THE ROLE OF INTERNAL CONTROLS ON COMBATING FINANCIAL FRAUDS AND MONEY LAUNDERING: A CASE OF NMB PLC OF TANZANIA
THE ROLE OF INTERNAL CONTROLS ON COMBATING FINANCIAL FRAUDS AND MONEY LAUNDERING: A CASE OF NMB PLC OF TANZANIA

By

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2013
CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe university, a dissertation entitled **The role of Internal Controls on combating financial frauds and money Laundering: The Case of NMB PLC OF TANZANIA**, in partial fulfillment of the requirements for award of the degree of Master of Business Administration of Mzumbe University.

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I, Boma Obunga Raballa, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other university for a similar or any other degree award.

Signature ……………………………………………………………

Date………………………………………………………………

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I thank God almighty for giving me all the necessary strength, knowledge, wisdom, healthy, financial and moral ability to complete my Dissertation.

I would like to express my heart felt gratitude to everyone who assisted me to complete this research report. My Primary obligation is to Mzumbe University and to my Supervisor Dr. Felician Barongo for his useful comments, criticisms and suggestions on the original manuscript of this report.

I would like to thank the NMB PLC Management for studying opportunity and to my Senior Manager Personal Banking Mr. Abdulmajid Nsekela for his courage and support during my studies.

I would like to extend my gratitude to everyone at NMB PLC who have participated in interview and filling of the questionnaires which made this study possible. I appreciate the contribution of all the Lecturers of School of Business and Management for providing me with the congenial atmosphere of knowledge gaining that enabled me to complete this report.

However, I acknowledge that any error, miss presentation or unfair opinion is solely borne by me and not any person acknowledged in this work.
DEDICATION

This work is dedicated to my beloved family Mr. & Mrs. Edward O. Raballa, Mr. & Mrs. Francis A. Raballa, Mr. & Mrs. Deogratias E. Raballa, Mr. & Mrs. Jimmy A. Raballa and my young Brother Mr. Moses C. Raballa. You have been very special to me, God almighty bless you abundantly.
**LIST OF ABBREVIATIONS AND ACRONYMS**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ACCA</td>
<td>Association of Certified Public Accountant</td>
</tr>
<tr>
<td>AICPA</td>
<td>American Institute of Certified Public Accountant</td>
</tr>
<tr>
<td>AUASB</td>
<td>Auditing and Assurance Standards Board</td>
</tr>
<tr>
<td>BOT</td>
<td>Bank of Tanzania</td>
</tr>
<tr>
<td>COSO</td>
<td>Committee of Sponsoring Organizations of the Treadway Commission</td>
</tr>
<tr>
<td>CPA</td>
<td>Certified Public Accountant</td>
</tr>
<tr>
<td>KPMG</td>
<td>Klynveld Peat Marwick Goerdeler</td>
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<tr>
<td>NMB PLC</td>
<td>NMB Public Limited Company</td>
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ABSTRACT

One of the greatest challenges facing commercial banks today is fraudulent activities and Money Laundering. The continuous growth in technology and lack of proper internal control system has put most banks in the stressful and unrest atmosphere. This study was confined in analyzing the role played by Internal Control in combating financial frauds and money laundering. NMB experience a number of transactions which require detail pre and post review to ensure they comply not only with BOT requirements but also NMB policy, given it's the largest bank in Tanzania both when ranked in branch network and customer base.

A case study design of the research has involved 30 NMB staffs. Four methods of data collection were employed which are interview, questionnaires, observation and documentations. Data found were analyzed through Statistical Package for Social Scientist (SPSS). Findings from the study revealed that, internal control plays a significant role in combating financial frauds and Money laundering. Most respondent commented that, if these appropriate and satisfactory were lacking the bank would have experience a significant number of frauds and money cleaning cases.

Despite the comments given above, respondents’ recommends the bank to adopt both proactive and reactive measure in dealing with frauds and money laundering issues while stress the need to deal with criminal at the most vulnerable point.

Recommendations include: The government to make innovations into the present policy, the bank of Tanzania (BoT) to improve strategies for monitoring and management of other financial institutions, the same research to be done in other banks and other issues in NMB PLC which influence the performance of the bank to be studied.
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CHAPTER ONE

INTRODUCTION AND BACKGROUND TO THE PROBLEM

1.1 Introduction

Cash is the most liquid asset that can be easily misappropriated if adequate controls are not in place. Experience shows that if cash is not carefully handled and controlled, the possibility of its misuse is very high. Where the system of checking and controlling are not in place or the procedures do not constitute satisfactory control, frauds and money Laundering are likely to crop up especially in banking environment.

