cash sales handling. Devices used to ensure immediate recording include cash registers, compiling tapes, private detectives, guaranteeing ''rewards'' to customers if they are not offered a receipt at the time of sales, and forcing clerks to make change by using psychological pricing of items at ₦1.99, ₦2.99, and ₦3.99 rather than at ₦2, ₦3, and ₦4 respectively.

2.10.5 Procedures Manuals

Companies should ensure that operating instructions are reduced to writing in a procedures manual. This should spell out the procedures for proper record keeping and define the flow of documents throughout the company. The manual should provide sufficient information to facilitate record keeping and the maintenance of proper control over assets. In addition, procedures manual encourages consistent application of the instructions and avoids misunderstanding of instructions, ambiguity and inefficiency.

For example, in an accounting manual, the following matters should be spelt out:

(a) Division of responsibility for accounting tasks both in the accounting division and elsewhere in the organisation.

(b) Procedures for filing, accessing and preserving the documents on which the accounting records are based.

(c) Basic accounting records, with details of the ledgers, cashbooks, books of prime entry; the mode of making entries in them, their ruling; and the procedures proposed for their totalling.

(d) Ledger accounts to maintain, their code numbers and examples of the items which may be posted to the various accounts.

(e) Rules for determining whether to charge to revenue or to capitalize certain items.

(f) Depreciation rates; rules for allocating overhead expenses; rules for writing-off losses and for the issue of credit notes.

(g) Accounting policies affecting the final accounts.

(h) The frequency, format and procedures for proving the accuracy of the accounting records in the areas of cash balances, bank reconciliations, control accounts and trial balance.

(i) The frequency, format, deadlines and distribution of interim and final account.

2. 10. 6 Chart of Accounts

A chart of accounts helps to classify transactions into proper accounts in the balance sheet and income statements. This is necessary because it provides the framework upon which to determine the information presented to management and external users of accounting information. It must contain adequate information to enhance the presentation of financial statements in accordance with generally accepted accounting practice (GAAP). Moreover, it should help management decisions, provide for information by product lines, divisions, responsibility centres, etc. Capital assets, inventories, revenues, expenses, etc, should be carefully distinguished in the description since these are the major classes of concern to the external users of financial statements.

2.10.7 Physical Safeguards for Assets and Records

Physical precautions are the most important protective measures for safeguarding assets and records. The following and any other feasible methods should be adopted within an organisation to protect assets and records:

(a) Fireproof safes and safety deposit vaults. There are used for the protection of currency and securities.

(b) Fire and Burglary alarms should be instituted to help detect fire and robbers at any time.

(c) Storeroom should be used for inventory to prevent inventory pilferage and shrinkage. Obsolescence of inventory is also minimized when the storeroom is controlled by a competent storekeeper.

(d) Mechanical protective devices should be used to obtain additional assurance that accounting information and data are accurately recorded. Such devices include cash registers, locked compartments invoice-writing machines, and compiling tapes.

(e) Watchmen should be employed and kept to check entries and access to assets and records.

(f) Access to assets, accounting records and computer facilities should any be allowed on proper authorization by management.

2.10.8 Independent checks on Performance

The whole organisation should be reviewed periodically by outsiders (e.g. external auditors) and by internal auditors who have no contact with the operation under review. These are necessary because of frequent changes in the system over time. Employees may forget procedures, become careless, or intentionally fail to follow them unless someone is there to evaluate their performance. Again, fraudulent and unintentional errors are always possible, regardless of the quality of internal control, hence the necessity for constant and frequent review of other peoples work by others. Employees performing internal verification should be independent of those originally responsible for preparing the data. Such employees should not be subordinates of those originally responsible for preparing the data. Finally, they should not lack independence in any other way.

2. 10. 9 Internal Checks

Internal checks can be defined as ‘’a system of instituting checks on the day—to-day transactions which operates 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 prevention or early detection of errors or fraud’’.

Accordingly, the accounting procedures are so designed hat no single person is authorised to carry out all the operations involved in a transaction. The objective of such as allocation of duties is that no single individual has an exclusive control over any one transaction or a group of transactions.

Thus, a fraud cannot take place unless there is collusion between two or more persons. Apart from the complementary allocation of duties, an internal check system also involves prompt and independent verification of an individual's work by prescribing cross-checks and cross-reconciliations as a part of the operating procedure itself.

An example of internal check is the system of encashment of cheques in banks. The cheque is given to one clerk who issues a token against it, checks the balance and makes the entry in the ledger and on the cheque. The supervisor authorises the payment to be made by the cashier.

Thus, the responsibilities are so divided that no one person can authorise, conduct and record the transaction.

2.10.10 Internal Audit

Internal audit is one of those management controls which are performed periodically by top management.

Internal auditing is no longer considered as a mere routine review of financial and other records by specially assigned staff. As the Institute of Internal auditors, USA, defines it, ‘’Internal auditing is an independent appraisal function established within an organisation to examine and evaluate its activities as a service to the organisation. The objective of internal auditing is to assist members of the organisation in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel and information concerning the activities reviewed.’’

When an organisation is large in size and complex in nature internal audit division should be created to help review the operational controls adopted by management. The objectives of internal audit are the same as those of the external audit. The points of difference are in the scope, independence and responsibility.

The presence of an internal auditor in an organisation makes the verification of proper recording of financial information highly effective. The efficiency of an internal auditor depends on some factors such as''

(a) The independence of the internal auditor of both the operating and accounting departments;

(b) His reporting relationship with top management.

(c) His competence and integrity.

An internal audit has also been defined as ''an independent appraisal activity within an organisation for the review of accounting, financial and other operations as a basis for service to management''.

This is a management control technique aimed at measuring and evaluating the effectiveness of other controls.

In order to appraise or discuss the characteristic and usefulness if internal audit, we shall adopt the definition given by Oshisani and Dean. They define internal audit as:

A continuo's and independent process of verification and review carried out by employees exclusively engaged on this work, reporting to top management concerning the accuracy, reliability, cost of maintenance, and usefulness of the entity's recording, accounting and control procedures and the efficiency and effectiveness with which the entity carries on its operations, in order to inform management of the entity's efficiency, the adequacy of its procedures and the extent of compliance with laid-down procedures, and the scope for taking remedial action in any of these areas.

From the above definition, we can pick out the following roles played by internal audit.

(j) Assuring management of the reliability of the accounting records as a basis for producing final accounts;

(ii) Assuring management of the adequacy and appropriateness of the system of internal control; this it does by testing its operations, appraising its cost, usefulness and any administrative burdens imposed by such controls.

(i) Appraising the financial data provided for management as a basis for decision making;

(ii) Revealing the extent of compliance with the organisation's established procedures;

(iii) Drawing the attention of management to deficiencies in the organisation or its systems of control and to wasteful practices or inefficiency; and

(iv) Suggesting remedial actions to management where and when appropriate.

In many organisations the internal audit duties are not performed due to lack of an internal audit department. In others where internal audit departments exist, they are poorly staffed. The duties of internal auditing should be performed by qualified and competent personnel whose integrity and status in the organization is not in doubt. Among the factors affecting the efficiency of internal auditing in both the private and public sectors are:

(i) poor staffing;

(ii) over-reliance on laid down audit programmes,

(iii) failure or inability of the audit staff to advise on or appraise the system of internal control;

(iv) the diversion of internal audit staff to accounting functions during periods of pressure;

(v) the failure of their reports to reach top management

(vi) the use of internal audit as a comprehensive second check to guarantee the accuracy of work which should have been done correctly in the first place; etc.

Also affecting the efficiency and usefulness of internal auditing are the following problems which bother on principles:

(i) The status of the internal auditors and their relationship with management will affect their freedom to report their findings at the highest management level.

(ii) Their freedom to determine the nature and extent of audit to be carried out, particularly, the extent of detailed checking.

(iii) Their ability, experience and technical competence to carry out financial audits and audits of efficiency.

The efficiency of an internal audit department guarantees effective internal control. And this is beneficial to the organisation as well as the external auditor who will now perform les detailed checks in his audit process. Management should always ensure that the defects pointed out above are eliminated or minimized so that internal audit can act as a control factor.

2.10.10.1 Scope and Objectives of Internal Auditing Function.

The scope and responsibilities of internal audit function depends on factors such as the responsibilities assigned to it by management, the size and structure of the organisation and the number, skills and experience of the internal auditors.

A typical internal audit department may have one or more of the following objectives:

(i) Checking compliance with laid down policies, plans, procedures, laws and regulations.

(ii) Reviewing, company’s policies in the light of changing business conditions and recommending appropriate improvements

(iii) Assessment of the quality of accounting and internal control systems as a basis for the preparation of financial reports, management accounts and other statistical information.

(iv) The assessment of the adequacy, accuracy, timeliness and relevance of management information system.

(v) Detection/prevention of error and/or fraud.

(vi) Liaison with external auditor for the purpose of complementing their efforts and ensuring that prompt and proper action is taken on management letters.

(vii) Serving as a training unit on internal control matters

(viii) Verification of assets and liabilities and to ensure that assets are well safeguarded and liabilities have been properly incurred.

(ix) To carry out special investigations of management request.

It is, thus, clear that internal control is the whole system of controls, of which internal check and internal audit are two important constituents.

Internal checks are in-built in the system itself and take place concurrently with the execution of the transactions, whereas internal audit is a distinct function which is carried out after the transactions have taken place.

For example, a purchase department in an organisation, internal controls in this department would include allocation of managerial authorities, procedures of carrying out the various functions, post-transactions audit, performance appraisal, clerical work-load standards and periodic reporting.

Hence, internal check would be the checks such as overall reconciliations or allocation of duties in such a manner that the whole purchase procedure is not in the hands of one person alone, while;

Internal audit would involve a review of what actually happened, that is , whether the purchase orders were made in accordance with the rules, whether the prices offered were competitive and whether there was a proper follow up of orders.

2.10.11 Bonding of Employees.

Employees on positions of trust such as the top executives, branch manager, and employees who handle cash should be bonded. This implies buying insurance against embezzlement or security deposits should be demanded. Bonding protects the employer and deters a tempted employed from committing fraud.

2.10.12 Rotation of Duties and Taking of Vacations.

Employees should be rotated on a job if possible. Those on positions of trust should always be allowed to take vacations and allow their duties to be performed by others. This policy will help to reduce the opportunity for fraud and defalcation. It points to adaptability of employees to new jobs and may help to generate new ideas for the organisation.

2.10.13 Adequate Budgets

Adequate budgets and other reports should be prepared regularly to meet management's needs.

Through budgets, performance is appraised through variance analysis and management be exceptions.

2.10.14 Accounting system

Accounting should be based on the double-entry system. This is however, not a substitute for protective financial internal control. The system is still prone to errors or omissions, incorrect entries and dishonesty in recording.

Controlling accounts should be used as extensively as possible. These serve as accuracy proof between account balances and between employees.

Accounting and other records should be retained in accordance with state and Federal law on retention policy.

2.11.0 Risk Recognition and Assessment:

Banks are in the business of risk taking. Consequently, it is imperative that as part of internal control perspective, a risk assessment should identify and evaluate the internal and external factors that could adversely affect the achievement of the bank's performance, information and compliance objectives. According to Mark Stock (1999) "Risk include not only those related to the achievement of a specific objective but also those fundamental to the viability and success of the company such as failure to maintain the company's resilience or capacity to identify and exploit opportunities".

Risks manifest themselves in various ways and the effect may be positive or negative. It is necessary that the directors and management of the bank be aware of the best methods for identifying and subsequently managing such risks. Internal control is one of the principal means by which risk is managed. Other devices may include transfer of risk to third parties, sharing risks, contingency planning and the withdrawal from unacceptably risk activities.

2.12.0. INFORMATION AND COMMUNICATION

Adequate information and effective communication are essential to the proper functioning of internal control. The information must be useful, relevant, reliable, timely, and accessible and provided in a consistent format. According to Basle committee on banking supervision (1998) "an effective internal control system requires that there are reliable information systems, including those that hold and use data in an electronic form, must be secured, monitored independently and supported by adequate contingency arrangement". This implies that:

(i) A bank must establish and maintain a good management information system that covers its full range of activities. The bank must be aware of the organization system and internal control requirements relating to processing information in an electronic form and the necessity to have an audit trail.

(ii) Control over information system and technology should include both general and specific application controls.

General control are controls over the computer system e.g. mainframe, direct/server, and end-user workstation.

(iii) The organizational structure of the bank should facilitate an adequate flow of information, i.e. upward, downward and across the organization.

2.13.0 INTERNAL CONTROL EVALUATION SOFTWARE

Since the adoption of the Committee of Sponsoring Organizations (COSO) and Canadian Criteria of Control Committee (CoCo) control models by many organizations and the growth of control self-assessment strategies in the early 1990s, some software has been developed to assist in those efforts.

There different types of internal control software: Computerized COSO/CoCo models automate control evaluation, facilitate COSO/CoCo reviews and security analyses, Control self-assessment and voting systems software (used to perform and facilitate control self-assessments),Visual Assurance by Deloitte & Touche, Price Waterhouse Controls, IIA COSO Software, Patrol 400, Comet by Price Waterhouse, and Rare Advisors. Audit System2 for Internal Audit, and Option Finder, ELECTRONIC COMMERCE CONTROL SOFTWARE, Barracuda Web Application Firewall, Sarbanes Oxley Internal Control Logging And Auditing Software, Internal Control Program Software Industry Best Practices and Internal Control management (ICM) software (an easy2comply application) to mention but a few.

The identified gains for some of these brands include a consistent format for COSO-related activities across different business units; control activities segregated by business function; awareness across all departments rather than just within the particular department being audited; and automated questionnaires and analysis.

For instance, Internal Control management (ICM) software (an easy2comply application) is based on best practices that enables efficient internal control management and improves business effectiveness while achieving regulatory compliance.

With easy2comply ICM solution, companies can easily identify control weaknesses, analyze and optimize their organizational processes and prepare periodic reports for the management and the board of directors

Internal Control software allows the controller to:

a) Visually document organizational processes using sophisticated flow charts

b) Design and document detailed risk and control matrix

c) Manage periodic control testing

d) Identify control weaknesses and manage the remediation process

e) Aggregate and analyze internal control status across multiple dimensions

f) Automate what-if simulations

g) Ensure follow-through, automate alerts and manage workflow

Other gains include protection against hackers leveraging protocol or application vulnerabilities to instigate data theft, denial of service or defacement of your Web site.

Software can help the internal controller organize systems with appropriate checks and balances.

2.14.0 CONTROL ACTIVITIES AND SEGREGATION OF DUTIES

Control involves the establishment of control policies and procedures and verification that the control policies and procedures are being complied with. Control activities involved all levels of personnel in the bank including senior management as well as front line personnel.

2.15.0 FORMS OF CONTROL;

The types of internal control are categorized in the appendix to the operational auditing guideline on internal controls.

Management may decide on any type of suitable internal control for the organization. Some types are however common and are mentioned below:

(i) Organisation controls

(ii) Segregation of duties

(iii) Physical controls

(iv) Authorisation and Approval controls

(v) Arithmetical and accounting controls

(vi) Personnel control

(vii) Supervision control

(viii) Management control

(i) **Organisation Controls**

These are controls, rules, regulations and procedures which: Specify the organisational plan (structure). Define roles and allocate responsibilities, this ensures that every function is in the charge of a specific person who could be referred to as the responsible officer. Identify lines of reporting for all aspects of the enterprises operations; every employee should know the precise power delegated to him, the extent of his authority and to whom he should report.

(ii) **Segregation of Duties:**

They are controls which ensures that no single person is responsible for the recording and processing of a complete transaction. The functions that should be separated are initiation, authorisation, execution, custody and recording. Several people should be in the processing of each transaction as this reduces the risk of intentional manipulation and increases the element of checking or work within the system.

(iii) **Physical Controls:**

These are those procedures and measures set up to ensure proper custody over valuable, potable, exchangeable and desirable corporate assets. They prevent unauthorised access to these assets. An example is the locking of securities (share certificate) in a safe with procedures for the custody and use of the keys.

(iv) **Authorisation and Approval Controls:**

These are those controls which specify the person responsible for authorising and approving transactions and the limits of such authority determined and communicated to those involved. For example, all individual office stationery purchases must be approved by the chief Accountant.

(v) **Arithmetic and Accounting Controls;**

These controls which are predominant in the recording functions ensure that all transactions occurring during the period have been authorised, and that they have all been correctly and accurately recorded and processed. These controls include checking the arithmetical accuracy of transactions, reconciliations of control accounts, the maintenance and checking totals and trial balances.

(vi) **Personnel Controls:**

These are controls which ensure the personnel operating a system are competent and motivated to carry out the tasks assigned to them, as the proper functioning of a system depends upon the competence and integrity of the operating personnel. This is achieved through appropriate selection, assessment, training, remuneration, promotion and career development of staff.

(vii) **Supervision controls:**

These specify those officials responsible for overseeing/supervising the day to day activities of the organisation. The responsibility for supervision is clearly laid sown and communicated to the person being supervised.

(viii) **Management controls:**

These are controls exercised by management which are outside and over and above the day to day routine of the system. They include overall supervisory controls, review of management accounts, comparison with budgets, internal audit and any other special review of procedures.

In addition to the above, which appear in the guideline two other categories are:

(i) **Acknowledgement of Performance:**

These controls are procedures designed, communicated and enforced to ensure that every person performing a function acknowledges his activities by means of signature, initials and other means.

Acknowledgement of performance not only allows blame to be ascribed but also has a powerful psychological effect.

(ii) **Budgeting:**

A common technique used in business is the use of budgets, which can be defined as quantitative plans of action. Budgets having been agreed can be compared with actual turn out and differences investigated.

The use of budgets and determination of and follow-up on variances help to achieve control in an enterprise.

Although control could be so variously classified, we shall adopt the following classification:

(1) **Physical control** - This involve restricting access to tangible assets, including cash and securities. It also entails physical limitation, dual custody, and periodic inventories.

(2) **Compliance with exposure limits**. The establishment of prudent limits on risk exposures is an important aspect of risk management. Therefore, continuous reviewing of compliance with such limits is a very important part of internal control. There should also be a follow up on instances of non-compliance.

(3) **APPROVAL AND AUTHORIZATION**:

Transactions should be properly authorized. Requiring authorization and approved for transactions over certain limits ensures that an appropriate level of management is aware of the transaction or situation and help to establish accountability.

(4) VERIFICATION AND RECONCILIATION;

Periodic reconciliations may identify activities and records that needed corrections. Verifications may show area requiring management attention. Consequently, the results of verifications should be reported to the appropriate levels of management whenever problems or potential problems are detected

(5) SEGREGATION OF DUTIES.

Part of the control measures involves Segregation of Duties. Segregation of duties is a very important part of internal control. This requires that certain duties within the bank should be spilt, to the extent possible, among various individuals in order to reduce the risk of manipulation of financial data or misappropriate of assets. According to Stock (1999) “Banks should avoid a situation where an individual has responsibility for:

- Approval of the disbursement of funds and actual disbursement
- Customer and proprietary account
- Transactions in both the banking and trading books
- Informally providing information to customers about their positions while marketing to the same customers.

- Assessing the adequacy of loan documentation and monitoring the borrower after loan origination.
- Any other areas where significant conflicts of interest emerge and are not mitigated by any other factors".

Areas of potential conflict should be identified, minimized and subject to careful monitoring by an independent third party. There should also be periodic reviews of the responsibilities and ensure that they are not in a position to conceal inappropriate actions.

2.16.0 INTERNAL CONTROL AND COMPLIANCE REQUIREMENT

As already mentioned, banks are the most regulated sector of our economy. They are being regulated by the companies and Allied Matters Acts, various requirements of Central Bank of Nigeria (CBN), prudential Guidelines for Licensed Banks, Banks and Other Financial Institution Act, among many others. For purpose of this section, we will look briefly at some requirements which the internal controller must ensure that the banks comply with. None compliance with some of these requirements could have very dangerous effects on the banks concern. It could range from fine to even withdrawal of banking license. To avoid these catastrophes, the internal controller must be alert and alive to his duties.

2.16.1 SOME REQUIREMENTS OF COMPANIES AND ALLIED MATTERS ACTS

Section 331 of the Companies And Allied Matters Act states that "every company (bank) shall cause accounting records to be kept; and the accounting records shall be sufficient to show and explain the transactions of the company (bank) and shall disclose with reasonable accuracy, at any time, the financial position of the company (bank)". From here we can see that the internal control system must be such that information produced must be reasonably accurate and capable of being relied upon by management.

It is worthy to note that the internal control of any organization is the responsibility of the management likewise the preparation of the account and financial reports. Section 334 of the Act states that “in the case of every company (bank) the directors shall in respect of each year of the company (bank) prepare financial statements for the year”. Therefore the records from which the financial report is prepared from must be accurate and dependable including records of the assets and liabilities of the bank. The internal controller must lend credence to the authenticity of the data, records and the financial reports.

2.16.2 SOME REQUIREMENTS OF THE NIGERIAN ACCOUNTING STANDARD

The preparation of the financial statement of a bank must be in conformity with the requirements of Statement of Accounting Standards (SAS) particularly the requirements of SAS 10. The statements seek to provide a guide for accounting policies and accounting methods that should be followed by banks in the preparation of their financial statements. The internal controller is duty bound to ensure that the bank comply with all the requirements. For instance section 62 of the statement states that "each principal item should be stated separately in the bank's financial statements to enable the user assess the contribution of that particular source of revenue.

The standard makes a lot of disclosure requirements on the management of the bank and it is the responsibility of the internal controller to ensure that all the disclosure requirements are met. Some of the disclosure requirement includes:

- ❖ Disclosure of sources of income in the financial statements.
- ❖ Interest income split between bank and non-bank sources.
- ❖ Interest expenses split between bank and non bank.
- ❖ Credit related for income and expenses.
- ❖ Maturity Profile of their risk assets and deposit liabilities.
- ❖ Provision for loan losses segregated between principal and interest.
- ❖ Analysis of loans and advances between performing and non-performing.
- ❖ Major items that makes up its other assets.

  This requires that the internal Controller must ensure that the accounts classification must be excellent and duly complied.

2.16.3 Some requirements of the CBN prudential guidelines with.

The Prudential Guidelines were issued by Central Bank of Nigeria to all licensed banks with the objective of standardizing the banking practice in the country and compliance with international banking practice. The internal controller must comply with in all ramifications to these requirements.

The guideline focuses more in the classification of credit portfolio in order to facilitate comparability of banks classification of their credit Portfolios and the assessment of risk of default. For purpose of this guideline, credit portfolio should be classified as:

(a) Performing: Where payments of both Principal and interest are up-to-date in accordance with the agreed terms.

(b) Non-Performing: Where interest or principal is due and unpaid for 90 days or more. The non-performing facilities could further be classified as:

(i) Sub-standard: Where the Principal and/ or interest remain outstanding for more than 90 days but less than 180 days.

(ii) Doubtful: Facilities on which unpaid Principal and /or interest remain outstanding for at least 180 days but less than 360 days and are not secured by legal title to leased assets.

(iii) Lost Credit Facilities: Where unpaid principal and/ or interest remain outstanding for 360 days or more and are not secured by legal title to Leased asset.

The internal controller is bound to ensure that the facilities of the bank are duly classified in line with the prudential guidelines. Not only that, but:

(a) For Sub-standard doubtful or lost facilities, interest overdue by more than 90 days are suspended and that Principal repayments that are over due by more than 90 days are fully provided for and recognized on cash basis only.

(b) For Principal repayments not yet due on non-performing credit facilities, Provisions are made as follows:

- Sub-standard facilities:- 10% of the outstanding balance.
- Doubtful credit facilities:- 50% of the outstanding balance.
- Lost credit facilities 100% of the outstanding balance.

This shows that the duty of the internal controller is enormous because total compliance with these requirements are his responsibility.

2.16.4 SOME REQUIREMENTS OF BANKS AND OTHER FINANCIAL INSTITUTION ACT.

The Act which was first Published in 1991 seek to regulate the operation of banking business in Nigeria. It covers areas such as establishment of banks, accounts of banks, supervision of banks, etc. The Internal controller must have an in-depth knowledge of this Act and ensure total compliance to avoid the wrath and penalties from central Bank of Nigeria. Section 3 of the Act deals with requirements for setting up banking business. Section 3 state any person desiring to undertake banking business in Nigeria shall apply in writing to the Governor for the granting of a license. Documents to accompany the application are also stated in the section including the required minimum paid up capital. We will like to state clearly at this point that the CBN raised the minimum paid up capital in 2005 to =N=25 billion. Section 3(15) requires all banks to maintain the statutory cash reserves, special deposits and hold specified liquid assets or stabilization securities. The CBN specified the minimum ratio to be maintained by way of liquid asset and the internal controller must ensure that the ratios are judiciously maintained.

Section 24 of the Act deals, with the books of Account Section 24 (1) state inter alias. "Every bank shall course to be kept proper books of account with respect to all the transactions of the bank". This goes to reinforce other statutory requirements on the subject matter e.g. the requirements of CAMA. The internal controller must ensure that:

(1) Proper books of account are maintained with respect to all transactions and that they give a true and far view of the state affairs of the bank and are in compliance with the accounting standards prescribed for banks

(2) The books of accounts are kept at the principal administrative office of the bank in English Language

(3) The financial statements of the bank is published in a daily newspaper circulating in Nigeria not later than four months after the end of its financial year

(4) Forward to CBN copies of the bank's balance sheet and profit and loss account duly signed and containing the full and correct names of the directors of the bank.

(5) The published account disclose in detail penalties paid as a result of contravention of the provisions of BOFIA and provisions of any guidelines in force during the financial year

(6) The balance sheet and profit and loss account of the bank bear on their face the report of an approved auditor.

This shows that the duty of the internal controller is a very challenging one.

The act specifically places the duty of compliance on the directors of each bank.

2.16.5 Various CBN circulars.

From time to time the CBN issues circulars and memos to the banks which must be complied with. Such circulars include the guidelines on monetary policy, foreign exchange, interest rates, capital adequacy, etc. The internal controller must ensure that the bank complied with all the requirements to avoid the wrath of CBN.

2.16.6 Requirements of International Financial Reporting Standards.

We have already mentioned that the accounts presented must meet the requirements of Statements of Accounting Standards promulgated by the Nigerian Accounting Standard Board. Banks being international organizations, their reports must meet the requirements of International Financial Reporting Standards, particularly IFRS 7. International Accounting Standard (IAS) 30: Disclosure in the Financial Statements of Banks and Similar Financial Institutions was issued. By August 2005, The International Accounting Standard Board issued IFRS 7, Financial Instruments Disclosures, which replaced IAS 30. The internal controller is duty bound to present reports that are in conformity with the requirements of IFRS.

