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INTERNAL CONTROL SYSTEM AND FRAUD RISK MANAGEMENT IN BANKING INDUSTRY

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ABSTRACT

This study described the internal control system and fraud risk management of rural banks in Zamboanga del Norte. The descriptive method was used in this study with 157 respondents. Frequency count, percentage, and Pearson r Product Moment Correlation of Coefficient were used as statistical tools. Majority of the respondents were females and married. Banks had clear rules when it comes to integrity and professional ethics of its employees and board of directors demonstrate independence of management. Banks protect their assets critical to the business survival. Banks are encouraged to improve their financial reporting competencies by allowing their employees to attend seminars and trainings purposely to be updated with the latest trends of internal control and financial reporting. Further, they may also improve some areas in their control activities by having an advanced protection method and may conduct periodic evaluation of their internal control system to ensure proper control is in place.

KEYWORDS: Rural Banks; internal control system; fraud risk management;

1. INTRODUCTION

Internal control system is a broad term with a wide coverage. It covers the whole control management system to carry on the business in an efficient and effective way. Primarily to have an automatic check and balance on overall transaction of the business enterprise. The control may be financial and/or non-financial. It has become one of the basic and essential factors for efficient and effective management.

Over the years, organizations have invested heavily in improving the quality of their internal control systems, to ensure that financial, operating and compliance objectives are met. (Abiola, 2013), assert the concept of internal control as very important for proper management of an organization's risks. Poor controls lead to scandals, losses, failures and damage to an organization's reputation and that where new ventures are undertaken without means of controlling risks, then problems are likely to crop up. Effective internal controls are the bases of secure and sound banking. A properly designed and consistently enforced system of operational and financial internal control helps the bank's board of directors and management to safeguard the bank's resources, produces reliable financial reports,



and complies with laws and regulations. Internal control systems are regarded as effective when they promote efficient processes through which enterprise attains its goals, also plans authority performance and monitoring in the whole enterprise or (King, 2011).

The need for the internal control systems in the organizations, especially banks, cannot be undermined due to the fact that the banking sector plays a crucial role in the economic development of the nation and is now being characterized by macroeconomic instability, slow growth in real economic activities, corruption and the risk of frauds. Many studies have focused on finding the impact of internal control systems on performance of organizations without looking at the contribution of each components of the internal control systems. The current study looks at the internal control systems in another perspective and that is in relation to fraud risk management of banks. Banking sector being a unique sector in the economy, provides different kinds of services to the clientele and handles massive volume of funds daily. All activities in the economy depend on the strength and stability of the banking sector. That is why to experts in the field internal control failures were the reason for the most explosive accounting scandals of the world (Kratz, 2008). According to Rajkumar, (2009), an effective internal control system requires that all material risks, internal and external, controllable and uncontrollable that could affect the achievement of the bank's objectives are recognized and continually assessed.

2.0 SIGNIFICANCE

This study is deemed beneficial to the bank's management in their integral role towards maintaining the effectiveness of their internal control system hence attain the overall objectives of the organization. Regulatory bodies of the banks like the Banko Sentral ng Pilipinas (BSP) can use the result of the study to formulate regulations. The study will also contribute to the clients to ensure the security of their deposits and investments. Employees to include its internal auditors, the result will have a promising effect because this will help reduce the incidents of fraud in the level of employees and helps to enhance the skills of the employees and perform their duties respectively/correctly.

The objectives of the study are the following, to determine:

1. The level of Internal Control System of Rural Banks in Zamboanga del Norte.
2. The level of Fraud Risk Management of Rural Banks in Zamboanga del Norte.
3. The relationship of Internal Control System (Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring) and Fraud Risk Management (Fraud Prevention, Fraud Detection and Fraud Response).

3.0 REVIEW OF LITERATURE

Wanjohi (2014) conducted an assessment entitled "Assessment of fraud in the banking industry in Kenya" revealed that fraud thrived because of availability of opportunities to commit fraud including



weak control environment. Other than prevention and detection of fraud, internal control embodies the backbone of overall accounting environment in an enterprise and the definiteness of the records in operation, Wainaina (2011).

