ASSESSMENT ON THE EXPLORING THE USEFULNESS OF

INTERNAL CONTROL SYSTEM ON DETECTION AND

PREVENTION OF FRAUD

A CASE STUDY OF NATIONAL MICRO FINANCE

BANK HEADQUARTER DAR ES SALAAM

BY

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A RESEARCH PROPOSAL SUBMITTED TO THE COLLEGE OF BUSINESS

DMINISTRATION IN PARTIAL FULFILLMENT OF THE

REQUIREMENT FOR THE AWARD OF A BACHELOR

DEGREE OF BUSINESS ADMINISTRATION IN

Finance and ACCOUNTING OF THE

UNITED AFRICAN UNIVERSITY

OF TANZANIA

FEBRUARY, 2017.

# DECLARATION

I Jackline Ismaely Shirima, declare that this research proposal is my own work and it has not been submitted to any other University or higher learning institution.

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External Examiner

…………………………………………

Signature……………………………….Date…………………………………

# DEDICATION

This proposal is dedicated to my parents who supported and encouraged me during my student hood.

# COPYRIGHT

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LIST OF ABBREVIATIONS

BBA - Bachelor of Business Administration

UAUT - The United African University of Tanzania

NMB - National Microfinance Bank

HQ - Head Quarter

TSH - Tanzanian Shillings

# ACKNOWLEDGEMENT

The completion of this study will not be a one main job, rather, a number of people (if trust be told) assisted me in marking it a success. Therefore I wish to express my inner most gratitude to all those who made my mission a success in one way or another. Although it is impossible to thank all of them individually, a few deserve mention.

I would like to thank the almighty God my creator who for this will has given me a chance to pursue undergraduate studies at the united African university of Tanzania. Also my special word to thanks should go to my lovely father and Mother, Mr. and Mrs. Ismaely Sadick Shirima for their encouragement, Material support and prayers that enabled this study to see success.

My thanks are extended to The United African university of Tanzania for granting me this out of the ordinary chance, first to join and study at the University and secondly more importantly to include field attachment programmed as part of my degree programmed.

My earnest to appreciations are additionally extended to my field supervisor Mr. Ashery A. Majanja for his understanding ,encouraging productive advise, and guidance that contributed a lot in shaping and accomplishing this work .

I cannot forget my best friend Hussein who supported me on this research proposal editing. I really thank him very much.

Lastly I would equally like to extend my heartfelt thanks to my Brothers Emmanuel and Bryson shirima and Evance Tesha , My Sister and my young sisters Veilar, Doreen, Upendo and Witness Shirima as well as my friends Elizabeth Clavery, Jovith Lekule and George Alando for their prayers and encouragement that greatly inspired me to undertake this study. With out to forget my fellow student Frank J.komba, Gideon Kissamo, Neema Zachariah and others. To them and many unmentioned with all my heart I am grateful for your contribution.

**ABSTRACT**

The usefulness of internal control system on detection and prevention of fraud is important to in order to ensure that accounting system provide an efficient means of recording and reporting financial transaction as well as providing management information and protecting the company’s asset from fraud misappropriation .With today’s the usefulness of internal control should be increasingly significant for institutions to know how they will use internal control system in order to detect and prevent of fraud .

This research proposal will examined the usefulness of internal control system of detection and prevention of fraud using a case study of National Microfinance Bank

The study will be designed a case study for accessing detailed information on the study topic: Sources of information will be in document, observation, and interview sessions with the staff of NMB.

The first chapter will describe the historical background of the study, Statement of the problem, Research objective, Research questions, Significant of the study, scope of the study, and definitions of key terms.

Literature review, which will be contained empirical review, Theoretical review, and conceptual review.

Research methodology which will describe the method will be used in this study, research design, data collection instrument, population of the study, sample size of the study, budget will be used in the study.