2.17.0 INTERNAL CONTROL AND CORPORATE GOVERNANCE

The Internal controller has major responsibility in any organization, particularly in the banking industry, to ensure that good corporate governance is in place. According to Institute of Chartered Accountants of Nigeria study pack paper 16 (2006) Corporate governance is defined as “the system by which the affairs of companies are directed and controlled by those charged with the responsibility”. The Central Bank of Nigeria (2006) defined corporate governance as “a system by which corporations are governed and controlled with a view to increasing shareholders value and meetings the expectations of other stakeholders". The recent collapse of major corporate institutions in the United States of America and Europe such as Enron , Polly pack, Maxwell communications etc have brought to the fore the need for good corporate governance. The essence of good corporate governance is to restore Public confidence in financial reporting and the operation of companies.

According to Securities and Exchange Commission (2003). In Nigeria, corporate governance was at the rudimentary stage as only about 40% of quoted companies, including banks, had recognized codes of corporate governance in place". In the financial sector, poor corporate governance was identified as one of the major factors in virtually all known instances of a financial institutions distress in the country. In the words of Ogidefa (2008) "because of weak corporate culture in banks the nation witnessed a very high incidence of corporate failures and distress".

Jonathan Macey (2003) opined that “commercial banks pose unique corporate governance problems for managers and regulators as well as claimant on the banks cash flow such as investors and depositors. The fiduciary duties of officers and director should be owed exclusively to shareholders, although this should be broadened to include creditors”.

The code of Best Practices for Public Companies in Nigeria, Published by Securities and Exchange Commission in 2000 and Code of Corporate Governance for Banks in Nigeria Post Consolidation published by Central Bank of Nigeria in 2006 places a lot of demand on the internal controller. They include: Bank’s chief compliance officer (or internal controller) should in addition to monitoring compliance with money laundering requirements, monitor the implementation of the corporate governance code.

- Banks should establish ‘whistle blowing procedures that encourage all stakeholders to report any unethical activity\ breach of corporate covenant code to the bank and the CBN.

- The chief compliance officer shall make monthly return to CBN on all whistle blowing reports and corporate governance related breaches.

The chief compliance officer and the chief executive officer of each bank should certify each year to the CBN that they are not aware of any violation of the corporate governance code.

- The corporate governance compliance status report should be included in the audited financial statements.
- The internal control system should be documented and designed to achieve efficiency and effectiveness of operation, reliability of financial reporting and compliance with applicable laws and regulations at all levels of the bank.
- Internal auditors should be largely independent, highly competent and people of integrity.
- The head of internal audit should not be below the rank of Assistant General Manager and should be a member of a relevant professional body.

- He should report directly to the Board Audit Committee but forward a copy to the MD/CEO of the bank. Quarterly reports of audit must be made to the audit committee, and made available to examiners on field visit.
- Internal Audit Unit should be adequately staffed.

2.18.0 INTERNAL CONTROL AND INFORMATION AND COMMUNICATION TECHNOLOGY IN THE BANKING INDUSTRY

The banking industry in Nigeria, like many other developing countries of the world, is being highly influenced by information and communication technological developments. We can say that the industry is technologically driven. This is so because banking is an international business and their competitors are not limited by the national boundaries. Therefore the various technological applications acquired by the banks also posses new challenges to the internal controller.

Information technology has opened up new markets, new products, new services and efficient delivery channels for the banking industry. It has enabled the banks to meet the high expectations of their customers who are more technologically survey compared to their counterparts of the yester years.

Information technology has been providing solutions to banks to take care of their accounting and back office requirements.

This in itself poses different forms of internal control challenges compared to when banking operation was merely mechanical and manual to an extent. Technology has brought revolution in the products of banks. Such products include:-

- Net Banking
- Credit Card online
- Instant-alerts
- Mobile banking
- E-monies electronic Fund Transfer
- On line payment of excise and service tax
- Phone banking
- Bill Payments
- Shopping
- Ticket booking

- Prepared mobile recharge
- Fund Transfer (e-cheque)
- Internet banking etc

Each of this product caries its separate challenge. This implies that internal controller must be very conversant and up to date in Information Technology Application.

2.19.0 EVALUATION OF INTERNAL CONTROL SYSTEM

In view of the enormous growth in their size and complexities, proper management of modern business undertakings is not possible unless they have an effective system of internal control. Hence, sophisticated systems of management information and control have been introduced in many organisations.

An auditor should, therefore, evaluate these systems as a part of his audit assignment.

The evaluation of internal control system entails the assessment and appraisal of the system to determine its establishment. Though the system may be claimed to be effectively operational, however, there is the human tendency to relax from its compliance, and gradually depart from the originally designed high standard of procedure.

Because of this, a programme of more or less independent method must be developed to test and appraise the manner in which the system of internal control is functioning.

Some methods usually adopted in test – checking the functioning of internal control system by organisation are: employing the service of an external auditor or appraise it or the use of their internal audit department or employing the services of a consultancy firm. There are some "characteristics of internal control system which are necessary for its evaluation".

These characteristics are referred to as the criteria of internal control system.

(i) **Reliable Personnel with clear Responsibilities**

Dishonest and incomplete workers can undermine a system. Individuals must be given authorities, responsibilities and duties commensurate with his abilities, and experience. The system needs constant surveillance and appraisal by management to determine if it is working according to the design and where some changes are warranted.

(ii) **Separation of Duties**

This ensures accurate compilation of data and limits the chances of fraud by collusion of two or more persons. Custody of assets should be separated from those accounting for them to reduce the temptation and fraud.

(iii) **Proper authorisation**

All transactions should be appropriately approved and executed in accordance with prescribed management guideline. For example, there is usually the need for approval from the board of directors for capital expenditure in excess of certain limit.

(iv) **Adequate Documentation**

Documentation such as sale invoices and receipts, requisition notes and purchase order should be pre-numbered and accounted for, by using devices such as cash registers and locked compartments in invoice writing machines and by designing forms for ease of recording.

(v) **Proper Procedures**

Most big organisations use the manual of procedure which spells out flow of document, information and instructions to facilitate adequate record keeping.

(vi) **Physical Safeguard**

One of the ways to prevent losses of cash, inventories and records is by using safes, locks, watchmen and restrict access to them.

(vii) **Bonding, Vacations, Rotation of Duties**

Top executive handling cash or inventories should have people to understudy them, go on vacations for another person to perform their duties, and be bonded to safeguard losses, fraud and embezzlement. Receivable and payable clerks should be periodically rotated.

(viii) **Independent check**

All phases of the system should be subjected to periodic review by independent persons, may be external auditors. Bank statements should be periodically reconciled with the book balances.

(ix) **Cost Benefit Analysis**

In spite of the good effects of all controls already mentioned and discussed the choice of controls to be adopted by an organisation need to reflect a comparison of the cost of operation of such control against the benefits to be derived from them. Various professional accounting bodies now recognise the fact that the evaluation of internal control system helps in formulation a programme of detailed verification.

2.20.0 SPECIAL AREAS OF INTERNAL CONTROL SYSTEM

CASH RECEIPTS

(I) The control procedure should be such that no one person perform more than one function of either

- actual collection of cash
- making up of bank deposit slips
- reconciliation of bank statements
- postings in the general

(ii) Receipts of cash should be banked as early as possible

(iii) Any cash received from cash sales and miscellaneous sources, should be compared with the daily bank deposits as shown on the duplicate deposit slips.

(iv) Handing of cash and its records should be carried out by persons who do not have access to sales invoices and records, and person who do not authorise to issue credit memoranda or approve discounts, returns and allowances.

(v) Separation of duties concerning responsibilities for signing cheques and approval of invoices for payments, should be separated from record keeping duties.

(vi) A separate pay-roll bank account is required where pay-roll is made by cheques and a confirmation letter issued to the bank with details such as cheque number and amount.

PETTY CASH

(I) The amount of cash to be held in the imprest account should not be too large. The amount of petty cash will vary with the size of organisation.

(II) The staff keeping the custody of petty cash fund should be different from the person who authorises the replenishment of petty cash fund.

(III) There should be a limit or a ceiling as to the value of expenditure to be drawn on the petty cash fund.

(IV) Count of petty cash should be done at timely interval to prevent its unauthorised use.

RECONCILIATION OF BANK ACCOUNT

(i) Bank statements should be promptly sought and reconciled with the organisation bank account.

(ii) Employees whose responsibilities it is to reconcile bank statements should not have access to bank lodgements and withdrawals or disbursements.

(iii) Confirmation of stale or unpresented cheques must be withdrawn from bank.

FIXED ASSETS

(i) Capital expenditure should be authorised by the top management and proper records evidencing such authorisation should be maintained.

(ii) Plant and property registers should be maintained showing brief particulars of all items.

(iii) Fixed assets should be physically verified periodically. Metallic token should be attached to each item for easy identification.

(iv) Proper accounting records should be maintained for expenditure during the construction period distinguishing carefully between capital and revenue expenditure.

(v) Sales, scraping, or write-off of fixed assets should be only under proper authorisation by the top management. The receipts from such disposal should be properly accounted for.

JOURNAL ENTRIES

(i) All journal entries must be authorised and approved before being entered into accounting records of the organisation.

(ii) The persons giving out authority to raise entries, the persons raising them and the person approving the passing of entries should be different.

Management at times discovers that the internal control system rigid application is not always necessary. Hence management's re-appraisal of the internal control system of their organisation from time to time or out rightly bending the rule in some special circumstance.

The primary responsibility of every management, according to Gupta (1991), "is to establish and maintain an adequate system of internal control appropriate to the size and nature of the business on the entity; since internal control is an essential prerequisite for efficient and effective management of an organisation".

2.21.0 INSTALLATION OF INTERNAL CONTROL SYSTEM

2.21.1 Factors to consider

When considering the types of controls to install in any business organization it is worthwhile to consider certain factors.

Accounting to Woolf, these factors determine the nature of the controls that should operate in any organization.

These factors include:

(i) The nature and size of the business conducted

(ii) The staff strength of the company especially the number of administrative and accounting staff.

(iii) The materiality of transactions concerned.

(iv) The importance placed upon internal control by top management

(v) The management style of the company, especially the trust placed in the integrity and honesty of the key personnel, and the ability of top management to supervise their own subordinate staff.

(vi) The cost – benefit analysis of operating the internal controls. Where the cost is more than the benefits, a rational decision has to be taken if a trade-off cannot be achieved

(vii) The geographical distribution of the company will also impose some control problems.

It should be pointed out that it is the responsibility of management to decide, based on a careful analysis of the above variable, the extent and type of internal control systems suitable for its organisation. Different divisions of the organisation need different types of controls depending on the following considerations.

(i) The type of transactions conducted;

(ii) The assets employed;

(iii) The external environment;

(iv) Proximity to central management;

(v) The abilities and characteristics of staff; and

(vi) Experience to date of existing systems of control.

2.21.2 Classification of Business Transactions

For the purpose of installing an effective internal control system in any organisation, business transactions are normally classified into the following groups.

(a) Purchase of assets and services

(b) Sales of assets and services

(c) Cash receipts

(d) Cash disbursements

(e) Internal transactions such as

  (i) Payroll

  (ii) Inventory

  (iii) Accounts receivable

  (iv) Investment securities

  (v) Fixed assets

  (vi) Liabilities and equity capital.

Each of these divisions needs a varied type of internal control based on adaptation of the central elements of internal control system discussed in section 2.10.0 of this chapter.

2.22.0 LIMITATIONS OF INTERNAL CONTROL

Internal control systems cannot be regarded as completely effective, regardless of the care followed in their design and implementation.

An internal control system can provide only reasonable assurance that the management's objectives in establishing the system are achieved. This is due to the fact that any internal control system has certain inherent limitations. These limitations arise due to the following reasons:

(i) Controls have to be cost-effective. Thus, some control may not be instituted merely because they are cost effective.

(ii) Most controls are directed at transactions of a usual nature. Therefore, transactions of an unusual nature might escape being subjected to rigorous controls.

(iii) Authorisation controls can be abused by those in whom authority is vested.

(iv) In any case, the potential of human error remains in any system of control. This may be due to errors of judgement and interpretation, misunderstanding, carelessness, fatigue or distraction. These errors can undermine the effective operation of internal controls.

(v) No system can prevent fraud through collusion between two or more persons.

(vi) Pressure exerted from within and outside the enterprise can influence the integrity and competence of staff.

(vii) A member of the management may himself override the controls set up.

(viii) Controls may not keep pace with changes in conditions.

(ix) Management itself may manipulate transactions or estimates.

2.23.0 CHALLENGES OF THE INTERNAL CONTROLLER IN THE NIGERIAN BANKING INDUSTRY

The internal controller is often looked at as “the Police man” of the organization who must ensure that all the laws, rules and regulations are duly complied with. He is expected to discharge his functions with highest level of dexterity, accuracy and sincerity. In the cause of discharging his functions, he is faced with a lot of challenges. Some of the challenges are discussed below.

Independence: - The greatest challenge of the internal controller is that of independence. In the words of Clive de Paula (1983) “the internal controller, in addition to his technical knowledge, must be above all things a man possessed of both strength of character and tact. He must not be easily led and influenced by others but, knowing what his duty is, he must do it in spite of direct or indirect pressure". Although the law clearly entrust the responsibility for internal control on the bank's directors, this responsibility is further delegated to a professional who is a staff of the bank. Being a staff, he looks unto his boss for promotion, recommendation and growth within the bank. The question is – will you have the gut or courage to report his boss who has contravened the CBN guidelines or CAMA?. In theory, yes he should report. But in practice, some internal controllers may not likely try to do so. In an attempt to report some act or violation some internal controllers have lost their jobs and some have missed their promotion and some are looked at as saboteurs of the organization. This calls for proper protection of the internal controller.

Integrity of the internal controller:

It is expected that internal controller should be a man or woman of integrity capable of discharging his or her duty without fear or favor.

According to Institute of Chartered Accountants of Nigeria – Rules for professional conduct for members (2000), "Integrity implies not merely honesty but fair dealing and truthfulness". Therefore any report signed by the Chief internal Controller should be capable of beings relied upon. But this is not the case. We have had several cases of internal controllers who accepted gratifications as an inducement to waive reporting failure to comply with laws or regulations and sometimes not to report discovered cases of fraud and misappropriation.

Qualified manpower: The duties of the internal controller are highly technical and therefore should be carried out by professionals, who are well verse with the operation of the banking business. The Central Bank of Nigeria code of Corporate Governance for Banks (2006) state that "the head of internal audit should not be below the rank of AGM and should be a member of relevant professional body". Note that internal audit is a very important arm of internal control and therefore such office should be manned by professional accountants. Prior to 2006, we have had cases where non professional accountants are sent to man the internal control unit. The staff of the internal control department should also be professional accountants who are competent. Section 358 of the Companies and Allied Matters Act states inter alias "a person shall not be qualified for appointment as an auditor of a company unless he is a member of a body of accountants in Nigeria established from time to time".

Insider Abuse: There has been series of reported and unreported cases of insider abuse in the industry such as improper granting of loans to directors, management staff and political interest. Insiders conversion of banks resources to purposes other than business interest. Granting of interest waivers on non-performing insider credit without CBN prior to approval. Diversion of banks earnings through the use of subsidiaries to deny the banks of legitimate earnings. The internal controller is expected to report all these to the appropriate authority but due to circumstances beyond his control he may not report them. Where such are reported, his report may be suppressed.

Falsification of accounting records: The internal controller sometimes is guilty of aiding and abetting falsification of accounting records. Window dressing of accounts with the knowledge of the internal controller is a common practice in the banking industry. Some banks are often accused of preparing multiple financial statements in order to mislead the monetary and tax authority. This is always done in collaboration with the internal controller.

Misuse of Information: Most banks have been accused of misuse, manipulation or non-disclosure of material information on operation supplied to regulatory authorities in order to derive some benefits or avoid liability. In addition, some internal controllers are accused of misuse of confidential information gained through banking operation for their personal benefits.

2.24.0 Statement of Guidance on Internal Controls in Banks

These guidelines issued by Cayman Islands Monetary Authority were developed using Framework for Internal Control Systems in Banking Organisations, September 1998, issued by the Basel Committee on Banking Supervision.

2.24.1 Statement of Objectives

To provide guidance on the requirement imposed on licensee by Rule 1(A).

To provide a standard of best practice to banks for the implementation of an effective and sound Internal Control System.

2.24.2 Introduction

A system of effective controls is a critical component of bank management and a foundation for the safe and sound operation of banking organisations. A system of strong internal controls can help to ensure that the goals and objectives of a banking organisation will be met, that the bank will achieve long-term profitability targets, and maintain reliable financial and managerial reporting. Such a system can also help to ensure that the bank will comply with laws and regulations as well as policies, plans, internal rules and procedures, and decrease the risk of unexpected losses or damage to the bank's reputation.

2.24.3 Management Control Culture and Oversight

2.24.3.1 Directions

The board of directors should have responsibility for approving and periodically reviewing the overall business strategies and significant policies of the bank; understanding the major risks run by the bank, setting acceptable levels for these risks and ensuring that senior management takes the steps necessary to identify, measure, monitor and control these risks; approving the organisational structure; and ensuring that senior management is monitoring the effectiveness of the internal control system. The board of directors is ultimately responsible for ensuring that an adequate and effective system of internal controls is established and maintained.

The board of directors provides governance, guidance and oversight to senior management. Board members should be objective, capable, and inquisitive, with a knowledge or expertise of the activities of and risks run by the bank. The board should consist of some members who are independent from the daily management of the bank. A strong, active board, particularly when coupled with effective upward communication channels and capable financial, legal, and internal audit functions, provides an important mechanism to ensure the correction of problems that may diminish the effectiveness of the internal control system.

The board of directors should include in its activities

(1) Periodic discussions with management concerning the effectiveness of the internal control system,

(2) A timely review of evaluations of internal controls made by management, internal auditors, and external auditors,

(3) Periodic efforts to ensure that management has promptly followed up on recommendations and concerns expressed by auditors and supervisory authorities on internal control weaknesses, and

(4) A periodic review of the appropriateness of the bank's strategy and risk limits.

Senior management should have responsibility for implementing strategies and policies approved by the board; developing processes that identify, measure, monitor and control risks incurred by the bank; maintaining an organizational structure that clearly assigns responsibility, authority and reporting relationships; ensuring that Senior Management delegated responsibilities are effectively carried out; setting appropriate internal control policies; and monitoring the adequacy and effectiveness of the internal control system.

Senior management is responsible for carrying out the directives of the board of directors, including the implementation of strategies and policies and the establishment of an effective system of internal control. Members of senior management typically delegate responsibility for establishing more specific internal control policies and procedures to those responsible for a particular business unit. Delegation is an essential part of management; however, it is important for senior management to oversee the managers to whom they have –delegated these responsibilities to ensure that they develop and enforce appropriate policies and procedures.

Compliance with an established internal control system is heavily dependent on a well documented and communicated organisational structure that clearly shows lines of reporting responsibility and authority and provides for effective communication throughout the organisation. The allocation of duties and responsibilities should ensure that there are no gaps in reporting lines and that an effective level of management control is extended to all levels of the bank and its various activities.

It is important that senior management takes steps to ensure that activities are conducted by qualified staff with the necessary experience and technical capabilities. Staff in control functions must be properly remunerated. Staff training and skills should be regularly updated. Senior management should institute compensation and promotion policies that reward appropriate behaviours and minimise incentives for staff to ignore or override internal control mechanisms.

2.24.3.2 Control culture

The board of directors and senior management are responsible for promoting high ethical and integrity standards, and for establishing a culture within the organisation that emphasises and demonstrates to all levels of personnel the importance of internal controls. All personnel at a banking organisation need to understand their role in the internal controls process and be fully engaged in the process.

An essential element of an effective system of internal control is a strong control culture. It is the responsibility of the board of directors and senior management to emphasise the importance of internal control through their actions and words. This includes the ethical values that management displays in their business dealings, both inside and outside the organisation. The words, attitudes and actions of the board of directors and senior management affect the integrity, ethics and other aspects of the bank's control culture.

In varying degrees, internal control is the responsibility of everyone in a bank. Almost all employees produce information used in the internal control system or take other actions needed to effect control. An essential element of a strong internal control system is the recognition by all employees of the need to carry out their responsibilities effectively and to communicate to the appropriate level of management any problems in operations, instances of non-compliance with any code of conduct, or other policy violations or illegal actions that are noticed. This can best be achieved when operational procedures are contained in clearly written documentation that is made available to all relevant personnel. It is essential that all personnel within the bank understand the importance of internal control and are actively engaged in the process.

In reinforcing ethical values, banking organisations should avoid policies and practices that may inadvertently provide incentives or temptations for inappropriate activities. Examples of such policies and practices may include undue emphasis on performance targets or other operational results, particularly short-term ones that ignore longer-term risks; compensation schemes that overly depend on short-term performance; ineffective segregation of duties or other controls that could allow the misuse of resources or concealment of poor performance; and insignificant or overly onerous penalties for improper behaviours.

While having a strong internal control culture does not guarantee that an organisation will reach its goals, the lack of such a culture provides greater opportunities for errors to go undetected or for improprieties to occur.

2.24.4 Risk Recognition and Assessment

An effective internal control system requires that the material risks that could adversely affect the achievement of the bank's goals are being recognised and continually assessed. This assessment should cover all risks facing the bank and the consolidated banking organisation (that is, credit risk, country and transfer risk, market risk, interest rate risk, liquidity risk, operational risk, legal risk and reputational risk). Internal controls may need to be revised to appropriately address any new or previously uncontrolled risks.

Banks are in the business of risk-taking. Consequently it is imperative that, as part of an internal control system, these risks are being recognised and continually assessed. From an internal control perspective, a risk assessment should identify and evaluate the internal and external factors that could adversely affect the achievement of the banking organisation's performance, information and compliance objectives. This process should cover all risks faced by the bank and operate at all levels within the bank. It differs from the risk management process which typically focuses more on the review of business strategies developed to maximise the risk/reward trade-off within the different areas of the bank.

Effective risk assessment identifies and considers internal factors (such as the complexity of the organisation's structure, the nature of the bank's activities, the quality of personnel, organisational changes and employee turnover) as well as external factors (such as fluctuating economic conditions, changes in the industry and technological advances) that could adversely affect the achievement of the bank's goals. This risk assessment should be conducted at the level of individual businesses and across the wide spectrum of activities and subsidiaries of the consolidated banking organisation. This can be accomplished through various methods. Effective risk assessment addresses both measurable and non-measurable aspects of risks and weighs costs of controls against the benefits they provide.

The risk assessment process also includes evaluating the risks to determine which are controllable by the bank and which are not. For those risks that are controllable, the bank must assess whether to accept those risks or the extent to which it wishes to mitigate the risks through control procedures. For those risks that cannot be controlled, the bank must decide whether to accept these risks or to withdraw from or reduce the level of business activity concerned.

In order for risk assessment, and therefore the system of internal control, to remain effective, senior management needs to continually evaluate the risks affecting the achievement of its goals and react to changing circumstances and conditions. Internal controls may need to be revised to appropriately address any new or previously uncontrolled risks. For example, as financial innovation occurs, a bank needs to evaluate new financial instruments and market transactions and consider the risks associated with these activities. Often these risks can be understood when considering how various scenarios (economic and otherwise) affect the cash flows and earnings of financial instruments and transactions. Thoughtful consideration of the full range of possible problems, from customer misunderstanding to operational failure, will point to important control considerations.

2.24.5 Control Activities and Segregation of Duties

Control activities should be an integral part of the daily activities of a bank. An effective internal control system requires that an appropriate control structure is set up, with control activities defined at every business level. These should include: top level reviews; appropriate activity controls for different departments or divisions; physical controls; checking for compliance with exposure limits and follow-up on non-compliance; a system of approvals and authorisations; and, a system of verification and reconciliation.

Control activities are designed and implemented to address the risks that the bank identified through the risk assessment process described previously. Control activities involve two steps: (1) the establishment of control policies and procedures; and (2) verification that the control policies and procedures are being complied with. Control activities involve all levels of personnel in the bank, including senior management as well as front line personnel. Examples of control activities include:

a) Top level reviews - Boards of directors and senior management often request presentations and performance reports that enable them to review the bank's progress toward its goals. For example, senior management may review reports showing actual financial results to date versus the budget. Questions that senior management generates as a result of this review and the ensuing responses of lower levels of management represent a control activity which may detect problems such as control weaknesses, errors in financial reporting or fraudulent activities.

b) Activity controls - Department or division level management receives and reviews standard performance and exception reports on a daily, weekly or monthly basis. Functional reviews occur more frequently than top-level reviews and usually are more detailed. For instance, a manager of commercial lending may review weekly reports on delinquencies, payments received, and interest income earned on the portfolio, while the senior credit officer may review similar reports on a monthly basis and in a more summarised form that includes all lending areas. As with the top-level review, the questions that are generated as a – result of reviewing the reports and the responses to those questions represent the control activity.

c) Physical controls - Physical controls generally focus on restricting access to tangible assets, including cash and securities. Control activities include physical limitations, dual custody, and periodic inventories.

d) Compliance with exposure limits - The establishment of prudent limits on risk exposures is an important aspect of risk management. For example, compliance with limits for borrowers and other counterparties reduces the bank's concentration of credit risk and helps to diversify its risk profile. Consequently, an important aspect of internal controls is a process for reviewing compliance with such limits and follow-up on instances of non-compliance.

e) Approvals and authorisations - Requiring approval and authorisation for transactions over certain limits ensures that an appropriate level of management is aware of the transaction or situation, and helps to establish accountability.

f) Verifications and reconciliations - Verifications of transaction details and activities and the output of risk management models used by the bank are important control activities. Periodic reconciliations, such as those comparing cash flows to account records and statements, may identify activities and records that need correction. Consequently, the results of these verifications should be reported to the appropriate levels of management whenever problems or potential problems are detected.

Control activities are most effective when they are viewed by management and all other personnel as an integral part of, rather than an addition to, the daily activities of the bank. When controls are viewed as an addition to the day-to-day activities, they are often seen as less important and may not be performed in situations where individuals feel pressured to complete activities in a limited amount of time. In addition, controls that are an integral part of the daily activities enable quick responses to changing conditions and avoid unnecessary costs. As part of fostering the appropriate control culture within the bank, senior management should ensure that adequate control activities are an integral part of the daily functions of all relevant personnel.

It is not sufficient for senior management to simply establish appropriate policies and procedures for the various activities and divisions of the bank. They must regularly ensure that all areas of the bank are in compliance with such policies and procedures and also determine that existing policies and procedures remain adequate. This is usually a major role of the internal audit function.

An effective internal control system requires that there is appropriate segregation of duties and that personnel are not assigned conflicting responsibilities. Areas of potential conflicts of interest should be identified, minimised, and subject to careful, independent monitoring.

Assigning conflicting duties to one individual (for example, responsibility for both the front and back offices of a trading function) gives that person access to assets of value and the ability to manipulate financial data for personal gain or to conceal losses. Consequently, certain duties within a bank should be split, to the extent possible, among various individuals in order to reduce the risk of manipulation of financial data or misappropriation of assets.