Further, Abiola and Oyewole (2013) conducted a study entitled “The effects of internal control system on fraud detection in selected Nigerian commercial banks” and showed a statistically significant positive relationship between risk assessment and fraud detection. Similarly, Akinyomi (2010) in a study on the effect of internal control systems on Nigerian banks found that there was a strong positive relationship between risk assessment and fraud management while studying fraud in Nigerian banks.

On the other hand, Palfi and Muresan (2009) examined the importance of a well-organized system of internal control in regard the Romanian banking sector and established that the control environment significantly and positively influences the performance of banks. Wilson (2006) empirically investigated the collapse of Barring bank in Singapore and found that the failure was due to weak control environment and in particular poor management supervision, lack of segregation between front and back offices insufficient action by management in response to warning signals and absence of risk assessment or compliance functions.

Further, Gesare, Michael and Odongo (2016) conducted a study on the “Influence of Internal Control Systems and Fraud Risk Management among Commercial Banks in Kisii Town, Kenya” revealed that control environment, risk assessment and information and communication found to have a significant positive relationship to fraud risk management which implies that this internal control system is a significant contributing factor to the success and failure of the fraud risk management.

In the study conducted by Leah Njeri Kabue (2009) revealed that despite the efforts made, it is possible to prevent or eliminate all frauds which is why it is important to put in place measures to detect fraud. Finding fraud can be one of the most challenging and interesting areas of fraud risk management. Detecting fraud early enough helps to minimize losses and increases the likelihood of recovery for frauds that have been identified.

Khanna and Arora (2009) from the Indian environment believes the reason for the rise in fraud profile in the banking industry is because the procedures jointly instituted by the banks and the Reserve Bank were not fully implemented. However, the paper cited the factors causing fraud such as lack of training and work overloaded staff. Top most accounting firms, Earnst and Young and Deloitte have attempted to aide in detecting and deterrent of fraud.

Management must establish mechanisms to identify, measure, analyze and manage the various kinds



of risks faced by the bank at all levels and in all departments. The management needs to evaluate the risk profile in order to be aware of the risks faced by the banks and hence come up with effective controls to address these risks (Rajkumar, 2009). One of the reasons of continuous revision of internal control systems in the bank is to ensure that losses caused by fraudulent activities are minimal if they occur, and attempts are discovered very early before losses can occur. A new approach has found to require the measurement of the determining factors of possible commitment of fraud and what can be adopted as main levers in the control of fraud within the banking system. Along this light, Ozigbo and Orife (2011) concluded in their study that internal control is an effective deterrent to internal organizational fraud that may be planned in the organization.

4.0 THEORETICAL FRAMEWORK

This study is anchored on the Internal Control Theory of Lakis and Giriūnas (2012) which states that the system of internal control is part of the enterprise management system that ensures the implementation of the enterprise's goals, its effective economic-commercial performance and observance of accounting principles and an effective control of work risks. This enables to minimize the number of intentional and unintentional mistakes, and avoid frauds in the process of enterprise performance, made by its authority or employees. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) have formulated the internal control framework comprising of interrelated points out of how the management wants the business to be. According to COSO, these components provide an effective framework for describing and analyzing the internal control system implemented in an organization as required by financial regulations. The five components of internal control system are the following: Control environment, Risk assessment, Information and communication, Control activities, and Monitoring activities.

Moreover, Cheung, Meings, et.al, (2010) extended the definition of internal control system referring to a positive result of a combination of various procedures and functions within a system geared towards the success of the business organization. It is all the procedures followed by the bank's management in order to ensure, to a great extent, a successful cooperation with the director of the company, the insurance of the capital, the prevention and the detection of fraud, as well as the early preparation of all the useful financial information to maximize the control of the banks.