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# CHAPTER ONE

# 1.0 INTRODUCTION AND BACKGROUND OF THE STUDY

## **1.1 Background of the study**

The incidence of fraud and misappropriation of funds in recent time poses a threat to auditing as a branch of accounting profession because of its perennial nature. This will result to questions as to whether auditing actually play any significant role towards the attainment of accountability and prevention of fraud especially that which is currently happening in our major or key financial institutions. Most of our financial institutions today fail to recognize that the phenomenon fraud can appear to be more dangerous when compared to other forms of problem like armed robbery attack which can only affect the institution within a short period of time, such may will no long term effect on their operations. However, any significant fraud committed in an institution, not only undermines or shakes up its financial stability but can severely affect the reputation of the institution thereby resulting to investor’s loss of confidence. Most times, the directors write off losses of fraud (including money laundering) under the general heading of “bad debt” rather than admitting that there will be a general failure to exercise or implement proper safeguards in the system of internal checks and control or managerial negligence in applying or perfecting the Appropriate oversight to routine business process where institutions funds and assets are at risk. In order to counter, stop and prevent the perpetration of such frauds comes internal control system

## **1.2 Statement of the problem**

The usefulness of internal control in prevention and detection of fraud will be conducted to focus on most important problems facing a corporate organization. The failure of statutory audit to prevent and reduce misappropriation of corporate and an increase in corporate crimes will put pressure on the professional accountant and legal practitioner to find a better way of exposing this evil frame in business or institution.

## **1.3 Research objectives**

### **1.3.1 General objective of the study**

1. To explore out the usefulness of internal control system on the prevention and detection of fraud in management of Nmb Bank headquarter Dar es Salaam

## **1.3.2 Specific objectives of the study**

1. To find out the employees knowledge based on the concept of fraud in Nmb bank
2. To find out the effective internal control system influence on prevention and detection of fraud
3. To find out the problem of fraud and how to overcome it

## **1.4 Research questions**

1. Are the Nmb employees have the necessary knowledge concerning the concept of fraud control?
2. Does Nmb bank have an internal control system? How effective is it?
3. How Nmb management find out the strategic way to prevent fraud in their bank?

## **1.5 Significance of the study**

The finding of the study would help the management of the banks to maintain an enhanced controlled environment by helping management and employees to establish and maintain an environment throughout the bank that set a positive and supportive altitude towards internal control, reliable management, operating personnel for affecting internal control and internal audit for evaluating whether appropriate controls will be implemented and whether the internal controls are functioning as intended .Also will help the bank in reducing fraudulent activities that occur in the organization.

## **1.6 Scope of the study**

This study will design to discuss the usefulness of internal control in preventing and detecting fraud in an organization” the research will be restricted to the Nmb banks headquarter in Dar es Salaam.

## **1.7 Definition of key terms**

### **1.7.1 Fraud**

Defined as intentional misrepresentation of financial information by one or more individuals among management, those charged with governance, employees or third parties (International Standard on Auditing (ISA) 240) (Adisai 2011

### **1.7.2 Internal Control Systems.**

Internal controls encompass a set of rules, policies, and procedures an organization implements to provide reasonable assurance that: (a) its financial reports are reliable, (b) its operations are effective and efficient, and (c) its activities comply with applicable laws and regulations

### **1.7.3 Misrepresentation**

Is the false statement of fact made by one party which affects the other party’s decision in agreeing to contract.

### **1.7.4 Internal check**

Is the aggregate of the checks and balances imposed on day to day transaction in an organization whereby the work of one person is verified independently or in complimentary to the work of another.

### **1.7.5 Internal audit**

Is an independent appraisal function established by the management of an organization for the review of Internal Control System as a service to the organization.

### **1.7.6 Internal control**

This is a whole system of control, financial or otherwise, established by the management in order to carry out the business of an enterprise in an orderly and efficient manner, ensure adherence to; management policies, safeguard the assets and secure as far as possible the completeness and accuracy of records.

### **1.7.7 Fraudsters**

These are the people who commit frauds.

### **1.7.8 Fraud**

This is a crime involving cheating somebody in order to get money or goods illegally.

### **1.7.9 Error**

This is an unintentional; mis-statement in the financial statement. It is an act done without the intention of committing the act.

### **1.7.10 Irregularities**

This is an Intentional distortion of the bases of preparing the financial statement. It is act an error since it is a deliberate act and also not a fraud since personal benefit may not be the objectives. The end product of irregularities is fraud.