Segregation of duties is not limited to situations involving simultaneous front and back office control by one individual. It can also result in serious problems when there are not appropriate controls in those instances where an individual has responsibility for:

a) Approval of the disbursement of funds and the actual disbursement;
b) Customer and proprietary accounts;
c) Transactions in both the "banking" and "trading" books;
d) Informally providing information to customers about their positions while marketing to the same customers;

e) Assessing the adequacy of loan documentation and monitoring the borrower after loan origination; and,

f) Any other areas where significant conflicts of interest emerge and are not mitigated by other factors.

Areas of potential conflict should be identified, minimised, and subject to careful monitoring by an independent third party. There should also be periodic reviews of the responsibilities and functions of management and staff to ensure that they are not in a position to conceal inappropriate actions.

2.24.6 Information and Communication

An effective internal control system requires that there are adequate and comprehensive internal financial, operational and compliance data, as well as external market information about events and conditions that are relevant to decision making. Information should be reliable, timely, accessible, and provided in a consistent format.

Adequate information and effective communication are essential to the proper functioning of a system of internal control. From the bank's perspective, in order for information to be useful, it must be relevant, reliable, timely, accessible, and provided in a consistent format. Information includes internal financial, operational and compliance data, as well as external market information about events and conditions that are relevant to decision making. Internal information is part of a record-keeping process that should include established procedures for record retention.

An effective internal control system requires that there are reliable information systems in place that cover all significant activities of the bank. These systems, including those that hold and use data in an electronic form, must be secure, monitored independently and supported by adequate contingency arrangements.

A critical component of a bank's activities is the establishment and maintenance of management information systems that cover the full range of its activities. This information is usually provided through both electronic and non-electronic means. Banks must be particularly aware of the organisational and internal control requirements related to processing information in an electronic form and the necessity to have an adequate audit trail. Management decision-making could be adversely affected by unreliable or misleading information provided by systems that are poorly designed and controlled.

Electronic information systems and the use of information technology have risks that must be effectively controlled by banks in order to avoid disruptions to business and potential losses. Since transaction processing and business applications have expanded beyond the use of mainframe computer environments to distributed systems for mission-critical business functions, the magnitude of risks also has expanded. Controls over information systems and technology should include both general and application controls. General controls are controls over computer systems (for example, mainframe, client/server, and end-user workstations) and ensure their continued, proper operation. General controls include in-house back-up and recovery procedures, software development and acquisition policies, maintenance (change control) procedures, and physical/logical access security controls. Application controls are computerised steps within software applications and other manual procedures that control the processing of transactions and business activities. Application controls include, for example, edit checks and specific logical access controls unique to a business system. Without adequate controls over information systems and technology, including systems that are under development, banks could experience loss of data and programs due to inadequate physical and electronic security arrangements, equipment or systems failures, and inadequate in-house backup and recovery procedures.

In addition to the risks and controls above, inherent risks exist that are associated with the loss or extended disruption of services caused by factors beyond the bank's control. In extreme cases, since the delivery of corporate and customer services represent key -transactional, strategic and reputational issues, such problems could cause serious difficulties for banks and even jeopardise their ability to conduct key business activities. This potentially requires the bank to establish business resumption and contingency plans using an alternate off-site facility, including the recovery of critical systems supported by an external service provider. The potential for loss or extended disruption of critical business operations requires an institution-wide effort on contingency planning, involving business management, and not focused on centralised computer operations. Business resumption plans must be periodically tested to ensure the plan's functionality in the event of an unexpected disaster.

An effective internal control system requires effective channels of communication to ensure that all staff fully understand and adhere to policies and procedures affecting their duties and responsibilities and that other relevant information is reaching the appropriate personnel.

Without effective communication, information is useless. Senior management of banks need to establish effective paths of communication in order to ensure that the necessary information is reaching the appropriate people. This information relates both to the operational policies and procedures of the bank as well as information regarding the actual operational performance of the organisation.

The organisational structure of the bank should facilitate an adequate flow of information - upward, downward and across the organisation. A structure that facilitates this flow ensures that information flows upward so that the board of directors and senior management are aware of the business risks and the operating performance of the bank. Information flowing down through an organisation ensures that the bank’s objectives, strategies, and expectations, as well as its established policies and procedures, are communicated to lower level management and operations personnel. This communication is essential to achieve a unified effort by all bank employees to meet the bank's objectives. Finally, communication across the organisation is necessary to ensure that information that one division or department knows can be shared with other affected divisions or departments.

2.24.7 Monitoring Activities and Correcting Deficiencies

The overall effectiveness of the bank's internal controls should be monitored on an ongoing basis. Monitoring of key risks should be part of the daily activities of the bank as well as periodic evaluations by the business lines and internal audit.

Since banking is a dynamic, rapidly evolving industry, banks must continually monitor and evaluate their internal control systems in the light of changing internal and –external conditions, and must enhance these systems as necessary to maintain their effectiveness. In complex, multinational organisations, senior management must ensure that the monitoring function is properly defined and structured within the organisation.

Monitoring the effectiveness of internal controls can be done by personnel from several different areas, including the business function itself, financial control and internal audit. For that reason, it is important that senior management makes clear which personnel are responsible for which monitoring functions. Monitoring should be part of the daily activities of the bank but also include separate periodic evaluations of the overall internal control process. The frequency of monitoring different activities of a bank should be determined by considering the risks involved and the frequency and nature of changes occurring in the operating environment.

Ongoing monitoring activities can offer the advantage of quickly detecting and correcting deficiencies in the system of internal control. Such monitoring is most effective when the system of internal control is integrated into the operating environment and produces regular reports for review. Examples of ongoing monitoring include the review and approval of journal entries, and management review and approval of exception reports.

In contrast, separate evaluations typically detect problems only after the fact; however, separate evaluations allow an organisation to take a fresh, comprehensive look at the effectiveness of the internal control system and specifically at the effectiveness of the monitoring activities. These evaluations can be done by personnel from several different areas, including the business function itself, financial control and internal audit. Separate evaluations of the internal control system often take the form of self-assessments when persons responsible for a particular function determine the effectiveness of controls for their activities. The documentation and the results of the evaluations are then reviewed by senior management. All levels of review should be adequately documented and reported on a timely basis to the appropriate level of management.

There should be an effective and comprehensive internal audit of the internal control system carried out by operationally independent, appropriately trained and competent staff. The internal audit function, as part of the monitoring of the system of internal controls, should report directly to the board of directors or its audit committee, and to senior management.

The internal audit function is an important part of the ongoing monitoring of the system of internal controls because it provides an independent assessment of the adequacy of, and compliance with, the established policies and procedures. It is critical that the internal audit function is independent from the day-to-day functioning of the bank and that it has –access to all activities conducted by the banking organisation, including at its branches and subsidiaries.

Internal control deficiencies, whether identified by business line, internal audit, or other control personnel, should be reported in a timely manner to the appropriate management level and addressed promptly. Material internal control deficiencies should be reported to senior management and the board of directors.

Internal control deficiencies, or ineffectively controlled risks, should be reported to the appropriate person(s) as soon as they are identified, with serious matters reported to senior management and the board of directors. Once reported, it is important that management corrects the deficiencies on a timely basis. The internal auditors should conduct follow-up reviews or other appropriate forms of monitoring, and immediately inform senior management or the board of any uncorrected deficiencies. In order to ensure that all deficiencies are addressed in a timely manner, senior management should be responsible for establishing a system to track internal control weaknesses and actions taken to rectify them.

The board of directors and senior management should periodically receive reports summarising all control issues that have been identified. Issues that appear to be immaterial when individual control processes are looked at in isolation, may well point to trends that could, when linked, become a significant control deficiency if not addressed in a timely manner.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.0.0 INTRODUCTION

Internal control in any organization serve as a mechanism of ensuring total compliance with set standards, rules, regulations and policies. It also serves as a means of assessing the effectiveness of the current standards. The banking industry, as earlier highlighted, is highly regulated and faces both internal and international competition and requires highly sophisticated internal control system. The essence of this research work is to evaluate the internal control system in selected banks in Nigeria.

This chapter focus attention on the logical procedures adopted to achieve the objectives of the research study. It covers population and sampling method. It also deals with data collection techniques as well as method used for data analysis which includes statistical tools such as Spearman's Rank Correlation Model and Chi-square model for testing of hypothesis stated.

The section provides an insight into the methodology adopted in the collection, analysis and interpretation of the data collated for the study. It attempts to provide a detailed analysis of the research plan and tools used in the conduct of the research.

3.1.0 RESEARCH DESIGN

The research design provides the platform that holds the research project together. A design is used to structure the research, to show how all of the major parts of the research project - the samples or groups, measures, treatments or programs, and methods of assignment - work together and attempt to address the central research questions.

There are various research designs but the one adopted for the purpose of this study is a cross-sectional survey.

In a cross-sectional survey, data is collected at a point in time from a sample selected to describe some larger population.

3.2.0 DATA COLLECTION METHOD AND STRATEGY

The researcher has made use of both the primary and secondary data in order to ensure the reliability of the information resulting from the research.

3.2.1 Primary Data

Primary data also known as raw data or field work refers to any data an investigator collects by himself / herself for research purpose on hand. It can be through estimation, experimentation, questionnaires and personal interviews.

Primary sources are the materials on a topic upon which subsequent interpretations or studies are based, anything from firsthand documents such as poems, diaries, court records, and interviews to research results generated by experiments, surveys, ethnographies, and so on.

Primary sources are records of events as they are first described, without any interpretation or commentary. They are also sets of data, such as census statistics, which have been tabulated but not interpreted. It has the advantage of giving the researcher the opportunity to conduct an unbiased and extensive study on the research problem set out to solve.

In this study the researcher used the under listed primary research data:

a) **Questionnaires:** A questionnaire is a series of questions asked to individuals to obtain statistically useful information about a given topic. When properly constructed and responsibly administered, questionnaires become a vital instrument by which statements can be made about specific groups or people or entire populations.

   Questionnaires are frequently used in quantitative marketing research and social research. They are a valuable method of collecting a wide range of information from a large number of individuals, often referred to as respondents. Adequate questionnaire construction is critical to the success of a survey. Inappropriate questions, incorrect ordering of questions, incorrect scaling, or bad questionnaire format can make the survey valueless, as it may not accurately reflect the views and opinions of the participants.

A useful method for checking a questionnaire and making sure it is accurately capturing the intended information. Hence a standard internal control question with modifications was adopted for the study.

The questionnaire was designed to obtain data/information which will be relevant for the assessment and evaluation of the banks' internal control system.

The questionnaire was designed in an attempt to fully accommodate all the components of the issue raised in the hypotheses.

To achieve broadened scope, the questions were designed in such a way that multiple answers or replies to questions could be necessitated where applicable. It should be stressed, however, that questions were designed to determine accurate record keeping, conformity and adherence to prescribed management policies.

Our specific areas of focus include:

a) The effectiveness of internal control processes and systems

b) The accuracy, reliability and timeliness of management information reporting

c) Compliance with laws, regulations and banks policies and procedures

d) The effectiveness and efficiency of management systems for achieving banks objectives considering the underlying business risks

e) The reliability and security of information systems and computer operations.

We also attempt to seek responses as to whether the internal control managers adopt a risk based approach in the discharge of their duties by classifying risks into the following:

a) Strategic – affects achievement of strategic goals and objectives

b) Compliance – affects compliance with federal, state and local laws, rules and regulations

c) Reputational – affect public perception and reputation

d) Financial – affects assets, technology, financial reporting and auditing

e) Operational – affects ongoing management processes and procedures

b) Observation: This is a method of data collection in which the situation of interest is watched and the relevant facts, actions and behaviors are recorded. The value of observation is that it permits researchers to study people in their native environment in order to understand "things" from their perspective. Observation requires the researcher to spend considerable time in the field with the possibility of adopting various roles in order to gain a more comprehensive understanding of the people being studied.

The researcher observed the performance function of functional areas of the selected banks, and observed the different stages which transactions pass through, from when authority to raise vouchers commences to their conclusion.

The inter-relationship between one section and the other with regard to the movement of documents such as credit and depositors files and vouchers were observed and examined.

The researcher's observation of the activities of internal control departments of the selected banks in Nigeria was made possible because of his long-standing career in the financial service sector of the Nigerian financial industry and in internal control in particular having spent over a decade in control related activities.

The writer intends to carry out a study to determine the impact of internal control operations on the activities of banks in Nigeria.

For the purpose of our research, the following banks were randomly selected. They include: Zenith International Bank Plc, Ecobank Nigeria Plc, First Bank of Nigeria Plc, United bank for Africa Plc and Diamond Bank Plc and one hundred (100) questionnaires administered to respondents across the various sections of the banks in their head offices and some selected branches.

c) **Telephone Interview:** Telephone interviews are easy to administer and allow data to be collected quickly at a relatively low cost. The interviewer can clarify the questions.

Response rates tend to be higher and telephone interviewing allows for greater sample control. This will be a means to following up on issues not properly addressed in the questionnaires. The personal interviews cover questions relating to the operations, problems and prospects of banks management in Nigeria.

3.2.2 Secondary Data: Secondary data refers to data collection for the purpose other than research work at hand. It can be data taken from other people's figures. We can get these data from organisations information handbooks, government publications from past research findings and relevant literature.

It offers an analysis or a restatement of primary sources. Secondary data attempts to describe or explain primary sources.

Some secondary sources not only analyze primary sources, but use them to argue a contention or to persuade the reader to hold a certain opinion.

A lot of materials used, especially for the theoretical framework of this study was obtained from textbooks, journals, magazines and newspapers. All these served as the secondary source of data.

The researcher's data has been collected in the following areas:

(i) Review of past research findings and relevant literature.

(ii) First Bank of Nigeria Plc

(iii) Zenith International Bank Plc

(iv) United Bank for Africa Plc

(v) Ecobank Nigeria Plc

(vi) Diamond Bank Plc

(vii) Materials from the print media

(viii) The Central Bank of Nigeria Library in Lagos

(ix) The Nigerian Deposit Insurance Corporation Library in Lagos

The emphasis however, was on detail study of the questionnaires administered. This was necessary in view of the survey nature of the study.

3.3.0 Research Instruments

The instruments of research are determined in line with the nature and objective of the research. This study was designed to be facilitated using a survey format hence the use of a carefully designed and standardized questionnaire that allows respondents to answer certain collated questions. Questioning involves using a questionnaire (data collection instrument) to ask respondents questions to secure the desired information. The result of the questionnaire was combined with data collated from secondary sources as well as observations, to draw concluding inferences.

The questionnaires would be administered in the head office of the selected banks and some of their branches within Nigeria. These banks were randomly selected from the twenty four (24) existing banks.

Table 3.1.0: List of Banks in Nigeria as at January 31, 2011

S/N	NAME OF BANK
1	ACCESS BANK PLC
2	AFRIBANK NIGERIA PLC
3	DIAMOND BANK PLC
4	ECOBANK NIGERIA PLC
5	EQUITORIAL TRUST BANK
6	FIDELITY BANK
7	FIRST BANK OF NIGERIA
8	FIRST CITY MONIMENT BANK
9	FIRST INLAND BANK
10	GUARANTY TRUST BANK
11	INTERCONTINENTAL BANK
12	NIGERIAN INT'L BANK (NIB)
13	OCEANIC BANK INT'L
14	PLATINUM HABIB BANK
15	SKYE BANK
16	SPRING BANK
17	STANBIC IBTC BANK
18	STANDARD CHARTERED BANK
19	STERLING BANK
20	UNION BANK OF NIGERIA
21	UNITED BANK FOR AFRICA
22	UNITY BANK
23	WEMA BANK
24	ZENITH INT'L BANK

The questionnaires were distributed in the following proportions amongst the selected banks.

Table 3.2: Distribution of questionnaires amongst the selected banks

S/No.	BANK	No. of Questionnaires Administered
1	Diamond Bank Plc	20
2	Ecobank Nigeria Plc	20
3	First Bank of Nigeria Plc	20
4	United Bank for Africa Plc	20
5	Zenith International Bank Plc	20
Total		**100**

3.4.0 RESEARCH POPULATION

The population of a research study is defined as the census of all items or objects that possess the characteristic or that have the knowledge of the phenomenon being studied. In order to reduce the laborious process of distributing questionnaires and conducting personal interviews with the entire population in all the banks, a random selection of five (5) banks - Diamond Bank Nigeria Plc, First Bank Nigeria Plc, Ecobank Plc, Zenith Bank Plc and UBA Plc were made from the twenty four (24) registered banks in Nigeria and twenty (20) questionnaires administered on each of the selected banks resulting in a sample size of one hundred (100) respondents.

Although we have narrowed the research work to five selected banks, it was not be possible to cover all the branches spread across the length and breadth of this nation. Questionnaires were administered to few senior staff of the banks whose views and opinion will reflect the characteristics of these organizations. A total of 100 questionnaires, evenly spread among the five banks, were administered. In addition to questionnaires, personal interviews with key personnel of the banks, particularly staff of internal control department, were also carried out.

In addition to the above, the researcher analyzed the questionnaires using simple percentages. Chi-Square model, Spearman's Rank Correlation model and Pearson Product moment correlation was used in analyzing the data obtained.

Since this study is on internal control, attention was given to members of staff of the bank in various sections which consequently constitutes the research population.

The questionnaires were administered on a population made up of senior members of staff of the banks in the chosen functional areas and sections of the banks.

TABLE 3.3: DISTRIBUTION OF RESPONDENTS BY FUNCTIONALITY

S/N	Department	No of Questionnaires Distributed
1	Audit and Compliance	21
2	Internal Control	40
3	Operations	8
4	Customer Services	5
5	Information Technology	6
6	Risk Management	7
7	Financial Control	8
8	General Administration	5
Total		**100**

3.5.0 DETERMINATION OF SAMPLE SIZE

This is defined as the subject or part of the entire population of the study from which is from a few objects (people) in the population for observation and then applying what is observed to the entire population of the study. For the purpose of this study, a population of 100 respondents was chosen from the five (5) selected banks in Nigeria. The population of this study is a finite one.

The researcher was not able to cover all the twenty four registered banks in Nigeria. The research covered five randomly selected banks, namely, Diamond Bank Nigeria Plc, First Bank Nigeria Plc, Ecobank Plc, Zenith Bank Plc and UBA Plc. Although we have narrowed the research work to five selected banks, it was not be possible to cover all the branches spread across the length and breadth of this nation. Questionnaires were administered to few senior staff of the banks whose views and opinion will reflect the characteristics of these organizations.

3.6.0 ADMINISTRATION OF QUESTIONNAIRES & INTERVIEWS

A total of 100 questionnaires, evenly spread among the five banks, were administered. In addition to questionnaires, personal interviews with key personnel of the banks, particularly staff of internal control department, were also carried out. The administration of questionnaire was done in locations at Lagos where the head offices of all the selected banks in Nigeria are situated as well some branches in and outside Lagos.

The success in the number of respondents to the administered questionnaire was ensured through the involvement of internal control colleagues in the selected banks in Nigeria.

The researcher also conducted interviews with key regulatory and supervisory personnel on the evaluation of internal control systems and activities in Nigeria.

A total of 188 questions were raised in the research questionnaires that were administered to the five selected banks. The questionnaires were broken down into sections to cover most of the operational areas of the banks. Section A dealt with personal data; section B covered general internal control; section C dealt with risk assessment; section D focused on accounting information and communication systems; section E dealt with deposits and other accounts; and section F dealt with personnel and emoluments. Questions such as those listed below were asked.

1. Do you have internal control department or unit in your bank?
2. Is your internal control department headed by an Assistant General Manager or a higher officer?

3. At the branch, what grade of staff is responsible for maintenance of internal?

4. Do you comply with all the central bank of Nigeria guidelines on banking operations?

5. Were you are penalized for non compliance, do you report this in your financial statement?

6. Does your internal control effort impact positively on your profitability?

7. Does your internal control effort help to reduce or eliminate waste, fraud and mismanagement?

Table 3.4: Distribution of Interviewees

S/No.	**BANK**	**No. of Interviewees**
1	Diamond Bank Plc	5
2	Ecobank Nigeria Plc	7
3	First Bank of Nigeria Plc	4
4	United Bank for Africa Plc	6
5	Zenith International Bank Plc	3
6	NDIC Staff	2
7	Financial Consultants	3
8	CBN Staff	5
9	Depositors	32
Total		**67**

3.7.0 METHOD OF DATA ANALYSIS

Data analysis involves the use of some statistical tools such as percentages, mean score and Chi-square test in order to make comparison, test the hypotheses and draw conclusions.

The data collected through the administration of questionnaires will be analyzed statistically by the use of chi-square method.

The formula of chi-square is thus:

$$x^2 = \sum \frac{(Oi-ei)^2}{ei}$$

Where

O_i = observed frequencies

E_i = expected frequencies

The level of significance and the degree of freedom are the criteria for the rejection of hypothesis.

The degree of freedom (df) is equal to the number of observation in row minus one and multiplying it with the number of observation in column minus one that is df = (r - 1) (c - 1)

Where

R = number of observation in row

C = number of observation in column

The hypothesis is then tested by comparing the calculated valued of the chi-square to the tabulated value at the significant level of 5% at the appropriate degree of freedom.

If the calculated value is greater than or equal to the chi-square values (tabulated), we reject the null hypothesis and concluded that there is significant relationship between the two variables.

The researcher intends to make use of the Spearman's Rank Correlation in analysing data for the second hypothesis.

The formula of Spearman's Rank Correlation is thus

$$Rs = 1 - \frac{6 \sum d\, i^2}{N (n^2 - 1)}$$

Where $d_i = Xi - Yi$

X_i = the rank of the ith member of one series

Y_i = the corresponding observations in the second series.

If the answer obtained is positive and above 50%, it means there is a strong and positive relationship between good internal control system and the effectiveness and efficiency in the management of banks in Nigeria. On the other hand, if the answer obtained is zero, it means there is no linear relationship between the two variables.

Also the researcher intends to make use of simple percentages and the Pearson Product Moment Correlation in analysing the data obtained.

Percentages are a statistical tool that uses 100 as its base. It is simple and makes comparison easier – percentages are used in describing relationship.

Further, data collected have also been analysed using tables and narratives. These methods made possible the computation of relevant ratios and percentages as a way of creating trends and directions and drawing conclusions.

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CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1.0 DATA PRESENTATION

The purpose of this chapter is to present a summary of the results of data collection activities and the analysis of the data gathered from the questionnaires which were administered on the five selected banks in Nigeria.

For the analysis, tables, bar charts, pie charts, graphs showing trends and simple percentage will be used to present data while the test of hypothesis shall be carried out using chi-square (X2) statistics. The statistical tool adopted was opted for because it allows for effective understanding and interpretation of results.

Furthermore, in order to reduce the bulkiness of data, the data presented and analyzed are those that are considered relevant to the problems, objectives and hypotheses of this research work.

The purpose of putting results of experiments into graphs, charts and tables is two-fold. First, it is a visual way to look at the data and see what happened and make interpretations. Second, it is usually the best way to show the data to others. Reading lots of numbers in the text puts people to sleep and does little to convey information.

4.2 DATA ANALYSIS

Data analysis is a practice in which raw data is ordered and organized so that useful information can be extracted from it. The process of organizing and thinking about data is key to understanding what the data does and does not contain. There are a variety of ways in which people can approach data analysis, and it is notoriously easy to manipulate data during the analysis phase to push certain conclusions or agendas. For this reason, greater attention is given when data analysis is presented.

The completeness of the process of data analysis is the interpretation of the result of the data analyzed. Data Interpretation can be defined as "the application of statistical procedures to analyze specific observed or assumed facts from a particular study". It is very important to understand how to interpret data in order to arrive at a proper and informed conclusion.

A total of 100 questionnaires were distributed evenly to the five banks (i.e. Diamond Bank Plc, Zenith Bank Plc, Ecobank Plc, First Bank Plc and UBA plc) and 95 representing 95% were returned by the respondents as shown in the table below. The above average response rate of 95% was considered adequate for our analysis.

Table 4.1: Distribution of Returned Questionnaires by Respondents Banks and Percentage Distribution of the Banks

S/N	Selected Banks	Administered	No of Returned Questionnaires	% No of Returned Questionnaires
1	Diamond Bank	20	20	100
2	Zenith Int'l Bank	20	19	95
3	First Bank	20	18	90
4	Ecobank Nigeria	20	20	100
5	United Bank for Africa	20	18	90
Total		**100**	**95**	**95**

Diagram 4.1 Bar Chart Distribution of Returned Questionnaires by Respondents Banks

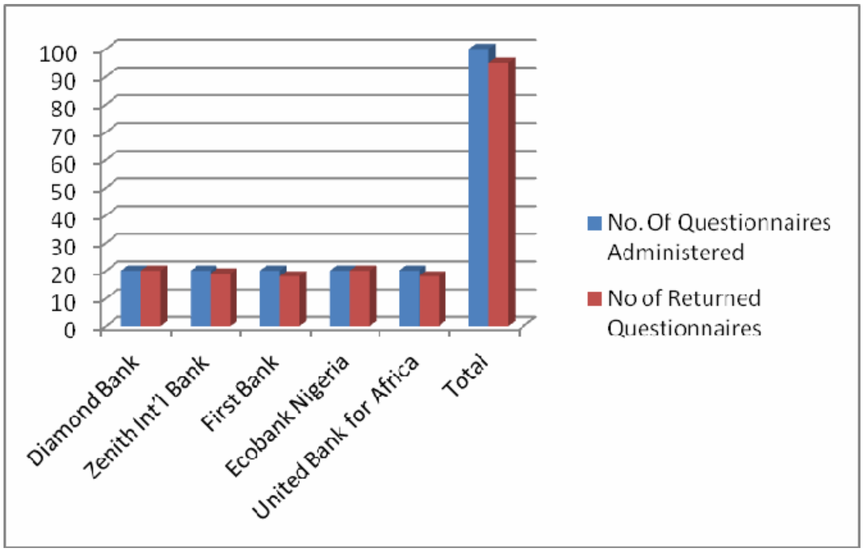


Diagram 4.2 Pie Chart Distribution of Returned Questionnaires by Respondents Banks

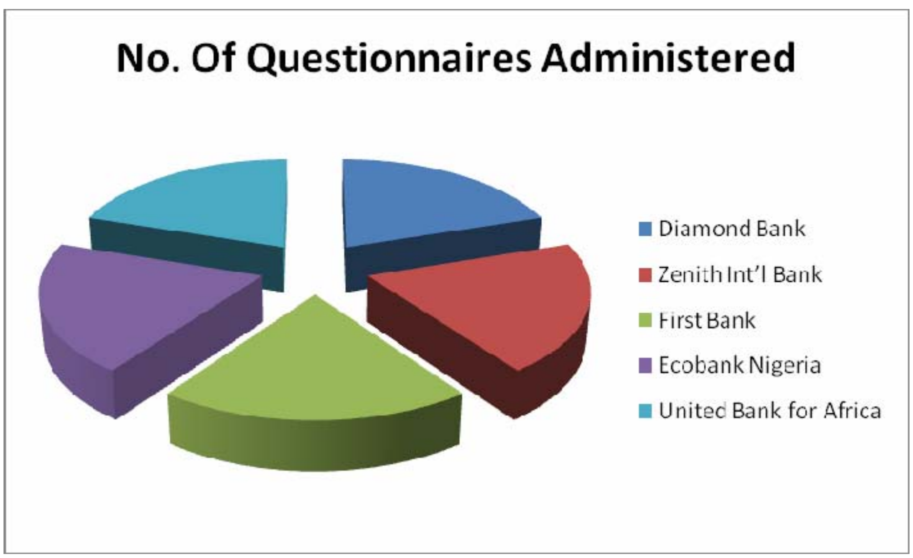


Table 4.2: Distribution of Respondents across the various Departments of the selected banks

S/N	Department	No of Respondents
1	Audit and Compliance	21
2	Internal Control	40
3	Operations	7
4	Customer Services	4
5	Information Technology	5
6	Risk Management	6
7	Financial Control	7
8	General Administration	5
Total		**95**

As shown in the table 4.2 above, the respondents were spread as follows: 21 staff of Audit and Compliance department, 40 staff of Internal control, 7 staff of Operations department, 5 staff of information and technology group, 6 staff of risk management group, 7 staff of financial control group, 5 staff of general administration departments and 4 staff of Customers Service department. From the above distribution, a total of 61 staff of Audit and compliance/ Internal Control departments responded representing 64% of the total respondents. These are staff who are quite verse with the duties and functions of internal control in their various organizations.