5.0 METHODOLOGY

This study was conducted in the following rural banks located in the province of Zamboanga del Norte. These are Community Rural Bank of Dapitan Inc., Banco Dipolog, Rural Bank of Rizal, Rural Bank of Liloy, Katipunan Bank, Rural Bank of Salug, Rural Bank of Manukan, Rural Bank of Siocon and Rural Bank of Labason. The descriptive correlation method of research was employed in this study with the aid of modified standard questionnaire to determine the profile of the respondents, the internal

control system and fraud risk management of rural and banks. The first set is a questionnaire is for the independent variable. Part I dealt with the personal profile of the respondents along sex, age, marital status, educational attainment, experiences, and trainings. Part II, dealt with the internal control system in banking industry which is a standard questionnaire from the study of Al-Zubi, Shaban and Hamdallah (2014). It is designed to identify how strong the internal control system of the organization. Second set of questionnaire dealt with the fraud risk management in banking industry, Part I dealt with the profile of the respondents. Part II dealt with the Fraud risk management along with its indicators: fraud detection, fraud prevention, and fraud response. The items in the questionnaire for the second set were taken from the study of Yearwood (2011).

There were two groups of respondents in this study. The first group was composed of internal auditors of the banks and the second group were the employees of rural banks. There were 9 internal auditors, one (1) from each bank and 148 employees selected randomly. There was a total of 157 respondents. In the selection of employees as respondents, a questionnaires was given to the human resource officer and the human resource officer identified random employees from their organization to answer the questionnaires.

6.0 RESULTS AND DISCUSSION

A total of 74 male and 83 female who responded in the survey. From the result, there were more female respondents than male (Table 1). This means that many women are entering the banks and enjoying gender equality in the workplace (Ghani et al., 2008).

Table 1 Profile of the respondents in terms of Sex

Sex	Internal Auditor		Employees		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Male	6	66.67	68	45.95	74	47.13
Female	3	33.33	80	54.05	83	52.87
Total	9	100.00	148	100.00	157	100.00

Table 2 shows that there were more married employees than single ones. There were 83 respondents who are married and 68 respondents were single. Results found out, that out of the 157 respondents there were 2 employees who did not disclose their marital status. The finding is further supported by the study of Austrom, Njagi and Kiprop as cited by Azim et. al, (2013) that married employees are more satisfied with their jobs than their unmarried coworkers. Because the marriage imposes increased responsibilities that land them on a steady job more valuable and important.

Table 2 Profile of the respondents in terms of Marital Status

Marital Status	Internal Auditor		Employees		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Single	4	44.44	64	43.24	68	43.31
Married	5	55.56	78	52.70	83	52.87
Widower	0	0.00	4	2.70	4	2.55
No answer	0	0.00	2	1.35	2	1.27
Total	9	100.00	148	100.00	157	100.00

Table 3 shows the internal control system of rural banks in terms of control environment. As shown below most if the provisions under control environment were rated as very satisfactory except for item 1 and 2 which obtained an excellent rating. The overall weighted mean of 4.13 described as very satisfactory. The banks had a clear rules when it comes to the integrity and professional ethics of its employees and its board of directors demonstrates independence of management. Management make it to a point to lay down structures, reporting lines and appropriate authorities towards attaining the goals by strictly imposing individual accountability and transparency of all internal control responsibilities.

However, management gave slight importance to the commitment in financial reporting competencies which will help to deter the occurrence of financial fraud when improved and failed to oversight the importance of strong financial reporting and trainings of employees which lead to the achievement of their goals and human resources department rarely to conduct conferences, development, and training courses for their employees in order to achieve the objectives of the organization.

Table 3 Internal Control System of Rural Banks in Terms of Control Environment

Provisions of Control Environment	Weighted Mean	Descriptive Rate	Interpretation
Top management had clearly clarify job ethical values, and clearly identified employee's integrity.	4.44	Always	Excellent
The board of directors demonstrates independence of management and exercises oversight for the development and performance of internal control.	4.44	Always	Excellent
Management establishes, with the board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.	4.11	Often	Very Satisfactory

The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.	4.11	Often	Very Satisfactory
The organizational chart specifies clearly the responsibilities of each department and each position.	4.11	Often	Very Satisfactory
There is a strong management commitment to financial reporting competencies.	3.89	Often	Very Satisfactory
Human resources department keeps Continuous conferences, development, and training courses in order to achieve the objectives of the organization.	3.78	Often	Very Satisfactory
Overall Mean	4.13	Often	Very Satisfactory

Table 4 shows the internal control system of rural banks in terms of risk assessment. Results revealed that provisions under risk assessment have an overall mean of 3.94 described as very satisfactory. All of the items under risk assessment were rated as very satisfactory. There were provisions which means obtained which are less than 4.00. This means that banks are not cautious enough when assessing the risk especially when it comes to determining the risk at acceptable level. The lowest mean of 3.67 was registered.