Basing on that, internal control became a very vital aspect in mitigating fraudulent activities and money Laundering. AICPA (1949) defined Internal Controls as ‘the system comprising the plan of organization and all of the co-ordinate methods and measures adopted in a business to safeguard its asset, check the accuracy and reliability of accounting data, promote operation efficiency and encourage adherence to prescribed managerial policies.’

AUASB (2006) defined fraud as an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.” According to Billy (2006), money laundering is the process by which large amounts of illegally obtained money is given the appearance of having originated from a legitimate source. Furthermore, it may be defined as the concealment or disguise of the true nature, source, location, disposition, movement, the rights with respect to, or ownership of property, knowing that such property is derived from serious crime.

1.2 Background of the Study

High profile corporate failures in recent years have focused significant public and regulatory interest on corporate fraud. When companies suddenly collapse, the often-
A resounding question is, “what went wrong?” A breakdown in the internal control system is the usual cause. Internal control is a process that guides an organization towards achieving its objectives. These objectives include operational efficiency and effectiveness, reliability of financial reporting, and compliance with relevant laws and regulations (COSO, 1992).

Absence of these variables often results in organizational failure. The findings of the Treadway Commission Report of 1987 in the United States (USA) confirmed absence of, or weak, internal controls as the primary cause of many cases of fraudulent company financial reporting.

The widespread global corporate accounting scandals that assumes near epidemic proportions in recent years inform this study. Notable cases include Enron and WorldCom in the USA, Parmalat in Europe, and Chuo Aoyama in Asia. In South Africa, cases of accounting scandals have been recorded in JCI and Rand gold and Exploration companies. In Nigeria, the Managing Director and Chief Financial Officer of Cadbury Nigeria PLC were dismissed in 2006 for inflating the profits of the company for some years before the company’s foreign partner acquired controlling interest. These scandals emphasize the need to evaluate, scrutinize, and formulate systems of checks and balances to guide corporate executives in decision-making. These executives are legally and morally obliged to produce honest, reliable, accurate and informative corporate financial reports periodically whilst ensure cash management controls are in place.

One of the factors which led to an investment bank like Lehman Brother collapse during financial crisis as result of accounting manipulation was poor and or weak internal controls. In the report of Valukas (2010) explains that the Bankruptcy Examiner, the report drew attention to the use of Repo 105 transactions to boost the bank’s apparent financial position around the date of the year-end balance sheet. The attorney general later Andrew Cuomo filed charges against the bank’s auditors Ernst & Young in December 2010, alleging that the firm "substantially assisted... a massive accounting fraud" by approving the accounting treatment.
The project starts from the theoretical and empirical proposition that external demands for efficiency in banks (external governance) should relate and translate to internal, organizational arrangements for performance management and incentive system design (internal governance). In this study the researcher extend the internal control questions beyond the level of boards to the lower-level governance mechanisms which affect managerial decision-making, control and resulting performance. This is a crucial mechanism for ensuring higher efficiency and better financial performance, and, as explained above, will affect the risk-seeking behaviors of managers.

Therefore, ensuring proper, satisfactory, efficient and effective internal control system within a banking business is of significant importance to existence of the bank, for this reason the researcher feels the need to advocate for this challenge.

1.3 Statement of the Problem

Financial institutions like banks have frequently facing fraudulent activities and have been used for money laundering because of poor internal control on its cash management. As a company existing for profit purposes, this tends to reduce its ability to maximize profit.

Therefore, strong internal control needs to be established to improve the system of cash management to reduce frauds and eliminate chances of money Laundering.

Thus, this research focused on the role of internal control as a means to combat fraudulent activities and money Laundering in financial institution by ensuring cash management policies and procedures are appropriate and satisfactory.

1.4 Research Question

i. What are the impact of internal control system on frauds and money laundering?

ii. Why are the currently internal control systems not efficient and effective?
iii. What corrective measure do you recommend to ensure strong and satisfactory Internal Control systems are proactive?

1.5 Objectives of the Study

The following were research objectives

**General Objective**

The general objective was to investigate the money laundering and fraud in financial ignitions.

**Specific Objectives**

The following will be specific objectives.

i. To identify the impact of Internal Control System on frauds and money Laundering.

ii. To determine the extent of effectiveness of the current Internal Control System

iii. To investigate the corrective measure to assure strong and satisfactory Internal Control system are proactive.

1.6 Significance of the Study

This study is of material significant to different stakeholder including but not limited to researcher himself, NMB PLC and other third parties.

- The research provide necessary information which will enable the Management of the bank to create effective system of internal control which is likely to exercise protection on cash, fraudulent Activities and money Laundering.