Table 4.3: Levels/Grades of Respondents

Grade	**No. of Respondents**	**%**
Officers	28	30
Middle Management	22	23
Senior Management	40	42
General Management	5	5
Directorate/Executive	0	0
Total	**95**	**100**

From the distribution in table 4.3 above, we can observe that those charged with the responsibilities of performing audit related functions are evenly spread amongst the various grades throughout the banks. The officers' grade levels are made up of Assistant Banking Officers, Banking Officers and Senior Banking Officers. Middle Management is made up of Assistant Managers, Deputy Managers and Managers. Senior Management is made up of Senior Managers and Principal Managers. The General Management grade level is made up of officers of Assistant General Manager, Deputy General Manager and General Manager. The Directorate represents Executive Directors and above.

Table 4.4: The spread of years of experience amongst the respondents

Years of experience	No. of respondents	Percentage
1 – 3	14	15%
4 – 6	19	20%
7 – 9	35	37%
10 – 12	20	21%
13 – 15	5	5%
Above 15	2	2%
Total	**95**	**100%**

This shows that 69% of the respondents have 7 – 15 years of cognate experience in banking. The analysis further shows that the questionnaires were completed by experienced and matured staff of the selected banks. Only 15% of the respondents have less than 4 years banking experience.

Table 4.5: Educational Qualification of Respondents

Qualification	No.	%
BSc or Equivalent	34	35
Above BSc	61	65
Total	**95**	**100**

Table 4.6: Professional Qualification of Respondents

Qualification	No.	%
ACA/ACCA/ANAN or any other audit Related Qualification	70	74
Others	25	26
Total		

The analysis above shows that 100 percent of the respondent are technically equipped to carry out their assigned duties while and in addition to their various degrees 74 percent have acquired necessary professional qualification thereby enhancing their technical knowledge in the field of auditing. An objective assessment of the system of internal control by these groups of personnel cannot be in doubt.

From the questions raised in section B of the questionnaire, it was discovered that all the banks have internal control department and they also maintain Resident Internal Control Officer in all the branches. 100% of the respondents agreed that:

a) The responsibility of internal control rest squarely on the management.

b) The head of the internal control report to the highest level of management

c) The accounting system records all the transactions of the bank and produce accurate information capable of being relied upon by management and investors.

With regards to the control of environment, 100% of the respondents agreed as follows:

a) that the banks periodically review policies and procedures to ensure that proper control have been instituted

b) that there is a system in place to monitor compliance with policies and procedures and to report to the board instances of non-compliance

c) that the board normally take appropriate follow up action on reported cases of non-compliance

On the issue of reviewing the qualifications and independence of the internal auditor, we had divergent opinion as shown below:

Table 4.7: Distribution of Respondents on the question of qualifications and independence of the internal auditor

Response	**No of respondents**	**Percentage**
Yes	85	89%
No	10	11%
Total	**95**	**100%**

89% of the respondents agreed that the board reviews the independence and qualifications of the internal auditor.

On the aspect of risk assessment, 100% 0f the respondents agreed as follows:

a) That the banks have credit committee

b) Adequate security is a condition for granting loans and advances in all the banks.

On the question whether connected persons are refused credit where they have inadequate collateral, the response was as follows:

Table 4.8: Distribution of respondents on the question of granting loans to connected persons

	No. of respondents	**Percentage**
Yes	58	61%
No	37	39%
Total	**95**	**100%**

39% of the respondents agreed that collateralization of loans to connected persons are always been played down which account for the bulk of the bad loans. Although 61% of the respondents agreed that connected persons are refused credit on grounds of lack of collateral.

On the question of whether the legal department confirms in writing to the credit committee that all conditions prior to drawdown have been met before any disbursement, below is the response:

Table 4.9: Distribution of Respondents on the Legal Units responsibility to Credit Committee.

Response	No. of Respondents	Percentage
Yes	53	56%
No	42	44%
Total	**95**	**100%**

44% of the respondents agreed that disbursements of loans and advances will be made before receiving clearance of compliance with the conditions precedent to the drawdown from the legal department. This is a clear violation of the laid down internal control procedure.

On the question of whether there exist policies and procedures to ensure that decisions are made with appropriate approvals; and whether processes exist to ensure independent verification of an appropriate sample of transactions to ensure integrity. All the respondents answered to the affirmative. This shows that all transactions are duly authorized and easily verified.

The questionnaire also revealed that the work of all staffs are duly supervised by the superior in charge; and there is proper segregation of duties so that no one staff perform a transaction from the beginning to the end.

Question 53 states whether the accounting system properly identify, assemble, analyze, records and report an institution's transactions in accordance with GAAP.

Below is the response:

Table 4.10: Distribution of Respondents on Accounting System in operation

Response	No of Respondents	Percentage
Yes	83	87%
No	12	13%
Total	**95**	**100%**

From the table we could see that 87% of the respondents agreed that the system produces reports that could be relied upon and is in conformity with GAAP.

On the question of whether accounting, information and communication systems ensures that the bank's risk taking activities are within policy guidelines; all the respondents answered yes. This shows that the accounting and information system is capable of being relied upon for decision making.

Question 59 to 67 dealt with self assessment and monitoring.

The respondents generally agreed that: the audit reports contain sufficient details and that audit reports are timely to allow for resolutions and appropriate actions. They also agreed that the board or audit committee reviews results of audit and approves the system of internal control. This shows that the board lives up to its expectation as the responsibility for internal control is the responsibility of the directors.

Question 68 to 91 dealt with information technology.

All the respondents agreed that the banks are fully automated and their operations are online – real time. They also agreed that there are standard procedures to be followed anytime new applications are introduced and that they are fully tested before being used.

On the question of whether processing staff are not eligible to initiate transactions or authorize them, 69 of the respondents representing 73 % of the total respondents agreed, while 16 respondents (27%) disagreed that processing staff do initiate transaction and authorized them. This shows that there is serious internal control weakness. On no account should the processing staff initiate or authorize transaction. This could lead to serious fraud or breakdown of internal control system.

Question 92 to 102 dealt with deposits and other accounts.

All the respondents agreed that: the presence of applicant is necessary before account is opened and all references are obtained before an account is operational. These are in conformity with requirements of the Central Bank of Nigeria. They also agreed that customers are not allowed to draw down on balances of cheques collected until full documentation has been received.

From Section B to D of the questionnaire, 70% and above “yes” response shows that the internal control system is effective. Between 50% and 69% “yes” response indicates that the internal control system is satisfactory while below 50% “yes” response means that the internal control system is ineffective.

Table 4.11 below shows that 81 respondents representing 85% of the sample size indicates that the internal control of the banks in Nigeria is effective; this is based on their objective assessment through the answers given in the questionnaires. 14 respondents representing 15% of the sample size indicates that the internal control system of the banks is satisfactory. It is of interest to note that none of the 95 respondents indicates that the internal control system of the banks is ineffective.

Table 4.11 Objective Assessment of the Banks' system of internal control based on answers given on the questionnaires in Section C.

Range	**Classification**	**No. of Respondents**	**%**
70% and above	Effective	81	85%
50% to 69%	Satisfactory	14	15%
Below 50%	Ineffective	0	0
Total		**95**	**100%**

Table 4.12: ASSET QUALITY OF INSURED BANKS

	2009	**2008**	**2007**	**2006**	**2005**	**2004**
Total Loans (=N= Billion)	8451.38	7411.43	5250	2840.10	1832.18	1519.76
Non – Performing Loan (=N= Billion	2922.8	463.49	387.99	225.08	368.76	350.82
Shareholders Funds (=N= Billion)	448.99	2802	1650	1000.04	768.21	333.17
Ratio of Non Performing Loans to Total Loans	32.8	6.25	7.39	7.92	20.13	23.08
Ratio of Non Performing Loans to Shareholders Fund	135.7	16.78	23.98	22.5	57.18	105.30

Source: NDIC Annual Reports

Diagram 4.3: Bar Chart Distribution of Asset Quality of Insured Banks

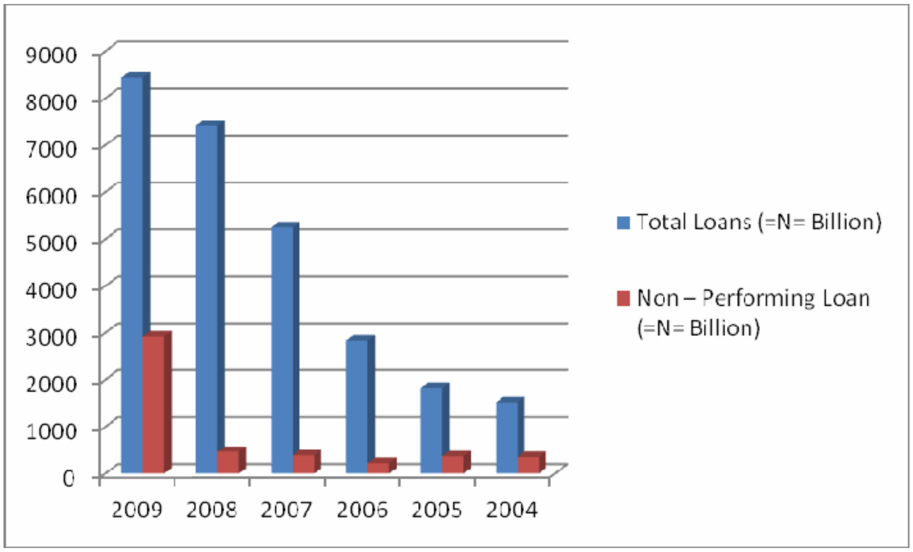
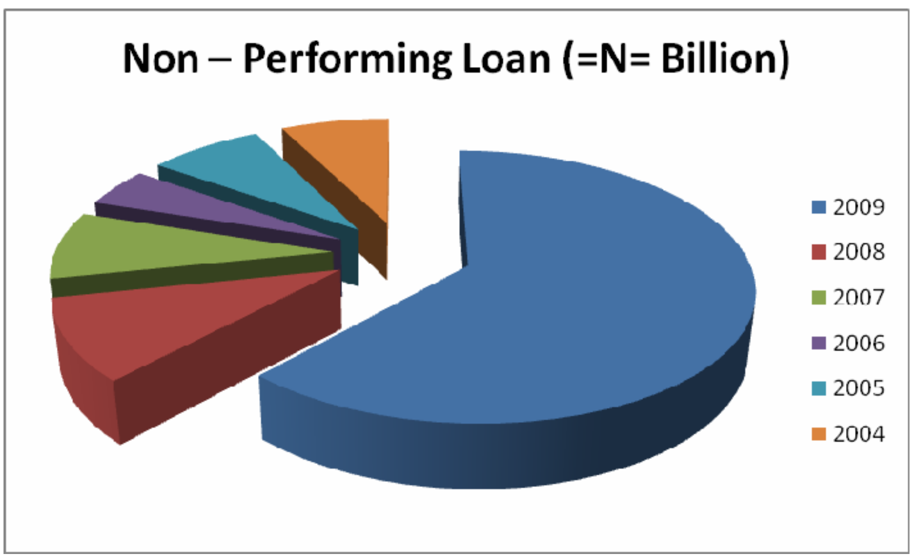


Diagram 4.4: Pie Chart Distribution of Asset Quality of Insured Banks



One of the parameters of the effectiveness of internal control is the quality of risk assets created by the banks. A rise in the level of non-performing loans (NPL) depicts the failure of control in the system while a reduction indicates improvements in control. From the above asset quality report of insured banks as published by the Nigerian Deposit Insurance (NDIC), there is a consistent and steady growth in the level of non-performing loans from N225.08 billion in 2006 to N2.993trillion in 2009. As total loans created increased by 20.24% from 7.41 trillion to ₦8.45 trillion between December, 2008 & December, 2009 a further deterioration is observed as NPL rose significantly by ₦2.46 trillion or 530.61 per cent from ₦436.49 billion in 2008 in 2009 to N2.92 trillion. This consistent increase in the level of non-performing loans with adverse impact of profitability of the banks is an indication of control failure in the Nigerian Banks. The high increase of 530.61 per cent of NPL in 2009 following the Central Bank of Nigeria/Nigerian Deposit Insurance joint examination which resulted in forced provisioning by the these regulatory authorities is also an indication that the internal control systems in the banks could not ensure compliance regarding the amount of provisions that should have been made on the deteriorating risk assets.

Table 4.13 FRAUD TREND IN NIGERIAN BANKS

	2009	2008	2007	2006	2005	2004
Total Fraud Cases	1,764	2,007	1,553	1,193	1,229	1,175
Total Amount Involved	41,265.50	53,522.86	10,005.81	4,832.17	10,606.18	11,754
Total Expected Loss	7,549.23	17,543.09	2,870.85	2,768.67	5,602.05	2,610
% of Expected Loss to Amount Involve	18.29%	32.78%	28.69%	57,29%	39.17%	21.71%

Diagram 4.5 Bar Chart showing fraud Trend in Nigerian Banks

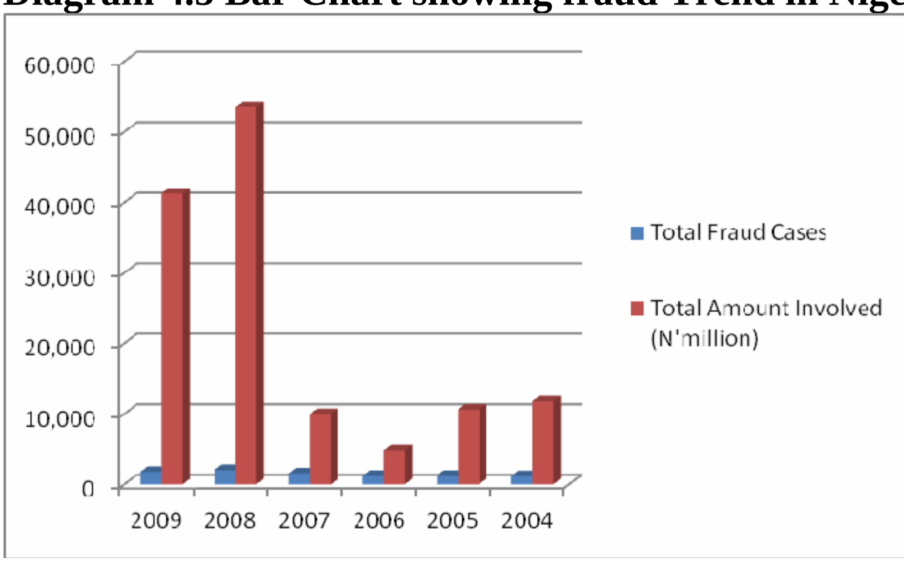
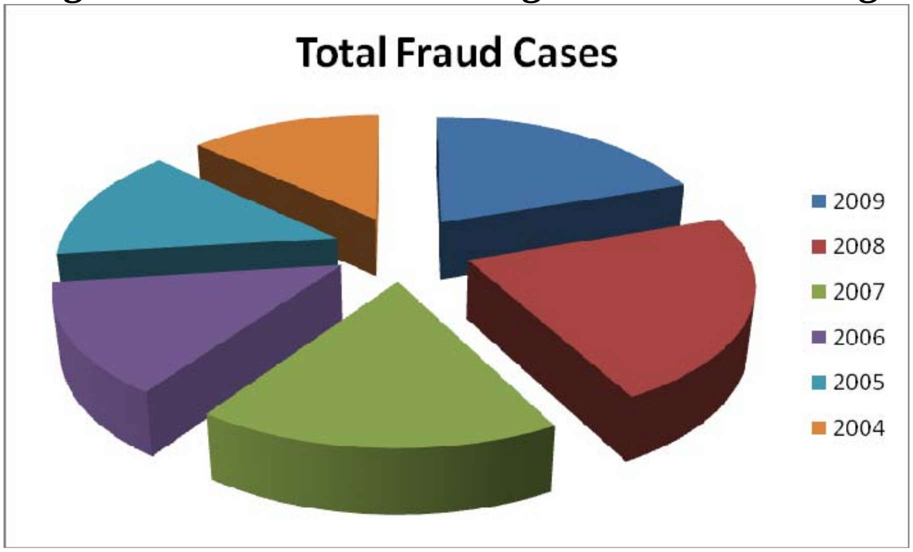


Diagram 4.6 Pie Chart showing fraud Trend in Nigerian Banks



An occurrence of fraud in an organization is an indication that something is lacking in the system of internal control in the entity. A continuous rise in the occurrence of fraud indicates that much more needs to be done in terms of enhancing and strengthening the internal control system in the organization. From the NDIC Annual Report of fraud and forgeries as presented in table 4.13, the number of reported cases of fraud reduced from 1229 in 2005 to 1193 in 2006 representing total amount N10.606billion and N4.832billion respectively. In 2007 the number increased to 1553 with N10.005billion which invariably increased by 32.78 per cent amounting 2007 (N53.522billion) cases of attempted fraud and forgeries in 2008. In 2009, number dropped to 1764 representing 18.29 per cent. Though there is a drop in the number of reported cases of fraud and forgeries, the amount involved is quite high and worrisome depicting a major weakness in the system internal control in operation.

Analysis of fraud and forgeries perpetuated showed that commonest types were the following:-

a) Presentation of Forged Cheques
b) Granting of unauthorized credits
c) Porting of fictitious credits
d) Fraudulent transfers / withdrawals
e) Cheque Suppression and cash defalcation
f) ATM Fraud
g) Loss of money to Armed robbers
h) Lodgement of stolen warrants and outright theft

Of these types of fraud and forgeries, granting unauthorized credits and ATM fraud had been reported by NDIC to be the largest.

4.3.0 EFFECT OF INTERNAL CONTROL ON LOANS PERFORMANCE

It is believed that a good internal control will reduce the level of non-performing loans vis-à-vis provision for bad and doubtful debts. Below are analyses for some of the banks under study.

Table 4.14 FBN Schedule of Loan Provisions

	2009 ₦M	2008 ₦M	2007 ₦M	2006 ₦M	2005 ₦M
Performing Loans	673,524	440,866	217,819	172,665	112,837
Non-Performing:					
- Sub-standard	15,834	705	382	2,414	1,661
- Doubtful	6,136	1,353	2,938	5,093	4,229
- Lost	9,805	4,137	3,393	9,832	28,984
	31,775	6,195	6,713	17,339	34,674
Gross Loans	705,299	447,061	224,532	190,004	147,511
Provision	13,959	9,293	7,078	14,347	32,838
% of Non Performing					
Loans to Total Loans	4.5%	1.4%	3%	9.2%	23.5%
% of Provision to total loans	2.0%	2.1%	3.2%	7.6%	22.3%

Source: FBN Annual Reports: 2005 – 2009

Table 4.15 ZENITH Schedule of Loan Provisions

	2009 ₦M	2008 ₦M	2007 ₦M	2006 ₦M	2005 ₦M
Performing Loans		417,735	220,325	201,748	123,446
Non-Performing:					
- Sub-standard		166		45	184
- Doubtful		1,048	1,258	97	270
- Lost		8,191	2,764	2,168	1,631
Gross Loans		427,140	224,347	204,058	125,531
Provision		11,895	6,041	4,349	3,037
% of Non Performing Loans to Total Loans		2.2%	1.8%	1.2%	1.7%
% of Provision to total loans		2.8%	2.7%	2.2%	2.5%

Source: Zenith Bank Annual Reports: 2005 – 2009

From table 4.14 above, it could be seen that in First Bank Plc, the percentage of Non-performing loans has been decreasing. In 2005, the non-performing loans was 23.5% of the total loans, portfolio. With effective internal control it keeps reducing to 1.4% in 2008, although there has been a sharp increase to 2.5% in 2009.

The reverse is the case with Zenith Bank Plc, table 4.15. In 2005, the non-performing loan was 1.7% of total loans Portfolio. The percentage increased to 1.8 and 2.2%, in 2007 and 2008 respectively. The increase may not likely be traced to poor internal control but to other factors such as the state of the economy. Available statistics shows that Zenith Bank Plc. has one of the lowest levels of non-performing loans in the industry.

In First Bank Plc, the percentage of provision for Bad and doubtful debt has been on the decrease. The provision for bad and doubtful debt is a function of the level of non-performing loans. As non-performing loans increase, the provision for bad and doubtful debt will also increase. From the table above, we observed that in First Bank, the Provision decrease from 22.3% in 2005 to 2% in 2009. The decrease has been very substantial. This could be attributed to improvement in Internal Control Process.

In the same manner, as the level of non-performing loans increases in Zenith Bank Plc, provision for bad and doubtful debt also increases. In 2005, the provision for Bad and doubtful debt was 2.5% of total debt Portfolio. It increased to 2.7% and 2.8% in 2007 and 2008 respectively.

4.4.0 HYPOTHESES TESTING

A hypothesis is a tentative statement that proposes a possible explanation to some phenomenon or event. A useful hypothesis is a testable statement which may include a prediction. A hypothesis should not be confused with a theory. Theories are general explanations based on a large amount of data.

A hypothesis is a proposed explanation for an observable phenomenon and is derived from the Greek word, □*ποτιθέναι* – *hypotithenai* meaning "to put under" or "to suppose." For a hypothesis to be put forward as a scientific hypothesis, the scientific method requires that one can test it.

The hypotheses were tested and analyzed statistically by the use of chi-square and spearman's Rank correlation model. The analysis was based on the empirical evidence obtained from the questionnaire administration.

HYPOTHESIS 1

H_o: Reliance can be placed on the internal control system of banks in Nigeria

H_i: Reliance cannot be placed on the internal control system of banks in Nigeria.

For the first hypothesis, assessment of respondents will be based on educational qualifications and years of experience of the respondents using table 4.5 and table 4.4 since they have direct correlation with the position of responsibilities assumed by them in the banks. Therefore, to establish the validity or otherwise of the hypothesis 1, Chi-square statistical test will be employed in carrying out the test.

Table 4.16: Observed Frequencies of Distribution Using Educational Qualifications.

Qualifications	Effective	Satisfactory	Ineffective	Total
BSc or Equivalent	26	8	0	34
Above BSc	55	6	0	61
TOTAL	**81**	**14**	**0**	**95**

The expected frequencies using Chi-square method will be computed as follows:

<u>Under Effective Row</u> <u>Under Satisfactory Row</u>

$$\frac{81 \times 34}{95} = 28.99 \qquad \frac{14 \times 34}{95} = 5.01$$

$$\frac{81 \times 61}{95} = 52.01 \qquad \frac{14 \times 61}{95} = 8.99$$

Table 4.17: Expected Frequencies of Distribution Using Educational Qualifications.

Qualifications	Effective	Satisfactory	Ineffective	Total
BSc or Equivalent	28.99	5.01	0	34
Above BSc	52.01	8.99	0	61
TOTAL	**81**	**14**	**0**	**95**

The formula of chi-square is thus:

$$X^2 = \sum \frac{(O_i - e_i)^2}{e_i}$$

Where

X^2 = Chi-square

O_i = observed frequencies

E_i = expected frequencies

$\sum$ = summation

Table 4.18: Computation of Chi-square, x^2

O_i	E_i	$O_i - e_i$	$(O_i - e_i)^2$	$\sum(O_i - e_i)^2/e_i$
26	28.99	-2.99	8.94	0.308
55	52.01	2.99	8.94	0.172
8	5.01	2.99	8.94	1.784
6	8.99	-2.99	8.94	0.994
95	**95**			**3.258**

The level of significance and the degree of freedom are the criteria for the rejection of hypothesis.

The degree of freedom (df) is equal to the number of observations in row minus one and multiplying it with the number of observations in column minus one that is

Degree of freedom = df = (R - 1) (C - 1)

Where

R = number of observation in row

C = number of observation in column

From Table 4.5

Df = (2-1)(3-1) = 1X2 = 2df

From Chi-square (x^2) statistical table, 2df at 5% level of significance is equal to:

$x^2 = 5.991$

Calculated $x^2 = 3.258$

Tabulated $x^2 = 5.991$

Decision Rule

i) If the calculated x^2 value is greater than or equal to the critical value or tabulated value t, then reject the null hypothesis (H_o) and accept the alternative hypothesis (H_i) at 5% level of significance and also at the appropriate degree of freedom (df).

ii) If the calculated x^2 value is less than the critical value then accept the null hypothesis (H_o) and reject the alternative hypothesis (H_i).

Given the calculated value of $x^2 = 3.258$ for the first hypothesis which implies that the calculated x^2 is less than the tabulated x^2 that is 3.258 is less than 5.991; we therefore accept the null hypothesis and conclude that reliance can be placed on the internal control system of banks in Nigeria.

We further stress test the null hypothesis 1 by subjecting it to years experience of the respondents.