Table 4 Internal Control System of Rural Banks in Terms of Risk Assessment

Provisions of Risk Assessment	Weighted Mean	Descriptive Rate	Interpretation
Management specifies objectives with sufficient clarity to enable the identification and assessment of risk relating to objectives.	4.00	Often	Very Satisfactory
There is clear and careful consideration of factors that may cause exposure and increase risk.	3.89	Often	Very Satisfactory
Management has clear strategy of how to assess risk.	3.89	Often	Very Satisfactory
Management has clear strategy of how to determine the risk at acceptable level.	3.67	Often	Very Satisfactory
Management knows how to manage the risk to a desired risk level.	3.89	Often	Very Satisfactory
Management weighs the risk factors identified and make priorities which risk factors should be addressed first.	4.11	Often	Very Satisfactory

There is a report and monitoring on specific and aggregate risk measures to ensure that risk remain at an optimal level.	4.11	Often	Very Satisfactory
Overall Mean	3.94	Often	Very Satisfactory

Table 5 presents the data of internal control system in terms of control activities. As shown in the table, there were four items out of seven that were always practiced by the banks. These provisions were almost exceedingly exercised or overly performed. However, there were also items which obtained ratings within the range of very satisfactory rate. The overall weighted mean of 4.13 with a descriptive rate of often and an interpretation of very satisfactory was registered. The banks exerted less efforts in continues development of control activities and also when it comes to the advance protection methods adopted by the management because they have obtained the lowest mean. Yet, exceedingly applied segregation of duties as one of their control activities.

Internal control systems of the rural banks in Zamboanga del Norte include cash control wherein cash counts are done daily by the cashier and then randomly checked by the manager and auditor. Key vaults are kept by the manager but the combination of the vaults are known only by the cashier. Unissued checks are kept by the bookkeeper and not by the cashier. This clearly shows that proper segregation of duties are practiced.

The bank must establish and implement control policies and procedures to ensure that the actions identified by management that are necessary to address risks to achieving the entity’s objectives are carried out effectively.

Table 5 Internal Control System of Rural Banks in Terms of Control Activities

Provisions of Control Activities	Weighted Mean	Descriptive Rate	Interpretation
There are policies and procedures that are conducted in order to identify and prevent the occurrence of risk.	4.33	Always	Excellent
Authorization is adopted by management as one of the control activities.	4.33	Always	Excellent
Segregation of duties is adopted by Management as one of the control activities.	4.22	Always	Excellent
Independent reconciliation is adopted by management as one of the control activities.	4.00	Often	Very Satisfactory
Proper documentation is adopted by management as one of the control activities.	4.33	Always	Excellent



Advance protection methods is adopted by management as one of the control activities.	3.78	Often	Very Satisfactory
There is continuous development of control activities.	3.89	Often	Very Satisfactory
Overall Mean	4.13	Often	Very Satisfactory

Table 6 presents the internal control system of rural banks in terms of their information and communication. As shown in the table, only one item with a mean of 4.22 has an excellent rating. All other items in the provision were rated very satisfactory. This resulted to an overall mean of 3.89 described as very satisfactory. This implies that Information and Communication components in rural banks in Zamboanga del Norte are applied and management are complying with its rules and procedures. However, this compliance is at minimal level as proven by the mean of the items are less than 4:00 however it is very close to the range of satisfactory. Among all of the components of internal control, information and communication obtained the lowest overall mean. This reveals that management applied less effort to its information and communication.

An individual cannot perform its functions with misinformation or misconceptions, thus true information is necessary in carrying out internal control responsibilities. Therefore, communication is important both internally and externally to carry out the information to realize daily internal control activities.

The communication process as regards the internal control system responsibilities must be clean from top to bottom and must be dealt with seriously (Quall, 2009). Employees must have a means of communicating significant information upward (Jackson, 2007). In order to help ensure the quality of information and reporting, carry out the internal control system as such and all transactions and significant events should be fully and clearly documented and reported and these must be communicated to all levels in the organizations.