## **CHAPTER TWO**

## **LITERATURE REVIEW**

## **1.1 Introduction**

Much will be said and written on the usefulness of internal control system in detection and prevention of fraud in Nmb bank. In this chapter, efforts will made to assemble expert’s opinions on the usefulness of internal control system in an organization. Also this part analyses issues that are related to theories that support the skill upgrading programs on the detection and prevention of fraud. It also focuses on the empirical analysis on what other authors have said about the problem in relation the earmarked specific objectives and the conceptual framework that show a summary of the variables under study.

## **1.2 Theoretical Review**

This section reviews the theories that strengthen this study. It also will give a critic on what will not addressed so as to provide way forward.

### **1.2.1 Meaning of Fraud**

Millichamp (2002) defines fraud as the use of deception to obtain an unjust or illegal financial advantage. The term fraud is also defined as intentional misrepresentation of financial information by one or more individuals among management, those charged with governance, employees or third parties(International Standard on Auditing (ISA) 240) (Adisai 2011).

Singleton (2006) explained that fraud has many definitions but notable ones are fraud as a crime and as a tort. Fraud as a crime, he termed it as a generic term embraces all the multifarious means which human ingenuity can devise, which are reported to by one individual to get and advantage over another by false representations. Fraud as a tort, it was explained by U.S Supreme Courtin 1887 by providing a definition of fraud in the civil sense as making representation in regard to material facts and such representation is false.

### **1.2.1 Internal Controls in Banks Development.**

Internal Controls are policies and procedures established and implemented individually or with other policies or procedures, to manage and control a particular risk or business activity, or combination of risks or business activities, to which the company is exposed or in which it is engaged (BFI, Regulations, 2005 S.4 ). Lack of effective internal control system is among the key factors of bank failure (Liberia, 2005).

According to BFI Regulation (2005), State bank of Pakistan (2004), states all banks and financial institutions shall implement an effective system of internal controls that is consistent with the nature, complexity, and risk inherent in their on- and off-balance sheet activities and that is designed to changes with the institution’s environment and circumstances. However, adequate internal controls within organizations must be supplemented by an effective internal control function that independently evaluates the systems within the organization.

## **1.3 Empirical review**

Inconsistent results will found in relation to internal controls existence and the likelihood of fraud (Beasley, 1996; McMullen, 1960; Dec how et al., 1996). However, internal control system effectiveness has been found to reduce the likelihood that companies are sanctioned for fraudulent financial reporting (Abbott et al., 2000). A positive relation will found between concentration of power in the hands of insiders and the likelihood of issuing fraudulent financial statements (Dunn, 2004).

Rae and Subramanian (2008) in his book argue that the quality of internal control procedures has a moderating effect on the relationship between perceptions of organizational justice and fraud. The authors suggest that strategies relating to fraud need to focus on organizational factors such as work environment, internal control activities, and training. The importance of internal control mechanisms in curbing fraud-bent behavior, specifically employee fraud, has been investigated. Studies relating to internal controls provide relevant, albeit limited, research concerning employee fraud (O’Leary’s et al; 2006). Employees’ perceptions on both certainty and severity of organizational sanctions were found to be related to employee theft (Hollinger and Clark, 1983). Holmes et al (2002) found that whenever top management firmly supports internal control, internal perpetrators and fraud were less likely to occur.

## **1.4 Conceptual framework;**

Figure 1, below shows independent variables which includes; component of internal control such as control environment, risk management, control activities, information and communication and monitoring .also accountability for funds, efficiency and effectiveness of internal control as dependent variables.

Intermediate variables

Dependent variables

Independent variables

Detection and prevention of fraud

-Control environment

-risk management,

- control activities,

-Information and communication and monitoring

# CHAPTER THREE

# RESEACH METHODOLOGY

## **3.1 Introduction**

#### This chapter will focus on the method that will be used in the study on the role of internal control system on detection and prevention of fraud, with the aim of achieving the research objectives.

## **3.2Research design**

The research design in this study will be cross sectional design which involves conducting a study just once in a time. In addition the study will use the case study of NMB Bank Dar Es Salaam headquarter, so as to study the problem related to internal control system.

## **3.3 Sample Sampling procedure**

## From this study the method that aim going to use is probability procedure and non-probability sampling ,this method provide equal chance on the population being included in sample .this method gives every member of the sample size equal chance of being includes in the study

## **3.4 Population of the study**

The population of the study will be 600 people included, Human Resource Managers, Marketing managers, Engineers, technician, officers of different department and other employees. The researcher included these groups into the sample because they are a key people in performing.