Table 4.19: Observed Frequencies of Distribution using Respondents years of Experience

Years of Experience	Effective	Satisfactory	Ineffective	Total
1 –3	6	8	0	14
4 –6	14	5	0	19
7 –9	34	1	0	35
10 –12	20	0	0	20
13 –15	5	0	0	5
Above 15	2	0	0	2
TOTAL	**81**	**14**	**0**	**95**

Table 4.20: Expected Frequencies of Distribution using Respondents years of Experience

Years of Experience	Effective	Satisfactory	Ineffective	Total
1 –3	11.94	2.06	0	14.00
4 –6	16.20	2.80	**0**	19.00
7 –9	29.84	5.16	0	35.00
10 –12	17.05	2.95	**0**	20.00
13 –15	4.26	0.74	0	5.00
Above 15	1.71	0.29	0	2.00
TOTAL	**81.00**	**14.00**	**0**	**95.00**

Table 4.21: Computation of Chi-square, x^2

O_i	E_i	$O_i - e_i$	$(O_i - e_i)^2$	$\sum(O_i - e_i)^2/e_i$
6	11.94	-5.94	35.25	2.953
14	16.20	-2.20	4.84	0.299
34	29.84	4.16	17.29	0.579
20	17.05	2.95	8.69	0.509
5	4.26	0.74	0.54	0.127
2	1.71	0.29	0.09	0.051
8	2.06	5.94	35.25	1.084
5	2.80	2.20	4.84	1.729
1	5.16	-4.16	17.29	3.352
0	2.95	-2.95	8.69	2.947
0	0.74	-0.74	0.54	0.737
0	0.29	-0.29	0.09	0.295
95	**95.00**	**0.00**		**14.662**

The level of significance and the degree of freedom are the criteria for the rejection of hypothesis.

The degree of freedom (df) is equal to the number of observation in row minus one and multiplying it with the number of observation in column minus one that is

Degree of freedom = df = (R - 1) (C - 1)

Where

R = number of observation in row

C = number of observation in column

From Table 4.6

Df = (6-1)(3-1) = 5X2 = 10df

From Chi-square (x^2) statistical table, 10df at 5% level of significance is equal to:

$x^2 = 18.307$

Calculated $x^2 = 14.662$

Tabulated $x^2 = 18.307$

Decision Rule

i) If the calculated x^2 value is greater than or equal to the critical value or tabulated value t, then reject the null hypothesis (H_o) and accept the alternative hypothesis (H_i) at 5% level of significance and also at the appropriate degree of freedom (df).

ii) If the calculated x^2 value is less than the critical value then accept the null hypothesis (H_o) and reject the alternative hypothesis (H_i).

Given the calculated value of $x^2 = 14.662$ for the first hypothesis which implies that the calculated x^2 is less than the tabulated x^2 that is $14.662 < 18.307$; we therefore accept the null hypothesis and conclude that reliance can be placed on the internal control system of banks in Nigeria.

HYPOTHESIS 2

H_o: The presence of internal controls has led to the effectiveness in the management of banks in Nigeria.

H_i: The presence of internal controls has not led to the effectiveness in the management of banks in Nigeria.

The second hypothesis will be tested using answers given to the questions in section D of the questionnaire.

In order to establish the validity of the hypothesis, Spearman's Rank Correlation statistical model will be used.

Table 4.22: Distribution of Responses on the effect of internal control on the effectiveness and efficiency of banks in Nigeria.

S/No.	No. Of Yes Responses (X)	No. Of No Responses (Y)
1	92	3
2	87	8
3	94	1
4	90	5
5	89	6
6	91	4
7	88	7
8	50	45
9	40	55
10	93	2
11	60	35

The researcher intends to make use of the Spearman's Rank Correlation in analysing data for the second hypothesis.

The formula of Spearman's Rank Correlation is thus

$$Rs = 1 - \frac{6 \sum d_i^2}{N (n^2 - 1)}$$

Where $d_i = X_i - Y_i$

X_i = the rank of the ith member of one series

Yi = the corresponding observations in the second series.

If the answer obtained is positive and above 50%, it means there is a strong and positive relationship between good internal control system and the effectiveness in the management of banks in Nigeria. On the other hand, if the answer obtained is zero, it means there is no linear relationship between the two variables.

Table 4.23 Computation of Spearman's Rank Correlation Derived from Table 4.22.

S/No.	No. Of Yes Responses (X)	No. Of No Responses (Y)	Xi	Yi	Di	di^2
1	92	3	3	9	-6	36
2	87	8	8	4	4	16
3	94	1	1	11	-10	100
4	90	5	5	7	-2	4
5	89	6	6	6	0	0
6	91	4	4	8	-4	16
7	88	7	7	5	2	4
8	50	45	10	2	8	64
9	40	55	11	1	10	100
10	93	2	2	10	-8	64
11	60	35	9	3	6	36
						440

$d = 440$

$n = 95$

$$Rs = 1 - \frac{6(440)}{95\,(95^2 - 1)}$$

$$Rs = 1 - \frac{2640}{95\,(9025 - 1)}$$

$$Rs = 1 - \frac{2640}{857280}$$

$= 1 - 0.003080$

$= 0.9969$

$= 0.997$

$= 99.7\%$

From the statistical analysis of the second hypothesis, we obtained a 99.7% positive mark. This therefore shows clearly that the presence of internal control system and the effectiveness in the management of banks in Nigeria are perfectly and positively related.

We therefore accept the null hypothesis and conclude that the presence of internal control system has led to the effectiveness in the management of banks in Nigeria.

HYPOTHESIS 3

H_o: Internal Control System has led to the efficiency of operations of banks in Nigeria.

H_i: Internal Control System has not led to the efficiency of operations of banks in Nigeria.

Internal Control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

a) Effectiveness and efficiency of operations

b) Reliability of financial and management reporting

c) Compliance with applicable laws and regulations

It is on the backdrop of these objectives that hypothesis 3 was drawn up so as to ascertain the effectiveness of the internal control system in operation in Nigeria banks.

Section B of the question was used to address core control issues covering financial reviews, compliance reviews, operational reviews, management information system (MIS) and system development and implementation reviews.

Table 4.24 Distribution of Responses on the effect of internal control on the efficiency of operations of banks in Nigeria.

S/No.	No. Of Yes Responses (X)	No. Of No Responses (Y)
1	95	0
2	45	50
3	50	45
4	60	35
5	70	25
6	90	5
7	95	10
8	88	7
9	50	45
10	85	0
11	20	75
12	70	25
13	25	70
14	50	45
15	53	42
16	60	35
17	80	15
18	85	10
19	71	24
20	69	26
21	65	30
22	90	5
23	76	19
24	46	49
25	90	5

The researcher intends to make use of the Spearman's Rank Correlation in analysing data for the third hypothesis.

The formula of Spearman's Rank Correlation is thus

$$Rs = 1 - \frac{6 \sum d_i^2}{N (n^2 - 1)}$$

Where $d_i = X_i - Y_i$

X_i = the rank of the ith member of one series

Y_i = the corresponding observations in the second series.

If the answer obtained is positive and above 50%, it means there is a strong and positive relationship between good internal control system and the efficiency in the operations of banks in Nigeria. On the other hand, if the answer obtained is zero, it means there is no linear relationship between the two variables.

Table 4.25 Computation Spearman's Rank Correlation (Rs) Derived from Table 4.24.

S/No.	No. Of Yes Responses (X)	No. Of No Responses (Y)	Xi	Yi	Di	di^2
1	95	0	1	25	-24	576
2	45	50	23	3	20	400
3	50	45	19	5	14	196
4	60	35	1	9	-8	64
5	70	25	12	13	-1	1
6	90	5	3	21	-18	324
7	95	10	2	18	-16	256
8	88	7	6	20	-14	196
9	50	45	20	6	14	196
10	85	0	7	24	-17	289
11	20	75	25	1	24	576
12	70	25	13	14	-1	1
13	25	70	24	2	22	484
14	50	45	21	7	14	196
15	53	42	18	8	10	100
16	60	35	16	10	6	36
17	80	15	9	17	-8	64
18	85	10	8	19	-11	121
19	71	24	11	15	-4	16
20	69	26	14	12	2	4
21	65	30	15	11	4	16
22	90	5	4	22	-18	324
23	76	19	10	16	-6	36
24	46	49	22	4	18	324
25	90	5	5	23	-18	324
					0	**5120**

From the formula, Spearman's Rank Correlation, Rs is equal to:

$$Rs = 1 - \frac{6 \sum di^2}{N (n^2 - 1)}$$

$d = 5120$

$n = 95$

$$Rs = 1 - \frac{6(5120)}{95\,(95^2 - 1)}$$

$$Rs = 1 - \frac{30720}{95\,(9025 - 1)}$$

$$Rs = 1 - \frac{30720}{857280}$$

$= 1 - 0.035834$

$= 0.9641$

$= 0.964$

$= 96\%$

From the statistical analysis of the third hypothesis, we obtained a 96% positive mark. This therefore shows clearly that the presence of internal control system and the efficiency in the operations of banks in Nigeria are perfectly and positively related.

We therefore accept the null hypothesis and conclude that the presence of internal control system has led to the efficiency in the operations of banks in Nigeria.

HYPOYHESIS 4

H_o: Internal control system of banks in Nigeria ensures reliability of financial and management reporting.

H_i: Internal control system of banks in Nigeria does not ensure reliability of financial and management reporting.

This hypothesis was tested using questions under accounting information and communication system of the questionnaire. Questions were drawn to ascertain if the financial records of the banks are prepared based on the **Generally Accepted Accounting Principles** (**GAAP**), standards from **Nigeria Accounting Standard Board** (**NASB**) and in line with the Combined Code on Corporate Governance issued by the Financial Reporting Council.

Table 4.26 Distribution of Responses on the Accounting, Information and Reporting Systems of Banks in Nigeria.

Questionnaire S/No.	S/No	No. Of Yes Responses (X)	No. Of No Responses (Y)
42	1	95	0
43	2	90	5
44	3	94	1
45	4	89	6
46	5	88	7
47	6	91	4
48	7	92	3
49	8	69	26
50	9	70	25
51	10	93	2
52	11	89	6
53	12	85	10
54	13	80	15
55	14	75	20
56	15	78	17
57	16	74	21
58	17	81	14
59	18	65	30
60	19	83	12
61	20	60	35
62	21	30	65
63	22	55	40
64	23	77	18
65	24	68	27
66	25	82	13
67	26	**50**	45

The researcher intends to make use of the Spearman's Rank Correlation in analysing data for the forth hypothesis.

The formula of Spearman's Rank Correlation is thus

$$Rs = 1 - \frac{6 \sum d i^2}{N (n^2 - 1)}$$

Where $d_i = X_i - Y_i$

X_i = the rank of the ith member of one series

Y_i = the corresponding observations in the second series.

If the answer obtained is positive and above 50%, it means there is a strong and positive relationship between good internal control system and the soundness of financial and management reporting of banks in Nigeria. On the other hand, if the answer obtained is zero, it means there is no linear relationship between the two variables.

Table 4.27 Computation Spearman's Rank Correlation (Rs) Derived from Table 4.26.

Questionnaire S/No.	S/No	No. Of Yes Responses (X)	No. Of No Responses (Y)	Xi	Yi	Di	di²
42	1	95	0	1	26	-25	625
43	2	90	5	6	21	-15	225
44	3	94	1	2	25	-23	529
45	4	89	6	7	20	-13	169
46	5	88	7	9	18	-9	81
47	6	91	4	5	22	-17	289
48	7	92	3	4	23	-19	361
49	8	69	26	20	7	13	169
50	9	70	25	19	8	11	121
51	10	93	2	3	24	-21	441
52	11	89	6	8	20	-12	144
53	12	85	10	10	17	-7	49
54	13	80	15	14	13	1	1
55	14	75	20	1	10	-9	81
56	15	78	17	15	12	3	9
57	16	74	21	18	9	9	81
58	17	81	14	13	14	-1	1
59	18	65	30	22	5	17	289
60	19	83	12	11	16	-5	25
61	20	60	35	23	4	19	361
62	21	30	65	26	1	25	625
63	22	55	40	24	3	21	441
64	23	77	18	16	11	5	25
65	24	68	27	21	6	15	225
66	25	82	13	12	15	-3	9
67	26	**50**	45	**25**	2	23	529
TOTAL							5905

From the formula, Spearman's Rank Correlation, Rs is equal to:

$$Rs = 1 - \frac{6 \sum d i^2}{N (n^2 - 1)}$$

d = 5905

n = 95

$$Rs = 1 - \frac{6(5905)}{95\ (95^2 - 1)}$$

$$Rs = 1 - \frac{35430}{95\ (9025 - 1)}$$

$$Rs = 1 - \frac{35430}{857280}$$

$= 1 - 0.041328$

$= 0.9586$

$= 0.959$

$= 96\%$

From the statistical analysis of the forth hypothesis, we obtained a 96% positive mark. This therefore shows clearly that the presence of internal control system and the reliability of the financial and management reporting system of banks in Nigeria are perfectly and positively related.

We therefore accept the null hypothesis and conclude that the presence of internal control system has led to the reliability of financial and management reporting system of banks in Nigeria.

HYPOTHESIS 5

H_o: Internal Control System of Banks in Nigeria ensures compliance with applicable laws and regulations.

H_i: Internal Control System of Banks in Nigeria does not ensure compliance with applicable laws and regulations.

In testing this hypothesis, questions were drawn to determine the degree of adherence to laws, policies and procedures by the banks. These questions were carefully selected as presented under the Risk Assessment section of the questionnaire.

Table 4.28 Distribution of Responses on compliance by banks with applicable laws and regulations.

Questionnaire S/No.	S/No	No. Of Yes Responses (X)	No. Of No Responses (Y)
26	1	95	0
27	2	93	2
28	3	85	10
29	4	0	95
30	5	55	40
31	6	60	35
32	7	65	30
33	8	70	25
34	9	50	45
35	10	66	29
36	11	77	18
37	12	80	15
38	13	79	16
39	14	67	28
40	15	82	13
41	16	89	6

We intend to make use of the Spearman's Rank Correlation in analysing data for the fifth hypothesis.

The formula of Spearman's Rank Correlation is thus

$$Rs = 1 - \frac{6 \sum d i^2}{N (n^2 - 1)}$$

Where $d_i = X_i - Y_i$

X_i = the rank of the ith member of one series

Y_i = the corresponding observations in the second series.

If the answer obtained is positive and above 50%, it means there is a strong and positive relationship between good internal control system and compliance with applicable laws and regulations by banks in Nigeria. On the other hand, if the answer obtained is zero, it means there is no linear relationship between the two variables.

Table 4.29 Computation Spearman's Rank Correlation (Rs) Derived from Table 4.28.

Questionnaire S/No.	S/No	No. Of Yes Responses (X)	No. Of No Responses (Y)	Xi	Yi	Di	di²
26	1	95	0	1	16	-15	225
27	2	93	2	2	15	-13	169
28	3	85	10	4	13	-9	81
29	4	0	95	16	2	14	196
30	5	55	40	14	3	11	121
31	6	60	35	13	4	9	81
32	7	65	30	12	5	7	49
33	8	70	25	9	8	1	1
34	9	50	45	15	2	13	169
35	10	66	29	11	6	5	25
36	11	77	18	8	9	-1	1
37	12	80	15	6	11	-5	25
38	13	79	16	7	10	-3	9
39	14	67	28	10	7	3	9
40	15	82	13	5	12	-7	49
41	16	89	6	3	14	-11	121
							1331

From the formula, Spearman's Rank Correlation, Rs is equal to:

$$Rs = 1 - \frac{6 \sum d i^2}{N (n^2 - 1)}$$

$d = 1331$

$n = 95$

$$Rs = 1 - \frac{6(1331)}{95\,(95^2 - 1)}$$

$$Rs = 1 - \frac{7986}{95\,(9025 - 1)}$$

$$Rs = 1 - \frac{7986}{857280}$$

$= 1 - 0.0093155$

$= 0.990684$

$= 0.991$

$= 99\%$

From the statistical analysis of the fifth hypothesis, we obtained a 99% positive mark. This therefore shows clearly that the presence of internal control system and the compliance by banks in Nigeria with applicable laws and regulations are perfectly and positively related.

We therefore accept the null hypothesis and conclude that the presence of internal control system has led to the compliance by banks in Nigeria with applicable laws and regulations guiding the operation of banks in the country.

HYPOTHESIS 6

H_o: There is a significance relationship between internal control, profitability and liquidity of the banks in Nigeria.

H_i: There is a no significance relationship between internal control, profitability and liquidity of the banks in Nigeria.

From the interviews conducted via telephone with some depositors they are likely to do business with banks they perceive to have adequate and effective control processes in place which goes further to show that positive relationship exist amongst internal control, deposit and profits of banks. Accordingly, effective internal control has resulted in increased deposits and profits over the period under study. Our interview centered on the top five depositors of some of the selected banks in some of the branches.

We shall use the Pearson Product moment correlation in the testing of the null hypothesis. The formula for this is:

$$r = \frac{n(\Sigma xy) - \Sigma x \Sigma y}{\sqrt{[n\Sigma x^2 - (\Sigma x)^2][n\Sigma y^2 - (\Sigma y)^2]}}$$

Where:

X = deposits

Y = profit after tax

N = Frequencies

This will be done for two, out of the five selected banks and from there we will be able to form opinion.

Table 4.30 Extract of customer Deposits and Profits after tax for Ecobank Nig. Plc

Year	Deposits ₦'M	Profit after tax ₦'M
2008	310,714	2,130
2007	222,885	7,450
2006	84,041	3,559
2005	32,452	1,668
2004	28,643	894
2003	19,979	817
2002	17,602	554
2001	18,665	716
2000	15,173	531

Source: Annual Reports 2000 – 2008

Table 4.31 Extract of Customer Deposits and Profit after tax from United Bank for Africa Plc.

Year	Deposits ₦'M	Profit after tax ₦'M
2008	1,333,289	40,825
2007	905,806	21,441
2006	762,574	11,550
2005	205,110	4,921
2004	151,929	4,525
2003	142,427	3,280
2002	131,866	1,566
2001	133,135	1,269

Source: Annual Reports of UBA from 2001 – 2008

Table 4.32 Computation of correction co-efficient for Ecobank Plc.

X	Y	X^2	Y^2	XY
31.0	.2	961	0.04	6.2
22.2	.7	492.84	0.49	15.54
8.4	.4	70.56	0.16	3.36
3.2	.2	10.24	0.004	0.64
2.8	.09	7.84	0.008	0.25
1.9	.08	3.61	0.006	0.152
1.7	.06	2.89	0.004	0.102
1.8	.07	3.24	0.005	0.126
1.5	.05	2.25	0.003	0.075
74.5	1.85	1554.47	0.756	26.445

$$r = \frac{n(\Sigma xy) - \Sigma x \Sigma y}{\sqrt{[n\Sigma x^2 - (\Sigma x)^2]\,[n\Sigma y^2 - (\Sigma y)^2]}}$$

$$\frac{9(26.445) - (74.5)\,(1.85)}{\sqrt{[9(1554.47) - (74.5)^2]\,[9\,(0.756) - (1.85)^2}}$$

$$\frac{238.005 - 137.885}{\sqrt{[13{,}990.23 - 5550.25]\,[6.804 - 3.423]}}$$

$$\frac{100.18}{\sqrt{(8{,}439.98)\,(3.381)}}$$

$$\frac{100.18}{\sqrt{28{,}535.57}}$$

$$\frac{100.18}{168.924}$$

$$r = \underline{\;0.593}$$

The Pearson Product moment correlation co-efficient of 0.593 shows a substantial positive correlation between profits and deposits.

Table 4.33 Computation of correlation co-efficient for UBA Plc.

X	Y	X^2	Y^2	XY
13.33	0.40	177.69	0.160	5.332
9.05	0.21	81.90	0.044	1.901
7.62	0.11	58.06	0.012	0.838
2.05	0.049	4.20	0.002	0.100
1.51	0.045	2.28	0.002	0.068
1.42	0.033	2.02	0.001	0.047
1.31	0.016	1.72	0.0003	0.021
1.33	0.013	1.77	0.0002	0.017
37.62	0.876	329.64	0.222	8.324

$$r = \frac{n(\Sigma xy) - \Sigma x \Sigma y}{\sqrt{[n\Sigma x^2 - (\Sigma x)^2]\,[n\Sigma y^2 - (\Sigma y)^2]}}$$

$$\frac{8(8.324) - (37.62)\,(0.876)}{\sqrt{[8(329.64) - (37.62)^2]\,[8\,(0.222) - (0.876)^2}}$$

$$\frac{66.592 - 32.955}{\sqrt{(2637.12 - 1415.26)\,(1.776 - 0.767)}}$$

$$\frac{33.637}{\sqrt{(1221.86)\,(1.362)}}$$

$$\frac{33.637}{40.794}$$

$r = \underline{0.825}$

The correlation coefficient of 0.825 shows a positive high correlation between Profit after tax and deposits. From the above computations, we can now uphold the null hypothesis which states that there is a high positive relationship between internal control, profitability and liquidity in banks.

CHAPTER FIVE

DISCUSSION OF RESULT

5.0.0 INTRODUCTION

According to the Asian Language Institute of Technology Language Center, the purpose of a results section in a research paper is "to present the results and make them meaningful to the reader" (Writing up research, 2003). A results section should include a statement and explanation of all results obtained within the research study. As summarized from the Bates College online article of how to write a research paper, a results section is written after analysis of data is complete and a writer is ready to present the findings both in text and also occasionally in illustrations such as a bar graph, pie chart, etc. D. Caprette (2007), goes on to say that a results section should present the researcher's facts, but not interpret them, or discuss results beyond the facts within this section. The discussion should be where all results are interpreted and explained in further detail by the writer.

The essence of this chapter is to collate the research findings into a set of knowledge that will provide the framework for the recommendations and conclusions the researcher would present in chapter six.

We shall attempt to cover three main things:

a) Any limitations of the review

b) The strength of the evidence

c) The applicability of the evidence

And in so doing proffer answers to these questions:

a) Are the research findings consistent with existing knowledge and views?

b) Are there any new findings in the course of the research?

c) What are the proofs of hypotheses earlier drawn up in the previous chapter?

5.1.0 FINDINGS

The researcher distributed one hundred (100) copies of a well – framed set of questions to the staff of the selected banks in Nigeria. Of the copies distributed, ninety five copies representing 95% of the population size were successfully filled and returned to the researcher. This outcome on the administration of the questionnaires was impressive given the number of questionnaires the researcher got from the respondents and the level of cooperation shown by the respondents taken up in the oral interview.

Chi-square, Spearman's Rank correlation and Pearson Product Moments Correlation models were used to analyze the data and test the hypotheses in the study.

The researcher discussed that good internal control affects the efficiency and profitability of the bank and that unless there is an effective system of internal control, proper management of modern business, such as banking undertakings is not possible.

Going by the result of the hypotheses tested in the study and as presented in chapter four (4), our research findings are presented as follows:

a) Most of employees of Nigerian banks are technically equipped to carry out their assigned duties. The study revealed that 100% of the samples taken are technically equipped with at least first degrees while 74% possess professional qualifications in addition to their educational degrees. See table 4.4.

b) However, from the response, it shows that 68 respondents representing 72% of the sample size have been performing same task since they were employed. These respondents are mainly accountants, computer operators, auditors and treasurers. 27 respondents representing 28% of the sample size have worked in various departments. Interviews however revealed that duties are being rotated between workers on timely basis.

c) Also duties are so allocated that no one person has an exclusive control over and transaction. For instance a fixed depositor is first being attended to by the receptionist who directs such a potential client to the cash and teller point.

d) At the cash and teller department the clients will be given some forms to fill after which he will be directed to pay the money to the cashier called ‘Teller’. On receipt of the cash, the customer’s account would be credited with the amount of deposit whereas for a fixed deposit transaction, a certificate of deposit will be issued by the treasury department jointly signed by heads of treasury and customer services and the operations services department is instructed to open an account for the client in the system. A file is also opened for the customer in the treasury department.

e) The study also revealed that the deposit certificates booklets which are serially numbered are kept in the bankers' safe under the custody of head of customer services. He releases new certificate booklet on request and reconciles the total cash or cheque collected with the certificates.

f) The Internal Control Group is responsible for the reconciliation of the various bank accounts who then advices the various departments on their outstanding items for proper investigation within the shortest possible time.

g) The study reveals that for stores item to be released, the user department will issue a requisition, usually done by the secretary, authorized by the respective head of department to store officer, who will pass such requisition to the admin manager for approval. Once approved, the stores officer will record the items in his bin card and release the items accordingly. The issues on the store issued note will form the basis on which accounting entries are raised at the end of the month.

h) The study further revealed that payment is being made to supplies and contractors on daily basis. The stores officer/maintenance raises payment voucher which he passes on to the admin manager. Attached to the payment voucher is approved local purchase order (LPO), and stores receipt slip. The cheque issued to the vendor for the payment, must be signed by at least one ‘A’ signatory.

i) A system of petty cash fund is being operated. This impress account is maintained by secretaries at the branches and each business units who is independent of the cashier in the customer services department, releases money on seeing the authority of payment from the branch manager/Unit Head and internal audit stamp and signature. The officer prepares a format of imprest account which is incorporated into the cash book. An amount of ₦10,000 to ₦20,000 is being given on each reimbursement.

j) A well secured adequate storage facility is provided for the stores. There is the operation of bin cards and other books of the store. Items are issued out from the store on proper authorised request by the relevant head of section approved by the admin manager.

k) The study reveals that for credit to be granted, the customer's request must contain the following:

(i) Purpose of facility

(ii) Amount

(iii) Proposed repayment programme

(iv) Proposed Security

This is followed by a careful and critical credit analysis which is presented to the banks credit committee headed by the managing Director for approval, while being guided by CBN Monetary Guidelines, the bank's treasury position, statutory lending limits, Micro/Macro Economic Factors and Environmental factors.

l) Journal vouchers are prepared, checked and approved by different individuals respectively before being passed on to the control unit of the banks for an independent check before being sent to the computer department for processing. All journal vouchers of the bank pass through this process.

m) The output of the Information and Technology Group is also given to the control unit for verification on a day to day basis.

n) Given the calculated value of $x^2 = 3.258$ for the first hypothesis which implies that the calculated x^2 is less than the tabulated x^2, that is 3.258 is less than 5.991; This led to the acceptance of the null hypothesis and conclusion that reliance can be placed on the internal control system of banks in Nigeria.

o) From the statistical analysis of the second hypothesis, we obtained a 99.7% positive mark. This therefore shows clearly that the presence of internal control system and the effectiveness in the management of banks in Nigeria are perfectly and positively related. We therefore accept the null hypothesis and conclude that the presence of internal control system has a positive effect in the management of banks in Nigeria.

p) From the statistical analysis of the third hypothesis, we obtained a 96% positive mark. This therefore shows clearly that the presence of internal control system and the efficiency in the operations of banks in Nigeria are perfectly and positively related. We therefore accept the null hypothesis and conclude that the presence of internal control system has led to the efficiency in the operations of banks in Nigeria.

q) From the statistical analysis of the forth hypothesis, we obtained a 96% positive mark. This therefore shows clearly that the presence of internal control system and the reliability of the financial and management reporting system of banks in Nigeria are perfectly and positively related. We therefore accept the null hypothesis and conclude that the presence of internal control system has led to the reliability of financial and management reporting system of banks in Nigeria.

r) From the statistical analysis of the fifth hypothesis, we obtained a 99% positive mark. This therefore shows clearly that the presence of internal control system and the compliance by banks in Nigeria with applicable laws and regulations are perfectly and positively related. We therefore accept the null hypothesis and conclude that the presence of internal control system has led to the compliance by banks in Nigeria with applicable laws and regulations guiding the operation of banks in the country.

s) From the testing of hypothesis 6, the correlation coefficient of 0.825 shows a positive high correlation between Profit after tax and deposits. We can then uphold the null hypothesis which states that there is a high positive relationship between internal control, profitability and liquidity in banks.

t) Nevertheless, it was discovered from the questionnaire administered that there was significantly NO response to the question which states that staff are always receptive to too much control in operation.

u) Since the adoption of the Committee of Sponsoring Organizations (COSO) and Canadian Criteria of Control Committee (CoCo) control models by many organizations and the growth of control self-assessment strategies in the early 1990s, some software has been developed to assist in those efforts. However, we observed that most of the banks are not deploying any internal control software in the discharge of the internal control functions.