Table 7 Internal Control System of Rural Banks in Terms of Information and Communication

Provisions of Information and Communication	Weighted Mean	Descriptive Rate	Interpretation
The Management:			
has a sound information and communication practices process.	3.78	Often	Very Satisfactory
provides information about the external events, activities and conditions.	3.78	Often	Very Satisfactory
communicates information to all levels of enterprise.	3.67	Often	Very Satisfactory
uses information Technology.	4.00	Often	Very Satisfactory
has clear vision of its need of information.	4.22	Always	Excellent
practiced tight control over the information.	3.89	Often	Very Satisfactory
has its own board of control over communication.	3.89	Often	Very Satisfactory
Overall Mean	3.89	Often	Very Satisfactory

Presented in Table 8 are the data of the internal control system of rural banks in terms of monitoring. Results revealed that there were five items out of seven has always been practiced by the banks in terms of its monitoring which described as excellent. Nevertheless, the two items which were rated very satisfactory dragged all other items which resulting to the overall weighted mean of 4.17 described as very satisfactory. This means that monitoring is almost perfect or over the average expected performance. Even so, bank’s management seldom conducts periodic evaluation of its internal control system as it has the lowest mean of 3.89.

Ongoing evaluations, separate evaluations, or some combination of the two were used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, are present and functioning. Relevant and timely information must be completely reported to senior management and the board (KMPG, 2013). It includes regular management and supervisory activities as well as other actions that personnel undertake while performing their duties (Jackson, 2007).

Table 8 Internal Control System of Rural Banks in Terms of Monitoring

Provisions of Monitoring	Weighted Mean	Descriptive Rate	Interpretation
Management selects, develops and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.	4.11	Always	Excellent
Management conducts periodic evaluation of the internal control system.	3.89	Often	Very Satisfactory
There is a feedback report that reports the deficiencies occurred during the year.	4.00	Often	Very Satisfactory
The board of directors and the audit committee has clear roles towards the internal control process and evaluation.	4.44	Always	Excellent
Internal auditing is properly organized.	4.33	Always	Excellent
Management and the audit committee monitor the reliability and integrity of financial and operating information.	4.22	Always	Excellent
Internal auditing has complete support of top management, the audit committee, and the board of directors.	4.22	Always	Excellent
Overall Mean	4.17	Often	Very Satisfactory

Shown in Table 9 below is the result of fraud risk management of rural banks in terms of fraud prevention. Results revealed that provisions under fraud prevention are practiced as almost perfect or over the average expected performance. It obtained an overall weighted mean of 4.05 described as very satisfactory. Almost all of the provisions were rated as very satisfactory except one item which was rated 4.24 and interpreted as excellent. This means that the banks exceedingly exercised the practice of having locks in all internal and external doors having access to sensitive data. It is a nationwide banking industry standard practice for banks to provide such adequate security at banking facilities.

This is similar to the general requirements for any other type of cash handling business, but it is immensely more important for banks since, as notorious bank robber Willie Sutton allegedly said, “Because that's where the money is.” (Coker, 2017).

The purpose of fraud prevention is to find an effective way to deal with the problem of fraud and to adopt methods that will decrease motive, restrict opportunity and limit the ability for potential

fraudsters to rationalize their actions.

Once a fraud has already occurred, the likelihood of recovering stolen funds from the perpetrator or through insurance is often relatively low. Management’s lack of coordination with anti-graft agencies and its failures to seek prosecution for uncovered fraudulent practices and activities are, in general, key factors in precluding the effective prevention of fraud (Coram, Ferguson, & Moroney, 2008).