## **3.5 Sample size**

The sample size of the study will be 124 which are categorized into four parts which are Administration and financial department, Engineering Department, Development department, Maintenance department

|  |  |  |
| --- | --- | --- |
| Category |  | Sample size |
| Maintenance department | 100 | 20 |
| Administration and financial department | 250 | 46 |
| Engineering Department | 135 | 30 |
| Development department | 115 | 28 |
| Total | 600 | 124 |

**Table 3.1: Sample Frame/population**

## **3.5 Data collection instruments**

The data used in this study will be both primary and secondary source.

**Primary source**

Primary source is the method which will be used to collect data .primary data means original data will be collected specifically for the purpose of the research ,in mind this type of data are generally a fresh and collected for the first time its useful for current studies as well as for future studies. This data obtained through questionnaire, personal observations, and interviews.

**Secondary source**

**These are** Data gathered and recorded by someone else prior to and for a purpose other than the current project. Secondary data will be collected for another purpose in this study data will be generated from documentary review concerning the banks journal reports, textbooks, newspapers, and seminar reports done at NMB Bank Dar es Salaam headquarter.

**3.6 Data Analysis**

Both qualitative and quantitative data analysis will be used to identify the usefulness of internal control in detection and prevention of fraud, to examine the quality and quantity of the internal control toward detection and prevention of fraud but also to identify various challenges that occur during internal control process and how this challenges is mitigated.

### **3.6.1 Reliability of data**

Different questions are constructed by the researcher cutting across the information required so that to afford the reliability of data collection tools. Data which will be collected in the research will uniformly be processed to ensure consistence and stability of research results.

### **3.6.2 Validity of data**

This research study will be validity by my supervisor by reading my work and making corrections and this correction will be implemented. And hence will approve the validation of the study. Data collection tools which will be used are like structured and un structured questionnaire as well as focus group discussion concerning with the role of internal control system in detection and prevention of fraud at Nmb bank Dar es salaam headquarter.

## **3.7 Ethical consideration of the study**

This research study will consider all Human right, rules and regulation which laid down by Tanzanian Government in order to ensure safety and to avoid to breach or break the morals and cultural of our society.

**3.8 Limitation of the study**

**Financial problems**

The success of my research work depends on the finance availability and this affected the research because the finance will not sufficient to carry out the research effectively.

**Time**

This will not to do with the time frame given for the completion of the study.

**Lack of literature review**

Through this study there is lack of literature review materials from other researchers about this study.

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# APPENDIX 1: QUESTIONNAIRES

Questionnaires for all respondents

Please, answer all questions correctly as instructed. Do not write your name anywhere in this questionnaire.

Return these questionnaires to the researcher or a person who provide it.

Choose a correct answer in to the brackets

1. What is your sex?

(A) Male ( )

(B) Female ( )

2. What is your age group?

(A) 18-23 ( )

(B) 24-29 ( )

(C) 30-45 ( )

(D) 46 and above ( )

3. What is your education level?

(A) Certificate ( )

(B) Diploma ( )

(C) Degree ( )

(D) Masters and above

4. Marital status?

(A) Single ( )

(B) Married ( )

(C) Divorced ( )

(D) Widowed ( )

5. Working experience

(A) 1-9 years ( )

(B) 10-19 years ( )

(C) 20-29 years ( )

(D) 30 and above ( )

# APPENDIX 2: TIME FRAME

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Week** | **1** | **2** | **3** | **4** | **5** |
| TASK |  |  |  |  |  |
| Proposal |  |  |  |  |  |
| Data collection |  |  |  |  |  |
| Analysis of data |  |  |  |  |  |
| Presentation |  |  |  |  |  |
| Conclusion |  |  |  |  |  |

**Source: Field Data 2017**

# APPENDIX 3: BUDGET

|  |  |  |
| --- | --- | --- |
| RESEARCH BUDGET | | |
| S/no | **CATEGORY** | **COST(Tshs)** |
| 1 | Transport | 100,000 |
| 2 | Stationary | 200,000 |
| 3 | Staff training | 100,000 |
| 4 | Communication | 100,000 |
| 5 | **Total** | **500,000** |