CHAPTER 6

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

6.0.0 INTRODUCTION

In chapter one, we stated that the main objective of this study is to examine and evaluate the adequacy or otherwise or relevance of internal control system of banks in Nigeria.

The study went through the philosophy behind the use of internal control system in the banks, as well as examines the contribution of internal control components, its effectiveness and efficiency to bank management, and in the process reviewed the problems associated with the internal control system.

The researcher distributed one hundred (100) copies of a well – framed set of questions to the staff of the selected banks in Nigeria. Of the copies distributed, ninety five copies representing 95% of the population size were successfully filled and returned to the researcher.

Chi-square, Spearman's Rank correlation and Pearson Product Moments Correlation models were used to analyze the data and test the hypotheses in the study.

The researcher discussed that good internal control affects the efficiency and profitability of the bank and that unless there is an effective system of internal control, proper management of modern business, such as banking undertakings is not possible.

This chapter will focus on the summary of the research findings as shown in chapter five. We will also draw conclusions and make recommendations that will help to improve the internal control system in the Nigerian Banking industry.

6.1 SUMMARY OF FINIDINGS

The following findings were made concerning the internal controls in Nigerian banks.

a) There are internal control departments in all banks in Nigeria. It was found out that some banks refer to this department as Internal Audit and compliance department. In all the banks, the department is headed by very senior officers not below the rank of Assistant General Manager. It was also discovered in all branches of banks in Nigeria there is a Resident Internal Control officer. The bulk of the staff of this department are professional Accountants.

b) The responsibility of Internal Control is strictly that of the management. The internal control officer reports to the highest level of management. As a result of this effective Internal Control System, the accounting system produces information capable of being relied upon.

c) The presence of Internal Control system in the banks has provided reasonable assurance regarding the effectiveness and efficiency of operations of banks in Nigeria, the reliability of financial and management reporting and guarantees compliance with applicable laws and regulations.

d) The banks rely heavily on the internal control system on the implementation of policies and procedures.

e) Given the calculated value of $x^2 = 3.258$ for the first hypothesis which implies that the calculated x^2 is less than the tabulated x^2 that is 3.258 is less than 5.991. This led to the acceptance of the null hypothesis and conclusion that reliance can be placed on the internal control system of banks in Nigeria.

f) From the statistical analysis of the second hypothesis, we obtained a 99.7% positive mark. This therefore shows clearly that the presence of internal control system and the effectiveness in the management of banks in Nigeria are perfectly and positively related.

g) From the statistical analysis of the third hypothesis, we obtained a 96% positive mark. This therefore shows clearly that the presence of internal control system and the efficiency in the operations of banks in Nigeria are perfectly and positively related.

h) From the statistical analysis of the forth hypothesis, we obtained a 96% positive mark. This therefore shows clearly that the presence of internal control system and the reliability of the financial and management reporting system of banks in Nigeria are perfectly and positively related.

i) From the statistical analysis of the fifth hypothesis, we obtained a 99% positive mark. This therefore shows clearly that the presence of internal control system and the compliance by banks in Nigeria with applicable laws and regulations are perfectly and positively related.

j) From the testing of hypothesis 6, the correlation coefficient of 0.825 shows a positive high correlation between Profit after tax and deposits.

k) Nevertheless, it was discovered from the questionnaire administered that there was significantly NO response to the question which states that staff are always receptive to too much control in operation.

l) Though controls were observed to be generally effective, there were some lapses noted in the area of collateralization. It was observed that all loans are supposed to be collateralized, but where related persons are involved the requirements are sometimes played down. This has accounted for high level of bad loans in the industry. There was also a high level of laxity on the collateralization of margin loans granted by the banks. This accounted not only for the high profile of non-performing loans but greatly for the near collapse of ten banks rescued by the Central Bank of Nigeria in 2009. These instances are indications of clear failure in the control process.

m) From the depositors point of view, they are likely to do business with banks they perceive to have adequate and effective control processes in place which goes further to show that positive relationship exist amongst internal control, deposit and profits of banks. Accordingly, effective internal control has resulted in increased deposits and profits over the period under study.

n) On the issue of segregation of duties, the research shows that the duties of all staff are dully segregated so that no one staff carries one transaction from the commencement to conclusion. The research also shows that all staff are properly supervised by this superior.

o) However, from the response, it shows that 68 respondents representing 72% of the sample size have been performing same task since they were employed. These respondents are mainly accountants, computer operators, auditors and treasurers. 27 respondents representing 28% of the sample size have worked in various departments. Interviews however revealed that duties are being rotated between workers on timely basis.

p) The banks strictly comply with the requirements of prudential guidelines for banks and other financial institutions in making provisions for bad and doubtful debts. However, there are some sharp practices aimed at reducing the amount of provision made like the restructuring of the non performing loans.

q) It is also important to note that the percentage of non-performing loans has been on the decrease in some banks. As banks improve on their internal control, their provision for bad and doubtful debts will begin to decline.

r) The rise in the level of successful frauds as reported by the regulatory authority is a clear case of control failures in these banks. Also the increase in the level of insider abuse, unethical and sharp practices by some banks employees is becoming worrisome and needs to be addressed urgently.

s) The bank also complies with requirements of Companies and Allied Matters Act, all CBN guidelines corporate governance rules, etc.

t) The researcher could not obtain interview with executive management of these banks to enable him appreciate their understanding, approach and appreciation of control related activities.

u) We could not also have access to the exception reports generated by the internal control departments of these banks so as to rate the level of policy infractions recorded by the banks neither could we access their periodic and ad-hoc reports to the management of these banks.

v) The banks are not deploying internal control software in the discharge of the internal control assigned functions.

w) Most of the internal control staff interviewed complained of lack of promotion, poor welfare and training.

x) Practice of good corporate governance by these banks is not at its best, they can still do better.

6.2.0 CONCLUSION

The following conclusions were made from the investigation carried to evaluate the system of internal control in Nigerian banks:

a) There are internal control departments in all banks in Nigeria. In most of the banks, the department is headed by very senior officers not below the rank of Assistant General Manager.

b) The responsibility of Internal Control is strictly that of the management. The internal control officer reports to the highest level of management.

c) The presence of Internal Control system in the banks has provided reasonable assurance regarding the effectiveness and efficiency of operations of banks in Nigeria, the reliability of financial and management reporting and guarantees compliance with applicable laws and regulations.

d) The banks rely heavily on the internal control system on the implementation of policies and procedures.

e) The study revealed that reliance can be placed on the internal control system of banks in Nigeria.

f) The statistical analysis of the second hypothesis showed clearly that the presence of internal control system and the effectiveness in the management of banks in Nigeria are perfectly and positively related.

g) The statistical analysis of the third hypothesis showed that the presence of internal control system and the efficiency in the operations of banks in Nigeria are perfectly and positively related.

h) From the statistical analysis of the forth hypothesis, it can be concluded that the presence of internal control system and the reliability of the financial and management reporting system of banks in Nigeria are perfectly and positively related.

i) The study further showed that the presence of internal control system and the compliance by banks in Nigeria with applicable laws and regulations are perfectly and positively related.

j) We can conclude further from the study that there exists a high positive correlation between internal control, profit after tax and deposits.

k) Though controls were observed to be generally effective, there were some lapses noted in the area of collateralization. It was observed that all loans are supposed to be collateralized, but where related persons are involved the requirements are sometimes played down.

l) There is a high level of bad loans in the banks.

m) There was also a high level of laxity on the collateralization of margin loans granted by the banks. This accounted not only for the high profile of non-performing loans but greatly for the near collapse of ten banks rescued by the Central Bank of Nigeria in 2009. These instances are indications of clear failure in the control process.

n) On the issue of segregation of duties, the research shows that the duties of all staff are dully segregated so that no one staff carries one transaction from the commencement to conclusion.

o) The banks did not fully comply with the requirements of prudential guidelines for banks and other financial institutions in making provisions for bad and doubtful debts. This accounted for the high level of provisions made by the banks after the CBN/NDIC joint examination of the banks in 2009.

p) From the interviews we made, it was noted that some of the non-performing loans were restructured and made to look good so as to reduce the amount of provisions made. This practice not only negate generally accepted accounting principle and the prudential guideline requirement but it also has negative impact on the shareholders funds as tax would be paid from capital.

q) It is also important to note that the percentage of non-performing loans is beginning to decline in some banks. As banks improve on their internal control, their provision for bad and doubtful debts will begin to decline.

r) The rise in the level of successful frauds as reported by the regulatory authority is a clear case of control failures in these banks. Also the increase in the level of insider abuse, unethical and sharp practices by some banks employees is becoming worrisome and needs to be addressed urgently.

s) The bank also complies with requirements of Companies and Allied Matters Act, all CBN guidelines corporate governance rules, etc.

t) The researcher could not obtain interview with executive management of these banks to enable him appreciate their understanding, approach and appreciation of control related activities.

u) We could not also have access to the exception reports generated by the internal control departments of these banks so as to rate the level of policy infractions recorded by the banks neither could we access their periodic and ad-hoc reports to the management of these banks.

v) The banks are not deploying internal control software in the discharge of the internal control assigned functions.

w) Most of the internal control staff interviewed complained of lack of promotion, poor welfare and training.

x) Practice of good corporate governance by these banks is not yet at its best, they can still do better.

6.3.0 RECOMMENDATIONS

A system of effective controls is a critical component of bank management and a foundation for the safe and sound operation of banking organisations. A system of strong internal controls can help to ensure that the goals and objectives of a banking organisation will be met, that the bank will achieve long-term profitability targets, and maintain reliable financial and managerial reporting. Such a system can also help to ensure that the bank will comply with laws and regulations as well as policies, plans, internal rules and procedures, and decrease the risk of unexpected losses or damage to the bank's reputation.

The following recommendations are proffered for tackling the deficiencies noted in the findings from the study. These are aimed at improving the internal control system of banks in Nigeria.

a) Application of latest Audit software's that will be able to break all transactions. Without mincing words, the banking industry in Nigeria is technologically driven. And the technology is changing at a very fast rate. While the banks are upgrading their operational systems technologically, they should also upgrade the technological aspect of the Internal Control. This will help to fight all forms of electronic frauds including hacking, skimmers, Phishing, Trojan horse.

b) As the system is being improved the staff should also be trained to cope with the latest technologies and the challenges of the job. Both in-house and external training should be arranged for the staff of the department.

c) Staff of the Internal Control department should be adequately remunerated. They bear high level of risk.

Most people look at them as the police of the organization and therefore they are always at threat. It is unfortunate that most banks pay greater attention to marketing at the detriment of Internal Control consequently marketing officers are most rewarded. And Internal Control staffs are often regarded as non-contributive staff. This notion is wrong. Because a single fraud that goes undetected can write-off the fortune of the bank. Therefore Internal Control staff should be duly motivated to put in their best.

d) Absolute compliance with operational guidelines and regulations. Every bank has its operational guidelines concerning general Internal Control, risk assessments, Accounting, Information and communication, Deposits and other accounts, personnel, wages and salaries, cash and cheques received and paid, etc. These policies should be strictly followed irrespective of who is involved. A situation where a loan is approved for the relation of the Managing Director/Executive Directors without proper documentation and collateralization should not be acceptable.

e) Practice of Corporate governance. The collapsed of most banks in Nigeria and the World over is traceable to poor corporate governance. It also account for the high volume of bad and doubtful debt in our banks. In 2006, the Central Bank of Nigeria issued the code of Corporate Governance for Banks in Nigeria post consolidation. This is being operated alongside the code of Best practices for public companies in Nigeria issued by Securities and Exchange Commission in 1999. If these codes are duly complied with the Internal Controller will have fewer problems. We therefore recommend that these codes should be strictly complied with.

f) The bank should not make any member of staff indispensable; hence there should be deputation of responsibilities so that the absence of a staff will have no effect on the operation of the bank.

g) Management should encourage staff to participate in decision making. Employees feel encouraged and motivated in accomplishing the goals of the company in which they have taken part in formulating.

h) There should be discipline on the part of the management not to override the controls, noting that poor management often results in excessive risk taking through high operating expenses, inadequate administration of loan portfolio, an overly aggressive growth policy to attract deposits, interest rates speculations coupled with other instances of poor judgment may result in stress for the Bank.

i) In view of the undeniable importance of internal control system in an establishment such as bank, the management should not allow itself to be mis-directed by the criticisms that are levelled against the internal control system, for instance, control not being cost effective among others. They should note that there is a great need for the presence of an effective internal control system in the banks. According to J. Santocki, poor internal control system or total absence of it, will lead to a chaotic situation in the company and this will lead to errors and fraud, unreliable and inaccurate record keeping and an eventual liquidation of the company.

j) The board of directors should have responsibility for approving and periodically reviewing the overall business strategies and significant policies of the bank; understanding the major risks run by the bank, setting acceptable levels for these risks and ensuring that senior management takes the steps necessary to identify, measure, monitor and control these risks; approving the organisational structure; and ensuring that senior management is monitoring the effectiveness of the internal control system.

k) The board of directors should provide governance, guidance and oversight to senior management. Board members should be objective, capable, and inquisitive, with a knowledge or expertise of the activities of and risks run by the bank.

l) Compliance with an established internal control system is heavily dependent on a well documented and communicated organisational structure that clearly shows lines of reporting responsibility and authority and provides for effective communication throughout the organisation. The allocation of duties and responsibilities should ensure that there are no gaps in reporting lines and that an effective level of management control is extended to all levels of the bank and its various activities.

m) It is important that senior management takes steps to ensure that activities are conducted by qualified staff with the necessary experience and technical capabilities. Staff in control functions must be properly remunerated. Staff training and skills should be regularly updated. Senior management should institute compensation and promotion policies that reward appropriate behaviours and minimise incentives for staff to ignore or override internal control mechanism.

n) An essential element of an effective system of internal control is a strong control culture. It is the responsibility of the board of directors and senior management to emphasise the importance of internal control through their actions and words. This includes the ethical values that management displays in their business dealings, both inside and outside the organisation. The words, attitudes and actions of the board of directors and senior management affect the integrity, ethics and other aspects of the bank's control culture.

o) In varying degrees, internal control is the responsibility of everyone in a bank. Almost all employees produce information used in the internal control system or take other actions needed to effect control. An essential element of a strong internal control system is the recognition by all employees of the need to carry out their responsibilities effectively and to communicate to the appropriate level of management any problems in operations, instances of non-compliance with any code of conduct, or other policy violations or illegal actions that are noticed. This can best be achieved when operational procedures are contained in clearly written documentation that is made available to all relevant personnel. It is essential that all personnel within the bank understand the importance of internal control and are actively engaged in the process.

p) An effective internal control system requires that the material risks that could adversely affect the achievement of the bank's goals are being recognised and continually assessed. This assessment should cover all risks facing the bank and the consolidated banking organisation (that is, credit risk, country and transfer risk, market risk, interest rate risk, liquidity risk, operational risk, legal risk and reputational risk). Internal controls may need to be revised to appropriately address any new or previously uncontrolled risks.

q) Effective risk assessment identifies and considers internal factors (such as the complexity of the organisation's structure, the nature of the bank's activities, the quality of personnel, organisational changes and employee turnover) as well as external factors (such as fluctuating economic conditions, changes in the industry and technological advances) that could adversely affect the achievement of the bank's goals. This risk assessment should be conducted at the level of individual businesses and across the wide spectrum of activities and subsidiaries of the consolidated banking organisation. This can be accomplished through various methods. Effective risk assessment addresses both measurable and non-measurable aspects of risks and weighs costs of controls against the benefits they provide.

r) It is not sufficient for senior management to simply establish appropriate policies and procedures for the various activities and divisions of the bank. They must regularly ensure that all areas of the bank are in compliance with such policies and procedures and also determine that existing policies and procedures remain adequate.

s) An effective internal control system requires that there are reliable information systems in place that cover all significant activities of the bank. These systems, including those that hold and use data in an electronic form, must be secure, monitored independently and supported by adequate contingency arrangements.

t) Since banking is a dynamic, rapidly evolving industry, banks must continually monitor and evaluate their internal control systems in the light of changing internal and – external conditions, and must enhance these systems as necessary to maintain their effectiveness.

u) The overall effectiveness of the bank's internal controls should be monitored on an ongoing basis. Monitoring of key risks should be part of the daily activities of the bank as well as periodic evaluations by the business lines and internal audit.

v) There should be an effective and comprehensive internal audit of the internal control system carried out by operationally independent, appropriately trained and competent staff. The internal audit function, as part of the monitoring of the system of internal controls, should report directly to the board of directors or its audit committee, and to senior management.

w) Internal control deficiencies, or ineffectively controlled risks, should be reported to the appropriate person(s) as soon as they are identified, with serious matters reported to senior management and the board of directors. Once reported, it is important that management corrects the deficiencies on a timely basis. The internal auditors should conduct follow-up reviews or other appropriate forms of monitoring, and immediately inform senior management or the board of any uncorrected deficiencies. In order to ensure that all deficiencies are addressed in a timely manner, senior management should be responsible for establishing a system to track internal control weaknesses and actions taken to rectify them.

x) Internal control deficiencies, whether identified by business line, internal audit, or other control personnel, should be reported in a timely manner to the appropriate management level and addressed promptly. Material internal control deficiencies should be reported to senior management and the board of directors in a timely manner.

It is the researcher's belief and conviction that internal control is an essential prerequisite for efficient and effective management of all banks in Nigeria. The Banks should note that a good internal control system is sacrosanct to the success of any organization particularly the banks. No bank can do without a good internal control system. With improvements in information and communication technology which the banking industry has been one of the greatest beneficiaries, the duties and responsibilities of the internal controllers becomes more demanding. Therefore internal control should be exercised at every phase of operation of the banks. There should also be continuous improvement in internal control techniques and tactics. It is only a good internal control that can guarantee the continuous existence and profitability of the Nigerian banks.

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APPENDICES

APPENDIX 1

QUESTIONAIRAE

Dear Respondent

I am a student of St Clements University Grand Turk, Grand Turks & Caicos Islands, British West Indies. I am carrying out a research on the subject" Evaluation of Internal Control System in selected Banks in Nigeria". Your bank has been chosen as one of the selected Banks. Attached to this Letter is a questionnaire aimed at gathering some vital information to assist me complete the research work. All information given will be treated with utmost confidence and will be used solely for the purpose of the research.

Kindly tick "yes" or "No" where appropriate and the blank spaces completed where necessary.

Yours faithfully

Etuk, Ifiok Charles
St Clements University
Grand Turk
Grand Turks & Caicos Islands
British West Indies

SECTION A

Personal Data

Tick (V) in the box as considered appropriate

1. Which Bank do you work for?
   Please state..
2. Which department/unit do you work for?
   Please state..
3. How long have you been with the bank?
   Please state...
4. What is your present rank/level in the bank?
   Please state..
5. Are you a male or female?
   Please state...
6. What is your highest level of academic qualification?
   ....

SECTION B

General Internal Control Questions	**Yes**	**No**	**Don't know**
1. Do you have internal control department in your bank?	( )	( )	( )
2. What is the rank of your present head of internal control department? Executive Director GM AGM Others, please state...............	( )	( )	( )
3. How many staff are there in the internal control department? Please state..................................	( )	( )	( )
4. Is the department staffed with specialized staff e.g. chattered Accountant?	( )	( )	( )
5. Does the department have a written departmental administrative manual?	( )	( )	( )
6 At the branch offices, do you have resident internal control officers?	( )	( )	( )
7 Does the bank have any good organizational structure in place which ensures proper flow of information?	( )	( )	( )
8 Is there proper segregation of duties among the staff to the extent that the work of one person is checked by the other so as to prevent error and fraud?	( )	( )	( )
9 Are all expenditure incurred by the bank approved by the responsible officer?	( )	( )	( )
10 Is there adequate supervision of work done by all levels of staff?	( )	( )	( )

11	Is standard setting and budgeting an aspect of internal control system in your bank?	( )	( )	( )
12.	Do you agree that the responsibility of internal control is that of the management?	( )	( )	( )
13.	Does the head of internal control report to the highest level of management?	( )	( )	( )
14.	Does the accounting system records all the transactions of the bank and produce accurate information capable of being relied upon by management and investors?	( )	( )	( )

Control Environment

15.	Does the board periodically review policies and procedures to ensure that proper controls have been instituted?	( )	( )	( )
16.	Is there a system in place to monitor compliance with policies and procedures and to report to the board instances of noncompliance?	( )	( )	( )
17.	When instances of noncompliance are reported, does the board take appropriate follow-up action and ensure effective action through testing?	( )	( )	( )
18.	Does management provide the board and the board's representatives complete access to bank records?	( )	( )	( )
19.	Are board decisions made collectively and not controlled by one dominant individual?	( )	( )	( )
20.	Does the board receive appropriate information from the bank's accounting, information and communication systems to make informed and timely decisions?	( )	( )	( )
21.	Does the board receive adequate information about the internal risk assessment process?	( )	( )	( )
22.	Does the board review the qualifications and independence of the bank's internal and external auditors?	( )	( )	( )
23.	Do the bank's internal and external auditors report their findings directly to the board or to the audit committee?	( )	( )	( )
24.	Do the internal and/or external auditors periodically assess the adequacy of the bank's internal control systems?	( )	( )	( )

25. Are policies regarding the importance of internal control and appropriate conduct communicated to all employees? ( ) ( ) ( )

26. Do codes of conduct or ethics policies exist? ( ) ( ) ( )

27. Does audit or other control systems exist to periodically test for compliance with codes of conduct or ethics policies? ( ) ( ) ( )

SECTION C

Risk Assessment

28. Does the bank have a credit committee? ( ) ( ) ( )

29. Is adequate security a condition for granting loans and advances in your bank? ( ) ( ) ( )

30. Are credit analyses completed before draw down is allowed? ( ) ( ) ( )

31. Are Directors/Shareholders persecuted and charged for unrealised sums they Guaranteed? ( ) ( ) ( )

32. Are connected persons refused credit where they have no adequate collateral? ( ) ( ) ( )

33. Are proposals for credit facilities Always constant with the banks overall loan portfolio objectives? ( ) ( ) ( )

34. Does the legal department confirms in writing to the credit committee that all conditions prior to drawdown have been met before any disbursement? ( ) ( ) ( )

35. Are there measures to ensure that the contents of the letter of offer is implemented to the letter before drawdown is allowed? ( ) ( ) ( )

36. Does the bank refuse temporary overdraft approval based on uncleared effects at all times? ( ) ( ) ( )

37. Does your bank comply fully with the requirements of CBN prudential guidelines with particular reference to making provisions for non-performing loans? ( ) ( ) ( )

38. What is your assessment of your bank's state of corporate governance? ( ) ( ) ( )

39. Does your bank report willingly any non compliance with code of best practices and other laws and regulations to CBN? ( ) ( ) ( )

40. Do the board and management appropriately evaluate risks when planning for new products or activities? ( ) ( ) ( )

41. Do the board and management discuss and appropriately consider control issues when planning for new products and activities? ( ) ( ) ( )

42. Are audit personnel or other internal control experts involved in control discussions when the bank is developing new products and activities? ( ) ( ) ( )

43. Do management and the board involve audit personnel or other internal control experts in the risk assessment process? ( ) ( ) ( )

Control Activities

44. Do policies and procedures exist to ensure critical decisions are made with appropriate approval? ( ) ( ) ( )

45. Do processes exist to ensure independent verification of an appropriate sample of transactions to ensure integrity? ( ) ( ) ( )

46. Do processes exist to ensure ongoing and independent reconciliation of asset and liability balances, both on- and off balance-sheet? ( ) ( ) ( )

47. Are key risk-taking activities appropriately segregated from reconciliation activities? ( ) ( ) ( )

48. Do processes exist to ensure that policy overrides are minimal and exceptions are reported to management? ( ) ( ) ( )

49. Does a vacation policy for critical employees ensure their absence for at least a consecutive two-week period? ( ) ( ) ( )

50. Is there a system in place to ensure that duties are rotated periodically? ( ) ( ) ( )

51. Is separation of duties and dual control over bank assets emphasized in the organizational structure? ( ) ( ) ( )

52. Are systems in place to ensure that personnel abide by separations of duty? ( ) ( ) ( )

Accounting Information and Communication Systems

53.	Do accounting systems properly identify, assemble, analyze, classify, record, and report an institution's transactions in accordance with GAAP?	( )	( )	( )
54.	Are the reports generated for operational, financial, managerial, and compliance-related activities sufficient to properly manage and control the institution?	( )	( )	( )
55.	Do accounting, information, and communication systems ensure that the bank's risk-taking activities are within policy guidelines?	( )	( )	( )
56.	Do all personnel understand their roles in the control system?	( )	( )	( )
57.	Do all personnel understand how their activities relate to others?	( )	( )	( )
58.	Do all personnel understand their accountability for the activities they conduct?	( )	( )	( )

Self-Assessment or Monitoring

59.	Does the board review the actions management takes to deal with material control weaknesses and verify that those actions are objective and adequate?	( )	( )	( )
60.	Do audit reports contain sufficient detail?	( )	( )	( )
61.	Are audit reports timely enough to allow for resolution and appropriate action?	( )	( )	( )
62.	Does the board or audit committee approve the selection of key internal audit personnel?	( )	( )	( )
63.	Does the board or audit committee approve the overall scope of review activities (such as audit or loan coverage)?	( )	( )	( )
64.	Does the board or audit committee review results of audits?	( )	( )	( )
65.	Does the board or audit committee approve the system of internal controls?	( )	( )	( )
66.	Does the board or audit committee periodically review audit or other key control systems?	( )	( )	( )
67.	Is line management held accountable if they do not follow up satisfactorily or effectively on control weaknesses?	( )	( )	( )