Table 9 Fraud Risk Management of Rural Banks in Terms of Fraud Prevention

Provisions of Fraud Prevention	Weighted Mean	Descriptive Rate	Interpretation
The Bank’s BOD determines gaps between where the security is and where management wants it to be and identifies potential threats and select appropriate controls.	4.14	Often	Very Satisfactory
The BOD outlines the acceptable usage of the organization’s assets, inclusive of its information, information systems, communication equipment, and internet access where applicable.	4.00	Often	Very Satisfactory
All staff, inclusive of management, were acknowledged having read, understood and intention to comply the bank’s policy.	4.04	Often	Very Satisfactory
Policy requires the company check references given by prospective employees and integrity check for all potential employees were done.	4.01	Often	Very Satisfactory
Software is checked by competent individuals to ensure that it is permissible before installation and are licensed to the company	4.01	Often	Very Satisfactory
Locks are placed on all internal and external doors which allow access to sensitive data. These areas include server rooms, finance areas and vault.	4.24	Always	Excellent
Anti-virus soft wares are installed on all computer systems within the organization.	3.93	Often	Very Satisfactory
Overall Mean	4.05	Often	Very Satisfactory

Table 10 presents the fraud risk management of rural banks in terms of fraud detection. As shown in table, all of the provisions under fraud detection were rated as very satisfactory with a result of overall mean 3.94. This is an indication that that fraud detection practices in rural banks in Zamboanga del Norte are applied and management are complying with its rules and procedures especially it clearly shows that the internal auditor tested compliance with the policies of the bank if the policies are

established by law because it has the highest mean of 4.20. However, bank’s management seldom grants leave to their employees and as well as receiving seminars and training for professional growth as it has the lowest mean of 3.68 and 3.59 respectively.

Many different types of employee benefits are offered to employees. One way to classify them is to distinguish between those that are legally required and those that are either collectively bargained for or privately offered (Norman 2007).

The Labor code of the Philippines provided different types of leave both with and without pay- sick leave, vacation leave, parental leave, maternity leave to name the few. Leave should be granted to employees to avoid absenteeism and tardiness which result to negative attitudes towards work (Dishon as cited by Norman 2007).

On the other hand, training is crucial for organizational development and success which is beneficial to both employer and employee in the organization. A skillful employee because of massive trainings becomes confident and efficient making him or her highly productive (MSG, 2018). Human resource officer must always select appropriate awareness and trainings topics relevant to the bank’s objective and procedures. Employees as well must be rotated to avoid the possible activity of fraud.

Detecting fraud early enough helps to minimize losses and increases the likelihood of recovery for frauds that have been identified Key elements of a comprehensive fraud detection system would include exception reporting, data mining, trend analysis and ongoing risk assessment.

Table 10 Fraud Risk Management of Rural Banks in Terms of Fraud Detection

Provisions of Fraud Detection	Weighted Mean	Descriptive Rate	Interpretation
All employees take annual vacation leave, either at the time it is due to them, or at a time when it is convenient to the bank.	3.68	Often	Very Satisfactory
Bank’s employees are rotated to different areas of the company to perform different jobs and required to receive seminars and trainings.	3.59	Often	Very Satisfactory
Human resource management selects appropriate awareness and training topics relevant to the bank’s objectives and procedures.	3.78	Often	Very Satisfactory
Internal auditor tests compliance with the policies of the bank and will therefore be based on the policies established by laws.	4.20	Often	Very Satisfactory



There is an adequate financial management experts and professionals in key accounting principles to review the judgements made by management and evaluate significant cost estimates.	3.99	Often	Very Satisfactory
Management constantly supervise the staff and internal controls are properly disseminated.	4.18	Often	Very Satisfactory
Computer programs or computer records are correctly managed to avoid manipulations and disguise the details of a transaction.	4.18	Often	Very Satisfactory
Overall Mean	3.94	Often	Very Satisfactory

Table 11 shows the fraud risk management of rural banks in terms of fraud response. Results revealed that there were three items that were rated as always or interpreted as excellent. This means that the banks are exceedingly exercised the practice of protecting their assets which are essential to their survival and established protected information systems backup and stored it offsite. The banks also practiced the proper investigation of possible investigation of fraud. Nonetheless, there were four items which were rated very satisfactory. This resulted to the overall weighted mean of 4.20 described as very satisfactory. Of all the items rated, the lowest mean is 3.99 a provision stating the recovery of stolen funds and disciplinary actions intended for the responsible party of fraud. This is an indication that although there is an existing law on how to punish fraudsters, the banks in Zamboanga del Norte do not have a strong will to deal those offenders.

Responding to fraud can be one of the challenging and interesting areas of fraud risk management. As a way of detecting and even dealing with the suspected cases of fraud is a good fraud response plan. It is intended to provide procedures which allow for evidence gathering and collation in a manner which will facilitate informed decision-making, while ensuring that evidence gathered will be admissible in the event of any civil or criminal action.