INFORMATION TECHNOLOGY

68. Are your operations fully automated? ( ) ( ) ( )

69. Are your operations online real-time? ( ) ( ) ( )

70. Is there standard procedures to be followed anytime an application is introduced? ( ) ( ) ( )

71. Is the system fully tested before being used operationally? ( ) ( ) ( )

72. Are master files set up? ( ) ( ) ( )

73. Are each system development stages reviewed by a responsible official? ( ) ( ) ( )

74. Are changes to operational system programs subjected to the above steps? ( ) ( ) ( )

75. Are data processing staff not eligible to initiate transactions or authorises them? ( ) ( ) ( )

76. Are users not eligible to operate? ( ) ( ) ( )

77. Is there a computer manual? ( ) ( ) ( )

78. Are files and programs properly stored and identified? ( ) ( ) ( )

79. Is there restriction of access to the computer facilities? ( ) ( ) ( )

80. Do you have an effective back up system? ( ) ( ) ( )

81. Do any committees meet concerning disaster recovery plans?( ) ( ) ( )

82. Does the Bank have written policies for disaster recovery? ( ) ( ) ( )

83. Is the disaster recovery plan reviewed regularly? ( ) ( ) ( )

84. Has the Bank conducted a risk assessment to measure the potential impact of various disasters? ( ) ( ) ( )

85. Is there a current inventory of items stored off-site? ( ) ( ) ( )

86. Is there an inventory of all critical equipment? ( ) ( ) ( )

87. Does the Bank have written agreements with vendors for replacement of all equipment and devised used? ( ) ( ) ( )

88. Excluding data processing, are there provisions for use of backup equipment? ( ) ( ) ( )

89. Does the Bank have a formal policy regarding media inquiries? ( ) ( ) ( )

90. Does the Bank provide periodic emergency response training, including evacuation procedures, to all employees? ( ) ( ) ( )

91. Does each location conduct periodic tests of disaster recovery plans, including emergency evacuation? ( ) ( ) ( )

92. Does the department have any type of Local Area Network (LAN) installed? (e.g. Novell Netware, IBM Token Ring, DEC Net, Appletalk, etc)? ( ) ( ) ( )

93. What operating system(s) is(are) used in the department? e.g. DOS, Netware, Unix, VMS, etc. ( ) ( ) ( )

94. Does a department employee act as the systems administrator (resident expert) for the system? ( ) ( ) ( )

95. Has someone within the department been assigned the responsibility for ensuring the integrity of these files? ( ) ( ) ( )

96. What controls exist to ensure that access to critical files is allowed only in connection with authorized production work? Such as user ID, password, etc. ( ) ( ) ( )

97. What controls exist to ensure that unauthorized programs and data files are not placed on storage media containing production data? ( ) ( ) ( )

98. What controls exist (backup) to ensure that critical files are duplicated on a periodic basis and stored in a safe location for use in an emergency? ( ) ( ) ( )

99. Does each user have his/her own workstation? ( ) ( ) ( )

100. Do users on separate workstations share common data files? ( ) ( ) ( )

101. Are these common data files on a shared network drive? ( ) ( ) ( )

102. Are individual site licenses for each software package maintained? ( ) ( ) ( )

103. Do you maintain manufacturer's documentation for all hardware and software? ( ) ( ) ( )

104. Are computer hard drives re-formatted prior to sale or other disposition? ( ) ( ) ( )

DEPOSITS AND OTHER ACCOUNTS

105.	Does the presence of an applicant necessary before account is opened?	( )	( )	( )
106.	Are necessary references obtained before an account is operational?	( )	( )	( )
107.	Are instructions to close an account evidenced in writing?	( )	( )	( )
108.	Are loss of deposit certificates evidence in writing?	( )	( )	( )
109.	Are letters of indemnity against loss in respect of the loss document obtained?	( )	( )	( )
110.	Are customers not allowed drawdown on balances of cheques collected until full documentation has been received?	( )	( )	( )
111.	Are customers not allowed to draw against lodgement not yet credited?	( )	( )	( )
112.	Are all records relating to dement accounts under the control of the head of department at all times?	( )	( )	( )
113.	Are all counterfoils and discharge receipts filed and held available for audit inspection?	( )	( )	( )
114.	Are cancelled deposit receipts cut off and affixed onto the counterfoil and properly filed?	( )	( )	( )
115.	Are book of fixed deposit receipts and other security documents held permanently under dual control in the strong room of banks quality safe?	( )	( )	( )

PERSONNEL

		Yes	No	Don't know
116.	Is there any organisation chart?	( )	( )	( )
117.	Are detailed duties of various sections being set out in writing?	( )	( )	( )
118.	Do staff accept transfer without objection?	( )	( )	( )
119.	Are their duties completely handed over in this case?	( )	( )	( )
120.	Are statutory references obtained an taken up in respect of employees appointed to position of trust?	( )	( )	( )
121.	Are there any authority limit as to when to employ labour/employee?	( )	( )	( )

Segregation duties

		Yes	No	Don't know
122.	Are duties so allocated that no single person has an exclusive control over any transaction?	( )	( )	( )
123.	Is the work of one person complementary to the work of another?	( )	( )	( )
124.	Is the rotation of duties such that no staff stays more than a stipulated time on a particular job?	( )	( )	( )

WAGES AND SALARIES

		Yes	No	Don't know
125.	Are there records of salaries rates, promotion, increments both in the account section and personnel section?	( )	( )	( )
126.	Are there any provision for advance payment of salaries?	( )	( )	( )
127.	Is an authority required before any employee can collect unclaimed salaries on behalf of another?	( )	( )	( )
128.	Are there any authorisation for all payable deductions other than statutory deductions?	( )	( )	( )

129.	Are all pay deductions promptly paid over to the appropriate authority?	( )	( )	( )

Cash and Cheque Receipts

130.	Are such receipt book serially numbered?	( )	( )	( )
131.	Is a register being kept for recording all receipts printed?	( )	( )	( )
132.	Are receipts books in duplicate or more?	( )	( )	( )
133.	Are unused receipt books securely kept?	( )	( )	( )
134.	If yes, is there any system provided for control of the issue of these daily?	( )	( )	( )
135.	Are all cash and cheque received banked daily?	( )	( )	( )
136.	Is the total of cash or cheque collected reconciled with the receipts?	( )	( )	( )
137.	Is the reconciliation in item 52 done by a person other than the cashier?	( )	( )	( )
138.	Are bank reconciliations prepared regularly and filed?	( )	( )	( )
139.	Are expenses made from daily collections?	( )	( )	( )
140.	Can the details of the counterfoil of the bank tellers be checked against the individual entries in cash book?	( )	( )	( )

Cash and Cheque Payments

141.	Is there any authority as to who is to sign cheques?	( )	( )	( )
142.	Are there clear regulations as to who can authorise payments?	( )	( )	( )
143.	Are cheque numbers agreed with the control record of book issued?	( )	( )	( )
144.	Are cancelled cheques controlled?	( )	( )	( )
145.	Apart from salaries and wages, are all payments made from imprest?	( )	( )	( )

146.	Are vouchers or payslips a necessary pre-requisition for making cash payments?	( )	( )	( )
147.	Are the vouchers or payslips authorised by a party other than the cashier?	( )	( )	( )
148.	Is the person responsible for the preparation of payment voucher independent of the cashier who makes payment?	( )	( )	( )
149.	Are refunds of expenses supported by detailed analysis with voucher?	( )	( )	( )
150.	Are these claims checked and authorised for payment by a responsible person other than the cashier?	( )	( )	( )
151.	Are checks made on the balance of cash in hand at random intervals by an independent officer?	( )	( )	( )

Petty Cash Fund

152.	Is imprest system in use?	( )	( )	( )
153.	Is the responsibility for such fund vested in one person only?	( )	( )	( )
154.	Is the custodian independent of the cashier or other employee handling cash			
155.	Is a limit fixed on the amount of disbursement?	( )	( )	( )
156.	Is adequate approval required for advance to employees?	( )	( )	( )
157.	Are there limits as to amount and duration of time fixed on I. O. Us?	( )	( )	( )
158.	Are employees allowed to cash cheque and is any limit imposed?	( )	( )	( )
159.	Is the petty cash regularly examined by a senior officer and initialled?	( )	( )	( )
160.	Is a proper double entry system operated with an imprest amount as the balance?	( )	( )	( )

Store/Stock

161. Is the storage accommodation adequate to provide protection against:			
(a) Deterioration	( )	( )	( )
(b) Breakages	( )	( )	( )
(c) Access by unauthorised person?	( )	( )	( )
162. Is there any maintenance of continuous stock taking of stationery and other consumables?	( )	( )	( )
163. Are stationery and other consumables released to an authorised requisition?	( )	( )	( )
164. Is there anybody authorised to endorse requisition from store?	( )	( )	( )
165. Is there periodic reconciliation of store records and financial records?	( )	( )	( )
166. Are bin cards or similar records maintained at store location?	( )	( )	( )
167. Is store ledger being kept by the same person as in item 83 above?	( )	( )	( )
168. Is there any system of control to check Theft and pilferage by the staff or employees?	( )	( )	( )

Fixed Assets

169. Is there authority limit as to:			
(a) Repair of capital items	( )	( )	( )
(b) Disposal of items and	( )	( )	( )
(c) Acquisition of items?	( )	( )	( )
170. Are assets registers maintained?	( )	( )	( )
171. Is there any control as to the use of Fixed assets e.g. motor vehicles?	( )	( )	( )

SECTION D

Internal controls effect on efficiency and effectiveness of the organisation.

		Yes	No	Don't Know
1.	Companies are in business in order to make profit.	( )	( )	( )
2.	Maintenance of good internal control system to ensure proper application of resources is the main responsibility of the management.	( )	( )	( )
3.	Efficient and effective management of resources always lead to productive operation.	( )	( )	( )
4.	The purpose, size and structure of an organisation influences the design of the internal control system.	( )	( )	( )
5.	An effective management will not give room for lapse and fraud.	( )	( )	( )
6.	Lack of effective control can lead ;to chaos and distribution of operation.	( )	( )	( )
7.	Inadequate monitoring can lead to the laid down internal control system to be side-tracted.	( )	( )	( )
8.	Too many controls always hamper smooth operation in the bank.	( )	( )	( )
9.	Staff are always receptive to too much control in operation.	( )	( )	( )
10.	Abrupt and frequent stoppages of operation can lead to drop in the turnover.	( )	( )	( )
11.	Drop in turnover always lead to drop in profit at the end of the year.	( )	( )	( )

APPENDIX 2

LIST OF BANKS IN NIGERIA AS AT 30 – 06 – 2005

1. ACB International Bank Limited
2. Access Bank Nigeria Limited
3. Afribank International Limited (Merchant Bankers)
4. Afribank Nigeria Plc
5. African Express Bank Plc
6. African International Bank Limited
7. All States Trust Bank Plc
8. Assurance Bank Nigeria Limited
9. Bank of the North Limited
10. Broad Bank of Nigeria
11. Bond Bank Limited
12. Capital Bank International Plc
13. Centre-Point Bank Plc
14. Chartered Bank Plc
15. Nigerian International Bank Limited
16. Citizens International Bank Limited
17. City Express Bank Plc
18. Continental Trust Bank Limited
19. Cooperative Bank Plc
20. Cooperative Development Bank Plc
21. Devcom Bank Limited
22. Diamond Bank Limited
23. Eagle Bank Limited
24. Ecobank Nigeria Plc
25. EIB International Bank (Nig) Plc
26. Equitorial Trust Bank
27. Equity Bank (Nig) Limited
28. FBN (Merchant Bankers) Limited

29. Fidelity Bank Plc
30. First Atlantic Bank Plc
31. First Bank of Nigeria Plc
32. First City Monument Bank Limited
33. First Interstate Bank Plc
34. Fortune International Bank Plc
35. Fountain Trust Bank
36. FSB International Bank Plc
37. Gateway Bank Plc
38. Global Bank Plc
39. Guaranty Trust Bank Plc
40. Guardian Express Bank Plc
41. Gulf Bank Nigeria Plc
42. Habib Nigeria Bank Plc
43. Hallmark Bank Plc
44. INMB Bank Limited
45. Inland Bank Nigeria Plc
46. Intercity Bank Plc
47. Intercontinental Bank Plc
48. IMB International Bank Plc
49. International Trust Bank Plc
50. Investment Banking and Trust Co. Limited
51. Lead Bank Limited
52. Liberty Bank Plc
53. Lion Bank of Nigeria Plc
54. Magnum Trust Bank Plc
55. Manny Bank Nigeria Plc
56. Marina International Bank Limited
57. MBC International Bank Limited
58. Metropolitan Bank Limited
59. Midas Bank Plc

60. NAL Bank Plc
61. National Bank of Nigeria Limited
62. NBM Bank Limited
63. New Africa Merchant Bank Plc
64. NNB International Bank Plc
65. Nigerian American Merchant Bank Limited
66. NUB International Bank Limited
67. Oceanic Bank International Limited
68. Omega Bank Plc
69. Pacific Bank Limited
70. Platinum Bank Limited
71. Prudent Bank Plc
72. Regent Bank Limited
73. Savannah Bank of Nigeria Plc
74. Societe Banncaire Nig Limited (Merchant Bankers)
75. Societe Generale Bank Nig Limited
76. Stanbic Bank Nigeria Limited
77. Standard Chartered Bank Nig Limited
78. Standard Trust Bank Plc
79. Trade Bank Plc
80. Trans International Bank Plc
81. Triumph Bank Plc
82. Tropical Commercial Bank Plc
83. Trust Bank of Africa Limited
84. Union Merchant Bank Limited
85. Union Bank of Nigeria Plc
86. United Bank for Africa Plc
87. Universal Trust Bank of Nigeria Plc
88. Wema Bank Plc
89. Zenith International Bank Limited

APPENDIX 3

BANKS IN NIGERIA AFTER THE CONSOLIDATION EXERCISE OF 2005

S/N	NAME OF BANK	COMPONENTS
1	ACCESS BANK PLC	Access Bank, Marina International Bank and Capital Bank International
2	AFRIBANK NIGERIA PLC	Afribank International (Merchant Bankers) and Afribank of Nigeria
3	DIAMOND BANK PLC	Diamond Bank, Lion Bank
4	ECOBANK NIGERIA PLC	Hallmark Bank. All States Trust Bank
5	EQUITORIAL TRUST BANK	Equitorial Trust Bank and Devcom Bank
6	FIDELITY BANK	Fidelity Bank, FSB International Bank and Manny Bank
7	FIRST BANK OF NIGERIA	First Bank, MBC International Bank
8	FIRST CITY MONIMENT BANK	First City Monument Bank, Cooperative Development Bank and Nigerian American Merchant Bank
9	FIRST INLAND BANK	First Atlantic Bank, Inland Bank, IMB and NUB International Bank
10	GUARANTY TRUST BANK	Alone
11	IBTC CHARTERED BANK	IBTC, Chartered Bank and Regent Bank
12	INTERCONTINENTAL BANK	Intercontinental Bank, Global Bank, Gateway Bank and Equity Bank
13	NIGERIAN INT'L BANK (NIB)	Alone
14	OCEANIC BANK INT'L	Oceanic Bank International and International Trust Bank
15	PLATINUM HABIB BANK	Platinum Bank and Habib Bank
16	SKYE BANK	Prudent Bank, EIB, Bond Bank, Reliance Bank and Cooperative Bank

17	SPRING BANK	Citizens Bank International, Guardian Express Bank, Omega Bank, ACB International Bank, Trans International Bank and Fountain Trust Bank
18	STANBIC BANK	Alone
19	STANDARD CHARTERED BANK	Alone
20	STERLING BANK	Trust Bank, NBM Bank, Magnum Bank, NAL Bank and Indo Nigerian Bank
21	UNION BANK OF NIGERIA	Union Bank of Nigeria, Union Merchant Bank, Broad Bank and Universal Trust Bank
22	UNITED BANK FOR AFRICA	United Bank for Africa and Standard Trust Bank. METROPOLITANT Bank
23	UNITY BANK	Intercity Bank, First Interstate Bank, Tropical Commercial Bank, Centre-Point Bank, Societe Banncaire, Pacific Bank, NNB International, Bank of the North and New Africa Bank.
24	WEMA BANK	Wema Bank and National Bank of Nigeria
25	ZENITH INT'L BANK	Alone

In Liquidation

Fortune Bank, Gulf Bank, Liberty Bank, Triumph Bank, Trade Bank, Afex Bank, City Express Bank, Eagle Bank, Societe Generale Bank of Nigeria, Assurance Bank, Lead Bank.

APPENDIX 4

Diamond Bank's financial Summary

Financial Year End	April	April	April	April	April
Balance Sheet Assets	2005 N'm	2006 N'm	2007 N'm	2008 N'm	2009 N'm
Cash & Short-term funds	13,528	32,227	85,657	62,864	54,767
Due from banks in Nigeria	2,387	5,049	5,867	115,512	87,432
Due from banks outside Nigeria	9,984	15,562	20,266	21,694	50,307
Bills Discounted	0	0	0	0	0
Short Term Investments	35,486	46,562	40,640	42,059	11,502
Managed Funds	0	0	0	0	0
Long Term Investments – FGN Bonds	250	1,330	7,615	20,195	11,502
Long Term Investments – Others	1,157	4,319	4,183	10,639	32,358
Investment/Trading Properties	0	0	833	1,320	2,651
Loans & Advances – Gross	44,411	8 4,018	108,018	250,326	312,858
Non-Performing Loan	2,535	4,447	8,366	11,133	24,969
Loans & Advances – Net	42,751	80,560	100,972	240,449	285,345
Advances Under finance lease	2,035	4,000	8,050	11,501	6,150
Other Facilities	6,641	4,525	7,742	18,317	23,471
Other Assets	13,746	19,651	21,803	52,495	55,524
Deferred Tax Assets	0	301	451	1,102	4,416
Fixed Assets	3,376	8,472	16,870	27,523	34,156
Goodwill	0	4,182	0	0	0
Total Assets	131,341	227,833	320,950	625,670	682,0078

Liabilities					
Deposit and Current Account	80,403	148,563	217,737	419,708	466,890
Due to other banks	0	2,755	16,307	8,531	8,558
Other Facilities	0	0	0	0	0
Managed Funds	0	0	172	642	0
Tax Payable	0	1,306	1,703	2,813	3,527
Deferred Taxation	416		1,325	2,534	3,525
Other Liabilities	22,978	30,161	22,631	55,598	60,969

Dividend Payable	0	928	0	0	164
Borrowings	6,708	8,916	7,821	18,587	23,708
Total Liabilities	110,505	192,629	267694	508414	567,640

Capital & Reserves

Share Capital	3,038	3,802	4,700	6,580	7,238
Share Premium	11,137	20,783	36,058	69,629	89,629
Statutory Reserve	2,391	3,546	5,625	9,173	10,225
Exchange difference reserve	66	153	180	245	(247)
General Reserve	3,240	5,535	4,662	8,922	4,565
Bonus Issue Reserve	0	0	0	0	0
Reserve for SMEIS	818	1,203	1,549	2,140	2,487
Revaluation Reserve	0	0	1	0	0
Capital Reserve	0	0	0	0	106
Investment Properties Reserve	0	0	0	0	
Minority Interests	147	183	479	535	434
Shareholders' Fund Total Liabilities and Equity	20,836 131,341	35,204 227,833	53,254 320,950	117,256 625,670	114,438 682,078
Profit & Loss	2005 N'm	2006 N'm	2007 N',	2008 N'm	2009 N'm
Gross Earnings	15,950	22,606	39,703	60,112	107,706
Interest Earning	10,313	14,854	25,556	35,725	77,825
Interest Expense	(3,315)	(4,612)	(9,028)	(12,379)	(35,831)
Net Interest Income	7,099	10,242	16,528	23,346	41,993
Commission and other Income	5,637	7,751	14,147	24,387	29,881
Operating Income	12,736	17,993	30,675	47,733	71,874
Staff Cost	(3,421)	(4,812)	(7,283)	(10,595)	(16,459)
Depredation	(95)	(1,204)	(1,822)	(2,748)	(3,905)
Other Operating Expenses	(4,855)	(6,300)	(11,693)	(13,368)	(20,985)
Provision for doubtful accounts	(850)	(172)	(2,236)	(4,808)	(24,623)
Operating Profit	3,514	5,505	7,641	16,214	5,902

Exceptional Items					
Interest on Borrowings	0	0	0	0	0
Profit before taxation	3,514	5,505	7,641	16,214	5,902

Into. Tech. devt. Levy	0	0	0	0	0
Current Taxation	(870)	(1,273)	(1,629)	(2,835)	(3,052)
Deferred taxation Expense	(130)	(195)	(241)	(558)	(2,322)
Profit after taxation	2,510	4,037	5,771	12,821	5,172
Extraordinary items	0	0	0	0	0
Minority Interest	0	(17)	(32)	(72)	(28)
Amortization of goodwill	0	0	0	0	0
Profit attrib. to Shareholders	2,510	4,020	5,739	12,749	5,144
Dividend Proposed	0	0	4,182	7,396	1,303
Other Information	2005	2006	2007	2008	2009
Outstanding Shares (million)	6,075	7,604	9,400	13,159	14,475
Of Employees	1,054	1,759	2,521	2,889	3,414
Of Branches	53	94	106	167	203

Diamond Banks Ratios and Analysis

Ratios & Analysis Performance Ratios (Margin)	2005	2006	2007	2008	2009
Commissions/Gross Earnings	35.35%	34.29%	35.63%	40.57%	27.74%
Interest Margin	64.66%	65.71%	64.37%	59.43%	72.36%
Net Interest Margin	44.50%	45.31%	41.63%	38.84%	38.99%
Operating Expenses/Gross Earnings	52.48%	54.48%	54.38%	44.44%	38.39%
PAT/Gross Earnings	15.74%	17.86%	14.53%	21.33%	4.80%
Cost to income Ratio	0.66	0.68	0.68	0.56	0.58
Pretax Profit Margin	22.03%	24.35%	19.25%	26.97%	5.48%
ROCE	12.76%	12.48%	12.51%	11.94%	4.27%
ROAE	18.29%	14.41%	13.05%	15.04%	4.46%
ROAA	2.46%	2.25%	2.10%	2.71%	0.79%
EPS	0.41	0.53	0.61	0.97	0.36
DPS	0.00	0.00	0.44	0.56	0.09
Operating Income per employee	12,083.31	10,229.17	12,167,87	16,522.26	21,052.79
Operating Expenses employee	(7,942.63)	(7,001.38)	(8,250.00)	(9,245.76)	(12,111.65)
Profit per branch	66,307.91	58,567.30	72,083.79	97,088.57	29,073.65

Asset Quality Ratios	2005	2006	2007	2008	2009
In Income/Earning Assets	10.19%	9.16%	12.89%	7,45%	14.80%
Effective Return on Earnings Assets	9.35%	9.06%	11.77%	6.45%	10.12%
Explicit cost of Debt	3,699%	2.88%	3.73%	2,77%	7.18%
Cost of bad and doubt loans	1.91%	0.21%	2.07%	1.92%	7.87%
% of classified loans	5.93%	5.52%	8.29%	4.63%	8.75%
loan loss provision/classified loans	65.49%	77.75%	84.23%	88.72%	110.19%
Liquidity Ratios	2005	2006	2007	2008	2009
Operating Income per employee	12,083.31	10.229.17	12.167.87	16,522.26	21,052.79
Operating Expenses per employee	(7,942.63)	(7,001.38)	(8,250.00)	(9,245.76)	(12,111.65)
Profit per branch	66,307.91	58,567.30	72,083.57	97,088.57	29,073.65
Asset Quality Ratios	2005	2006	2007	2008	2009
Interest Income/Earning Assets	10.19%	9.16%	12.89%	7.45%	14.80%
Effective Return on Earnings Assets	9.35%	9.06%	11.77%	6.45%	10.12%
Explicit cost of Debt	3.69%	2.88%	3.73%	2.77%	7.18%
Cost of bad and doubt loans	1.91%	0.21%	2.07%	1.92%	7.87%
% of classified loans	5.93%	5.52%	8.29%	4.63%	8.75%
Loan loss provision/classified loans	65.49%	77.75%	84.23%	88.72%	110.19%
Liquidity Ratios					
Liquidity Ratio	64.24%	56.29%	59.72%	56.19%	39.50%
Capital Adequacy Ratios					
Equity/Loans & Advances	0.47	0.42	0.49	0.47	0.37
Debt/Equity Ratio	5.30	5.47	5.03	4.34	4.96
Equity/Total Assets	0.16	0.15	0.17	0.19	0.17

Source: Company's Annual Reports, BGL Research

APPENDIX 5

First Bank's Financial Summary

Financial Year End Balance Sheet Assets	March 2005 N'm	March 2006 N'm	March 2007 N'm	March 2008 N'm	March 2009 N'm
Cash & Short-term funds	32,856	50,992	61,844	88,351	140,403
Due from banks in Nigeria	40,234	39,658	56,405	304,237	452,104
Due from banks outside Nigeria	89,047	129,922	208,000	256,642	311,944
Bills Discounted	105,624	108,316	159,832	115,480	17,697
Short Term Investments	0	0	75,847	100,665	153,894
Managed Funds	0	0	22,070	56,021	36,894
Long Term Investments – FGN Bonds	11,331	49,096	46,487	22,066	8,200
Long Term Investments – Others	10,320	11,779	10,506	32,076	39,480
Investment/Trading Properties	0	0	186	1,974	6,098
Loans & Advances – Gross	161,684	191,672	225,084	475,701	763,777
Non-Performing Loan	39,574	17,345	6,719	7,128	36,487
Loans & Advances – Net	123,739	177,303	217,995	466,096	740,397
Advances under finance lease	1,283	1,701	3,043	10,297	11,769
Other Facilities	0	0	0	0	0
Other Assets	43,716	31,851	31,664	44,275	51,888
Deferred Tax Assets	0	0	0	0	0
Fixed Assets	12,689	14,222	17,548	30,054	39,693
Good will	0	0	0	0	0
Total Assets	470,839	614,840	911,427	1,528,234	2,009,914

Liabilities					
Deposit and Current Account	331,806	448,915	599,689	700,182	1,194,456
Due to other banks	390	323	85,664	155,109	170,410
Other Facilities	0	0	0	0	0
Managed Funds	0	0	22,070	62,514	93,296
Tax Payable	4,758	5,142	7,470	8,986	10,173
Deferred Taxation	2,089	2,746	2,657	6,743	13,634

Other Liabilities	75,666	90,183	88,149	213,432	154,958
Dividend Payable	6,325	5,238	0	0	0
Borrowings	0	0	0	0	0
Total Liabilities	**421,034**	**552,547**	**827,800**	**1,176,380**	**1,672,509**

LIQUIDITY RATIO

Capital & Reserves

Share Capital	1,976	2,619	5,238	9,945	12,432
Share Premium	10,076	12,644	15,858	254,524	254,524
Statutory Reserve	8,950	11,358	13,465	18,056	32,424
Exchange Difference reserve	3,957	3,343	4,066	3,459	733
General Reserve	15,358	20,364	33,832	51,565	30,648
Bonus Issue Reserve	494	2,619	873	2,487	2,072
Reserve for SMEIS	5,536	6,967	7,916	9,439	11,193
Revaluation Reserve	2,379	2,379	2,379	2,379	2,379
Capital Reserve	0	0	0	0	0
Investment Properties Reserve	0	0	0	0	0
Minority Interests	1,079	0	0	0	
Shareholders' Fund	49,805	62,293	83,627	351,854	337,405
Total Liabilities and Equity	**470,839**	**614,840**	**911,427**	**1,528,234**	**2,009,914**