Table 11 Fraud Risk Management of Rural Banks in Terms of Fraud Response

Provisions of Fraud Response	Weighted Mean	Descriptive Rate	Interpretation
The bank ensures that the software vendor released security related patches are installed in a timely manner on all systems running the specified software.	4.18	Often	Very Satisfactory
The bank creates a contingency plan to keep the business in operation regardless of the type of event threatening disruption.	4.18	Often	Very Satisfactory

Disasters, both natural and man-made and a business should prepare for both types. The effects are generally spread further and last longer than an emergency and therefore the plan should include response and recovery.	4.16	Often	Very Satisfactory
Assets critical to the survival of the business are protected if/when possible.	4.34	Always	Excellent
The bank establishes a protected information system backups and stored offsite.	4.33	Always	Excellent
Possible transactions of fraud are properly investigated.	4.21	Always	Excellent
Stolen funds or property are recovered and there is a disciplinary action (internal, civil and/or criminal) intended for the responsible party of fraud.	3.99	Often	Very Satisfactory
Overall Mean	4.20	Often	Very Satisfactory

Table 12 shows the relationship of the components of internal control system to the indicators of fraud risk management. Results revealed that there was no significant relationship between the components of internal control system and fraud prevention and fraud response and between risk assessment, and information and communication to fraud detection. However, there was significant relationship in control environment, control activities and monitoring to fraud detection. This means that the design of the internal control of the board of directors, the implementation of its control and the continues monitoring of these controls affect the detection of the fraud in the banks.

Table 12 Test of Relationship between Internal Control System and Fraud Risk Management

Independent Variables	Values	Dependent variables		
		Fraud Prevention	Fraud Detection	Fraud Response
Control Environment	Computed r-value	0.085 ^{ns}	0.853*	0.322 ^{ns}
	p-value	0.856	0.015	0.482
Risk Assessment	Computed r-value	0.347 ^{ns}	0.079 ^{ns}	0.705 ^{ns}
	p-value	0.445	0.866	0.077
Control Activities	Computed r-value	0.230 ^{ns}	0.836*	0.262 ^{ns}
	p-value	0.619	0.019	0.570
Information and	Computed r-	0.177 ^{ns}	0.529 ^{ns}	0.564 ^{ns}



Communication	value			
	p-value	0.704	0.222	0.187
Monitoring	Computed r-value	0.029 ^{ns}	0.829*	0.466 ^{ns}
	p-value	0.950	0.021	0.292

Legend:

- α = 0.05
- df = 155
- ns = not significant
- * = significant

7.0 CONCLUSION AND RECOMMENDATION

Study shows that many women are entering the banks today and enjoying gender equality in the workplace and most of them are married. Internal control system and fraud risk management of rural banks in Zamboanga del Norte are visible in the average level and management are complying with its rules and procedures. The components of internal control system do not influence fraud prevention and fraud response; and between risk assessment and information and communication to fraud detection of the rural banks. Internal control system does not in any way influence the implementation of the fraud prevention and fraud response of rural banks. A further study of fraud risk management standards implemented by laws and regulations is recommended to fit the internal control systems formulated by the banks.

On the other hand, control environment, control activities and monitoring have a greatest influence to fraud detection. If the qualities of the control environment, control activities and monitoring are strong then fraud detection will be strong otherwise it will increase the likelihood of fraud occurrences. If the management continues to clarify job ethical values, have a strong management to financial reporting, have proper segregation of duties and continuous development of control activities, conducts appropriate trainings and awareness to its employees and monitors the reliability and integrity of financial and operating information, then the internal control system and fraud risk management in rural banks will be applied effectively to achieve the intended objectives. This will deter the instances of fraud from being committed.

Rural banks in Zamboanga del Norte are encourage to improve their management commitment to financial reporting competencies by allowing their employees to attend seminars and trainings purposely to be updated with the latest trends of internal control and financial reporting. They may also improve some areas in their control activities by having an advanced protection method as part of their control activities and continue to develop it, and conduct periodic evaluation of their internal



control system to ensure proper control is in place.

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