Profit & Loss	2005 N'm	2006 N'm	2007 N'm	2008 N'm	2009 N'm
Gross Earnings	57,255	67,440	91,163	155,725	218,287
Interest Earnings	36,455	40,743	62,579	100,703	156,932
Interest Expense	(8,555)	(10,040)	(18,357)	(31,569)	(54,908)
Net Interest Income	27,900	30,703	44,222	69,134	102,024
Commission and other income	20,800	26,697	28,584	55,022	61,355
Operating Income	48,700	57,400	72,806	124,156	163,379
Staff Cost	(12,757)	(15,348)	(19,908)	(33,431)	(45,819)
Depreciation	(2,385)	(3,217)	(3,570)	(4,671)	(6,203)
Other Operating Expenses	(14,319)	(16,720)	(21,453)	(29,902)	(36,375)
Provision for doubtful accounts	(2,431)	(3,985)	(2,021)	(6,028)	(19,439)
Operating Profit	16,808	18,130	25,854	50,124	55,543
Exceptional Items	0	3,703	0	0	(26,113)

Interest on borrowings	0	0	0	(2,218)	(1,744)
Profit before taxation	16,808	21,833	25,854	47,906	27,686
Info. Tech. Devt. Levy	0	0	0	(480)	(526)
Current Taxation	(3,110)	(3,720)	(5,306)	(6,705)	(7,690)
Deferred taxation Expense	(464)	(730)	90	(4,042)	(6,901)
Profit after taxation	13,234	17,383	20,636	36,679	12,569

Extraordinary Items					
Minority Interest	(184)	0	0	0	0
Amortization of Goodwill	0	0	(1,984)	0	0
Profit attrib. to shareholders	13,234	17,383	18,652	36,679	12,569
Dividend Proposed	6,325	5,238	10,477	23,868	33,564

Other Information					
Outstanding Shares (million)	3,952	5,238	10,476	19,890	24,864
No. of Employees	6,988	7,132	7,593	8,856	8,557
No. of Branches	370	394	414	469	536

First Bank's Ratios and Analysis

Performance Ratios (Margin)	2005 N'm	2006 N'm	2007 N'm	2008 N'm	2009 N'm
Commissions/Gross Earnings	36.33%	39.59%	31.35%	35,33%	28,11%
Interest Margin	63.67%	60.41%	68.65%	64.67%	71.89%
Net Interest Margin	48.73%	45.53%	48.51%	44.39%	46.74%
Operating Expenses/Gross Earnings	51.46%	52.32%	49.29%	43.67%	40.50%
PAT/Gross Earnings	23.11%	25.78%	22.64%	23.55%	5.76%
Cost to Income Ratio	0.60	0.61	0.62	0.55	0.54
Pretax Profit Ratio	29.36%	32.37%	28.36%	30.76%	12.68%
ROCE	33.75%	29.10%	24.45%	13.15%	12.91%
ROAE	28.73%	31.01%	28.28%	16.85%	3.65%
ROAA	3.10%	3.20%	2.70%	3.01%	0.71%
EPS	3.35	3.32	1.97	1.84	0.51
DPS	1.60	1.00	1.00	1.20	1.35
Operating Income per employee	6,969,09	8,048.23	9,588.57	14,019.42	19,093.02

Operating Expenses employee	(4,215.94)	(4,947.42)	(5,917.42)	(7,678.86)	(10,330.37)
Profit per branch	45,427,03	46,015.23	62,449.28	106,874.20	103,625.00

Asset Quality Ratios	2005	2006	2007	2008	2009
Interest Income/Earning Assets	8.91%	7.83%	8.08%	7.84%	9.13%
Effective Return on Earnings Assets	8.31%	7.06%	7.82%	7.37%	8.00%
Explicit cost of Debt	2.58%	2.23%	2.59%	3.82%	4.05%
Cost of bad and doubt loans	1.50%	2.08%	0.90%	1.27%	2.55%
% of classified loans	24.48%	9.05%	2.99%	1.50%	4.78%
Loan loss provision/classified loans	95.88%	82.84%	105.51%	134.75%	64.08%

Liquidity Ratios	2005	2006	2007	2008	2009
Liquidity Ratio	57,21%	55.22%	58.42%	73.75%	56.54%
Capital Adequacy Ratios	2005	2006	2007	2008	2009
Equity/Loans & Advances	0.31	0.32	0.37	0.74	0.44
Debt/Equity Ratio	0.45	8.87	9.90	3.34	4.96
Equity/Total Assets	0.11	0.10	0.09	0.23	0.17

Source: Company's Annual Reports, BGL Research

APPENDIX 6
UBA's Financial Summary

Financial Year End Balance Sheet Assets	2005 N'm	2006 N'm	2007 N'm	2008 N'm	2009 N'm
Cash & Short-term funds	10,696	12,411	58,466	129,897	200,820
Due from banks in Nigeria	9,465	8,784	80,161	139,986	277,372
Due from banks outside Nigeria	70,048	89,322	332,867	309,836	296,923
Bills Discounted	0	0	0	0	0
Short Term Investments	40,497	59,832	207,341	157,519	256,368
Managed Funds	0	0	0	0	0
Long Term Investments – FGN Bonds	0	0	0	0	0
Long Term Investments – Others	3,460	2,193	26,597	38,725	46,021
Investment/Trading Properties	0	0	0	0	0

Loans & Advances – Gross	58,855	70,086	119,743	335,391	461,695
Non-Performing Loan	2,286	2,420	15,095	14,664	16,199
Loans & Advances – Net	56,136	67,610	109,896	320,406	447,618
Advances Under finance lease	0	0	0	0	0
Other Facilities	0	0	0	0	0
Other Assets	15,343	4,091	35,618	44,926	86,294
Deferred Tax Assets	0	0	0	0	0
Fixed Assets	6,379	6,176	33,191	49,747	61,57
Goodwill					
Total Assets	212,024	250,419	884,137	1,191,042	1,672,991

Liabilities					
Deposit and Current Account	151,929	205,110	776,135	905,806	1,333,289
Due to other banks	0	0	0	0	0
Other Facilities	0	0	0	0	0
Managed Funds	0	0	0	66,013	40,558
Tax Payable	2,373	2,535	1,212	5,149	5,606
Deferred Taxation	1,104	1,073	4,871	994	993
Other Liabilities	37,158	24,404	58,775	43,825	97,641
Dividend Payable	42	42	42	42	42
Borrowings	3,385	1,676	1,135	1,135	0
Total Liabilities	195,991	224,840	842,170	1,002,964	1,478,129

Capital & Reserves

Share Capital	1,275	1,530	3,530	5,748	8,622
Share Premium	0	0	18,367	119,066	114,788
Statutory Reserve	3,013	3,710	5,430	7,223	19,224
Exchange difference reserve	7,055	3,880	3,058	1,997	1,997
General Reserve	2,987	4,387	(505)	19,292	31,861
Bonus Issue Reserve	255	0	706	0	2,156
Reserve for SMEIS	1,426	2,050	3,197	2,635	2,635
Revaluation Reserve	0	0	7,862	11,231	11,231
Capital Reserve	22	22	22	527	527
Investment Properties Reserve	0	0	0	0	0

Minority Interests	0	0	300	359	1,821
Shareholder's Fund	16,033	15,579	41,967	168,078	194,862
Total Liabilities and Equity	212,024	250,419	884,137	1,191,042	1,672,991

Profit & Loss	2005 N'm	2006 N'm	2007 N',	2008 N'm	2009 N'm
Gross Earnings	24,510	26,089	90,447	109,457	169,581
Interest Earning	15,155	14,456	57,693	73,724	116,704
Interest Expense	(3,107)	(3,490)	(26,954)	(28,649)	(41,354)
Net Interest Income	12,048	10,966	30,739	45,075	75,350
Commission and other Income	9,355	11,633	32,754	35,733	52,877
Operating Income	21,403	22,599	63,493	80,808	128,227
Staff Cost	(5,977)	(6,667)	(17,436)	(14,930)	(25,400)
Depredation	(1,360)	(1,412)	(3,868)	(4,928)	(6,123)
Other Operating Expenses	(7,295)	(8,324)	(23,443)	(26,996)	(37,273)
Provision for doubtful accounts	(761)	(40)	(5,571)	(3,702)	(2,616)
Operating Profit	6,010	6,156	13,175	31,152	56,815
Exceptional Items	(3,500)	0	(1,629)	(5,788)	(8,786)
Interest on borrowings					
Profit before taxation	2,510	6,156	11,546	25,364	48,029
Info. Tech. devt. Levy	0	0	0	0	(559)
Current Taxation	(1,265)	(1,632)	(829)	(4,431)	(6,646)
Deferred taxation Expense	(220)	(33	(432)	508	1
Profit after taxations	1,025	4,557	10,285	21,441	40,825

Exceptional Items					
Minority Interest	0	0	0	99	414
Amortization of goodwill	0	0	(908)	0	0
Profit attrib. to shareholders	1,025	4,557	9,377	21,540	41,239
Dividend Proposed	1,530	1,836	7,060	13,794	15,808

Other Information	2005	2006	2007	2008	2009
Outstanding Shares (million)	2,550	3,060	7,060	11,496	17,244
No. of Employees	3,590	3,787	4,659	5,076	6,681

No. of Branches	250	380	450	N/A	668

UBA's Ratios Analysis

Ratios & Analysis Performance Ratios (Margin)	2005	2006	2007	2008	2009
Commissions/Gross Earnings	38,17%	44.59%	36.21%	32.65%	31.18%
Interest Margin	61.83%	55.41%	63.79%	67.35%	68.82%
Net Interest Margin	49.16%	42.03%	33.99%	41.18%	44.43%
Operating Expenses/Gross Earnings	59.70%	62.87%	49.47%	41.98%	40.57%
PAT/Gross Earnings	4.18%	17.47%	11.37%	19.59%	24.07%
Cost to income Ratio	0.68	0.73	0.70	0.57	0.54
Pretax Profit Margin	10.24%	23.60%	12.77%	21.17%	28.32%
ROCE	30.95%	35.68%	30.57%	18.41%	29.16%
ROAE	6.63%	28.83%	35.75%	29,42%	22.50%
ROAA	0.49%	1.97%	1.81%	2.07%	2.85%
EPS	0.40	1.49	1.46	1.87	2.37
DPS	0.60	0.60	1.00	1.20	0.92
Operating Income per employee	5,961.84	5,967.52	13,628.03	15,919.62	19,192.79
Operating Expenses employee	(4,075.77)	(4,331.40)	(9,604.42)	(9,053.19)	(10,297.26)
Profit per branch	24,040.00	16,200.00	29,277.78	N/A	85,052.40

Asset Quality Ratios	2005	2006	2007	2008	2009
In Income/Earning Assets	8.47%	6.34%	7.80%	7.82%	9.03%
Effective Return on Earnings Assets	8.05%	6.32%	7.04%	7.43%	8.83%
Explicit cost of Debt	2.00%	1.69%	3.47%	3.16%	3.10%
Cost of bad and doubt loans	1.29%	0.06%	4.65%	1.10%	0.57%
% of classified loans	3.88%	3.45%	12.61%	4.37%	3.51%
Loan loss provision/classified loans	118.94%	102.31%	65.23%	102.19%	86,90%
Liquidity Ratios	2004	2005	2006	2007	2009

Liquidity Ratio	39.93%	39.50%	44.58%	47.18%	55.09%
Capital Adequacy Ratios	2004	2005	2006	2007	2009
Equity/Loans & Advances	0.27	0.22	0.35	0.50	0.42
Debt/Equity Ratio	12.22	15.07	20.07	6.09	7.59
Equity/Total Assets	0.08	0.06	0.05	0.14	0.12

Source: Company's Annual Reports, BGL Research

APPENDIX 7
Zenith Bank's Financial Summary

Financial Year End Balance Sheet Assets	June 2003 N'm	June 2004 N'm	June 2005 N'm	June 2006 N'm	June 2007 N'm	Septembe r 2008 N'm
Cash & Short-term funds	24,576	33,760	42,203	83,447	111,055	239,562
Due from banks in Nigeria	232	0	0	2,561	4,279	165,034
Due from banks outside Nigeria	27,219	36,865	45,975	69,489	123,485	147,590
Bills Discounted	0	0	0	0	0	0
Short Term Investments	25,114	51,266	92,230	209,669	336,138	624,117
Managed Funds	0	0	0	0	0	0
Long Term Investments – FGN Bonds	0	3,000	3,000	7,000	35,152	44,119
Long Term Investments – Others	721	1,427	3,139	4,155	6,477	19,664
Investment/Trading Properties	0	0	0	0	0	0
Loans & Advances – Gross	27,895	54,420	125,531	204,590	294,205	459,566
Non-Performing Loan	409	565	2,085	2,309	40,224	9,563
Loans & Advances – Net	27,290	53,391	122,494	200,238	288,112	445,837
Advances Under finance lease	475	848	841	1,716	2,445	4,678
Other Facilities	0	0	0	2,263	4,702	5,801
Other Assets	1,311	3,294	4,756	14,569	24,177	40,326
Deferred Tax Assets	0	0	0	0	0	160
Fixed Assets	5,597	9,469	15,079	24,234	36,799	50,943
Goodwill	0	0	0	0	0	0
Total Assets	112,535	193,321	329,717	619,341	972,822	1,787,832

Liabilities						

Deposit and Current Account	61,574	131,095	233,413	393,309	701,977	1,185,893
Due to other banks	0	0	0	0	0	0
Other Facilities	0	0	0	2,263	4,749	5,860
Managed Funds	0	0	0	0	0	0
Tax Payable	1,079	1,140	1,858	4,010	6,452	5,690
Deferred Taxation	348	267	450	452	1,234	1,960
Other Liabilities	35,729	42,753	51,813	105,715	120,149	207,242
Dividend Payable	0	0	0	0	0	0
Borrowings	0	0	0	12,750	21,948	34,570
Total Liabilities	**98,730**	**175,255**	**287,534**	**518,499**	**856,509**	**1,441,214**

Capital & Reserves

Share Capital	1,549	1,549	3,000	4,587	4,633	8,372
Share Premium	0	0	18,224	67,760	69,237	255,047
Statutory Reserve	3,690	4,492	5,561	7,314	9,893	16,878
Exchange difference reserve	0	0	0	136	400	(815)
General Reserve	7,447	9,857	13,032	17,450	25,351	60,553
Bonus Issue Reserve	0	516	0	0	1,158	0
Reserve for SMEIS	1,118	1,653	2,365	3,534	3,534	3,729
Revaluation Reserve	0	0	0	0	79	322
Capital Reserve	0	0	0	44	160	261
Investment Properties Reserve	0	0	0	0	0	0
Minority Interests	0	0	0	19	1,869	2,269
Shareholder’s Fund	13,804	18,067	42,182	100,843	116,313	346,619
Total Liabilities and Equity	**112,535**	**193,321**	**329,717**	**619,341**	**972,822**	**1,787,832**

Profit & Loss	2003 N’m	2004 N’m	2005 N’m	2006 N’m	2007 N’m	2008 N’m
Gross Earnings	17,844	23,931	34,913	60,002	94,880	208,294
Interest Earning	11,996	15,708	22,885	37,686	63,625	142,390
Interest Expense	(2,289)	(3,332)	(5,620)	(10,377)	(19,039)	(53,598)
Net Interest Income	9,707	12,376	17,265	27,309	44,586	88,792
Commission and other Income	5,848	8,223	12,028	22,316	31,255	65,904
Operating Income	15,555	20,599	29,293	49,625	75,841	154,696

Staff Cost	(2,982)	(4,285)	(5,861)	(9,614)	(14,651)	(33,942)
Depredation	(1,162)	(1,746)	(2,278)	(3,280)	(4,794)	(9,026)
Other Operating Expenses	(5,905)	(7,766)	(10,015)	(19,831)	(28,889)	(49,282)
Provision for doubtful accounts	(65)	(397)	(1,975)	(1,310)	(1,832)	(6,327)
Operating Profit	5,440	6,405	9,165	15,590	25,676	56,119

Exceptional Items						
Interest on borrowings	0	0	0	0	0	0
Profit before taxation	5,440	6,405	9,165	15,590	25,676	56,119
Info. Tech. devt. Levy	0	0	0	0	(242)	(547)
Current Taxation	(1,079)	(1,140)	(1,858)	(3,770)	(6,196)	(2,911)
Deferred taxation Expense	15	81	(183)	(2)	(782)	(669)
Profit after taxations	4,377	5,346	7,124	11,818	18,457	51,992

Exceptional Items						
Minority Interest	0	0	0	1	(103)	(384)
Amortization of goodwill	0	0	0	0	0	0
Profit attrib. to shareholders	4,377	5,346	7,124	11,819	18,354	51,609
Dividend Proposed	1,084	2,168	4,200	6,600	9,266	28,446
Other Information	2003	2004	2005	2006	2007	2008
Outstanding Shares (million)	3,097,110	3,097,110	6,000,000	9,173,488	9,265,524	16,744,796
No. of Employees	1,594	2,190	2,627	5,399	5,435	7,628

Zenith Ratios Analysis

Ratios & Analysis Performance Ratios (Margin)	2003	2004	2005	2006	2007	2008
Commissions/Gross Earnings	32.77%	34.36%	34.45%	37.19%	32.94%	31.64%
Interest Margin	67.23%	65.64%	65.55%	62/81%	67.06%	68.36%
Net Interest Margin	54.40%	51.72%	49.45%	45.51%	46.99%	42.63%
Operating Expenses/Gross Earnings	56.40%	57.65%	52.00%	54.54%	50.94%	44.29%
PAT/Gross Earnings	24.53%	22.34%	20.40%	19.70%	19.45%	24.96%
Cost to income Ratio	0.65	0.67	0.62	0.66	0.64	0.60
Pretax Profit Margin	30.49%	26.76%	26.25%	25.98%	27.06%	26.94%

ROCE	39.41%	34.45%	21.73%	13.72%	18.57%	14.72%
ROAE	37.88%	33.55%	23.65%	16.53%	17.00%	22.46%
ROAA	4.27%	3.50%	2.72%	2.49%	2.32%	3.77%
EPS	1.41	1.73	1.19	1.29	1.99	1.70
DPS	0.35	0.70	0.70	0.72	1.00	1.70
Operating Income per employee	9,758.44	9,406.09	11,150.85	9,191.56	13,954.25	20,279.98
Operating Expenses employee	(6,304.31)	(6,300.14)	(6,910.37)	(6,061.43)	(8,892.87)	(12,093.62)

Asset Quality Ratios	2003	2004	2005	2006	2007	2008
In Income/Earning Assets	14.82%	10.73%	8.55%	7.58%	7.95%	9.81%
Effective Return on Earnings Assets	14,74%	10.46%	7.81%	7.31%	7.72%	9.38%
Explicit cost of Debt	3.72%	2.54%	2.41%	2.54%	2.61%	4.37%
Cost of bad and doubt loans	0.23%	0.73%	1.57%	0.64%	0.62%	1.38%
% of classified loans	1.47%	1.04%	1.66%	1.13%	1.37%	2.08%
Loan loss provision/classified loans	147.84%	181.93%	145.66%	188.45%	151.48%	143.55%

Liquidity Ratios	2003	2004	2005	2006	2007	2008
Liquidity Ratio	81.08%	67.15%	58.88%	76.96%	69.32%	90.47%

Capital Adequacy Ratios	2003	2004	2005	2006	2007	2008
Equity/Loans & Advances	0.49	0.33	0.34	0.49	0.40	0.75
Debt/Equity Ratio	7.15	9.70	6.82	5.14	7.36	4.16
Equity/Total Assets	0.12	0.09	0.13	0.16	0.12	0.19

Source: Company’s Annual Reports, BGL Research

APPENDIX 8

Ecobank's Financial Summary

Financial Year-end

Balance Sheet Assets	2004 N'm	2005 N'm	2006 N'm	2007 N'm	2008 N'm
Cash & Short-term funds	3,070	19,082	5,649	12,927	18,768
Due from banks in Nigeria	6,104	8,593	21,486	71,651	126,072
Due from banks outside Nigeria	5,032	5,691	17,275	12,491	36,395
Bills Discounted	0	0	0	0	0
Short Term Investments	6,240	9,712	8,764	47,394	31,247
Managed Funds	0	0	0	0	0
Long Term Investments – FGN Bonds	500	500	3,055	14,928	16,003
Long Term Investments – Others	149	459	10,816	9,333	6,152
Investment/Trading Properties	0	0	0	0	0
Loans & Advances – Gross	13,075	22,367	54,682	121,023	165,977
Non-Performing Loan	2,076	3,108	1,689	11,308	69,406
Loans & Advances – Net	11,063	19,131	52,297	116,181	144,918
Advances Under finance lease	0	0	2,108	7,404	8,902
Other Facilities	0	0	0	0	0
Other Assets	2,635	981	4,272	4,835	35,192
Deferred Tax Assets	0	0	0	0	0
Fixed Assets	2,849	3,504	6,370	14,253	18,819
Goodwill	0	0	0		
Total Assets	37,642	67,653	132,092	311,396	432,466

Liabilities					
Deposit and Current Account	28,643	32,452	84,041	222,885	310,714
Due to other banks	0	0	0	8,600	21,234
Other Facilities	0	0	0	0	0
Managed Funds	0	0	0	0	0
Tax Payable	263	478	1,440	1,885	752
Deferred Taxation	345	484	431	1,188	283
Other Liabilities	3,978	7,502	16,859	42,016	44,458

Dividend Payable	0	974	0	0	0
Borrowings	0	0	0	0	3,269
Total Liabilities	33,229	41,800	102,770	276,574	400,710

Capital & Reserves

Share Capital	1,740	5,414	10,827	10,827	3,609
Share Premium	0	11,917	11,917	11,917	11,917
Statutory Reserve	1,693	2,194	3,261	5,496	6,135
Exchange difference reserve	0	0	0	0	0
General Reserve	150	177	2,167	5,433	1,727
Bonus Issue Reserve	348	5,414	0	0	0
Reserve for SMEIS	481	648	1,149	1,149	1,149
Revaluation Reserve	0	0	0	0	0
Capital Reserve	0	0	0	0	7,218
Investment Properties Reserve	0	0	0	0	0
Minority Interests	0	0	0	0	0
Shareholder's Fund Total Liabilities and Equity	4,413 37,642	25,763 67,653	29,822 132,092	34,822 311,396	31,756 432,466

Profit & Loss	2004 N'm	2005 N'm	2006 N'm	2007 N'm	2008 N'm
Gross Earnings	6,700	9,303	17,258	32,710	55,156
Interest Earning	4,585	5,179	11,092	18,979	33,811
Interest Expense	(2,203)	(1,990)	(2,899)	(5,721)	(15,419)
Net Interest Income	2,383	3,189	8,193	13,258	18,392
Commission and other Income	2,119	4,124	6,166	13,731	19,209
Operating Income	4,502	7,313	14,359	26,989	37,601
Staff Cost	(1,198)	(1,959)	(4,292)	(8,497)	(13,907)
Depredation	(418)	(671)	(751)	(1,100)	(3,320)
Other Operating Expenses	(1,568)	(1,828)	(4,106)	(5,872)	(9,875)
Provision for doubtful accounts	0	(590)	(198)	(1,423)	(12,497)
Operating Profit	1,317	2,265	5,012	10,096	(898)

Exceptional Items					
Interest on borrowings	0	0	0	0	0

Profit before taxation	1,317	2,265	5,012	10,096	(898)
Info. Tech. devt. Levy	0	0	0	0	0
Current Taxation	(245)	(457)	(1,507)	(1,889)	(12)
Deferred taxation Expense	(178)	(139)	54	(758)	905
Profit after taxations	894	1,668	3,559	7,450	(5)
Exceptional Items	0	0	0	0	0
Minority Interest	0	0	0	0	2,135
Amortization of goodwill	0	0	0	0	0
Profit attrib. to shareholders	894	1,668	3,559	7,450	2,130
Dividend Proposed	0	974	1,949	5,197	0

Other Information	2004	2005	2006	2007	2008
Outstanding Shares (million)	3,481	10,827	21,654	21,654	7,218
No. of Employees	626	680	2,070	2,449	2,865
No. of Balance	32	53	131	200	240

Ecobank's Ratios and Analysis

Ratios & Analysis Performance Ratios (Margin)	2004	2005	2006	2007	2008
Commissions/Gross Earnings	31.63%	44.33%	35.73%	41.98%	34.83%
Interest Margin	68.44%	55.67%	64.27%	58.02%	61.30%
Net Interest Margin	35.54%	47.92%	53.01%	47.29%	47.14%
Operating Expenses/Gross Earnings	47.54%	47.92%	53.01%	47.29%	47.14%
PAT/Gross Earnings	13.35%	17.93%	20.62%	22.78%	-0.01
Cost to income Ratio	0.71	0.61	0.64	0.57	0.69
Pretax Profit Margin	19.66%	24.35%	29.04%	30.87%	-1.63%
ROCE	29.84%	8.79%	17.09%	29.99%	-2.56%
ROAE	24.31%	11.62%	22.06%	39.45%	12.28%
ROAA	2.75%	3.17%	3.56%	3.36%	0.00%
EPS	0.26	0.15	0.15	0.34	0.30
DPS	0.00	0.09	0.09	0.24	0.00
Operating Income per employee	7,191.81	10,753.87	6,936.61	11,020.23	13,124.28
Operating Expenses employee	(5,087.81)	(6,555.90)	(4,419.99)	(6,316.58)	(9,075.77)
Profit per branch	41,159.50	42,733.13	38,257.70	50,481.50	(3,740.18)

Asset Quality Ratios	2004	2005	2006	2007	2008
In Income/Earning Assets	14.81%	11.05%	10.33%	6.90%	9.03%
Effective Return on Earnings Assets	14.81%	9.79%	10.15%	6.39%	5.69%
Explicit cost of Debt	7.69%	6.13%	3.45%	2.47%	4.60%
Cost of bad and doubt loans	0.00%	2.64%	0.36%	1.18%	7.53%
% of classified loans	18.76%	16.25%	3.23%	9.73%	47.89%
Loan loss provision/classified loans	96.93%	104.11%	141.17%	42.82%	30.34%

Liquidity Ratios	2004	2005	2006	2007	2008
Liquidity Ratio	55.56%	116.75%	46.35%	63.46%	54.85%

Capital Adequacy Ratios	2004	2005	2006	2007	2008
Equity/Loans & Advances	0.34	1.15	0.54	0.29	0.19
Debt/Equity Ratio	7.53	1.63	3.50	7.94	12.62
Equity/Total Assets	0.12	0.38	0.22	0.11	0.07

Source: Company's Annual Reports, BGL Research