- This research provide the new measures which could be adopted by the organization and lead to efficient progress in attaining the highest accuracy
in maintaining accounting records of cash flows and avoiding wastage of resources.

- To the researcher, the study is enabling to acquire more knowledge about internal control and its impact on cash management as a means to combat fraudulent activities and money Laundering.

- The study serves as a stepping stone for future researchers on the same or similar subject by suggesting areas that need further studies to be conducted.

- Finally completion of the research report, made the researcher to partially fulfill the requirement for the award of Masters of Business Administration in Corporate management.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

Internal control is the broad concept that has existed for quite some time. Despite its existence, still many organizations have been vulnerable to fraudulent activities and money laundering. Unlike frauds which have been there in terms of insider trading, falsification of financial reports and corporate plundering, money laundering is the new emerged financial crime challenge.

This chapter considered the past ideas documented by various authors who covered the concepts of internal controls, frauds and money laundering. The generated concepts were thereafter incorporated in making the analysis and providing recommendation basing on finding and facts received from various stakeholders.

The information was drawn from books, Banking Manual, policies, procedures, journals, job descriptions, internet based information and Accounting & Finance manuals advocating internal controls, frauds and money laundering.

2.2 Theoretical Literature

2.2.1 Internal Control System

The Internal Control System refers to an organized amalgamation of functions and procedures, within a complete system of controls established by the management and whose purpose is the successful function of the business (Cheung, 1997). The Internal Control System is all the methods and procedures followed by the management in order to ensure, to a great extent, as much successful cooperation as possible 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 (Meigs, 1984, Papadatou, 2005).

According to Cook and Wincle (1976), the Internal Control System resembles the human nervous system this is spread throughout the business carrying orders and
reactions to and from the management. It is directly linked to the organizational structure and the general rules of the business (Cai, 1997).

2.2.2 Internal Control

The term was adopted by the Anglo-Saxons (“Internal Auditing”) and refers to the unit of Internal Control which aims at the evaluation of the sufficient functioning of the Internal Control System that is the secondary functions (Controls) and suggests that there is room for improvements in cases where weaknesses are being discovered (Financial Postman magazine, 2004). What is indicative of the importance of Internal Control is the sum of the definitions that have been given for this term.

According to the AICPA (1963) a system of internal control extends beyond those matters which relate directly to the functions of accounting and the financial statements. In addition, based on the internal control is a systematic procedure which will lead to evaluate the degree of correlation between those established criteria and the real results of the business (ASOBAC, 1973).

Internal control has been defined by the as ‘the system comprising the plan of organization and all of the co-ordinate methods and measures adopted in a business to safeguard its asset, check the accuracy and reliability of accounting data, promote operation efficiency and encourage adherence to prescribed managerial policies (AICPA, 1949).

Internal Control, as defined from the Auditing Practices Committee (1980) as an independent examination and certification from an inspector appointed by the business to control the finances according to the legal framework established each time.

Furthermore, according to Miller and Bailley (1989), internal control is a systematic review and a subjective investigation of one element and encompasses the verification of the specific information as these are determined from the general
practice. The internal control helps the company to achieve its goals using a systematic approach of assessing the effectiveness of handling dangers (IIA, 1999).

Internal control system is divided into three major type namely detective controls which are designed to detect errors or irregularities that may have occurred, Corrective control which are designed to correct errors or irregularities that have been detected, further to this there is preventive control that are designed to keep errors or irregularities from occurring in the first place.

### 2.2.3 Features of Effective Internal Control

For Internal control to be effective and efficient, and constitute appropriate and satisfactory measures, some specific criteria should be met. Both academician and management gurus including Meigs (1981), Wolf (1979) and Manasseh (2007) suggested the following characteristics as features of effective internal control. These includes; Separation or segregation of duties, Responsibility, Authorization and Approval, Arithmetical and Accounting, Supervision, voucher System, Personnel, Physical control, Rotation of duties and vacation and Routine and automatic checks.

### 2.2.4 Importance of Internal Control

Internal control is a crucial aspect of an organization’s governance system and ability to manage risk, and is fundamental to supporting the achievement of an organization’s objectives and creating, enhancing, and protecting stakeholder value. High-profile organizational failures typically lead to the imposition of additional rules and requirements, as well as to subsequent time-consuming and costly compliance efforts. However, this obscures the fact that the right kind of internal controls—enabling an organization to capitalize on opportunities while offsetting the threats—can actually save time and money, and promote the creation and preservation of value. Effective internal control also creates a competitive advantage, as an organization with effective controls can take on additional risk.

According to IFAC’s interviews with 25 key business leaders, summarized in the brochure integrating the Business Reporting Supply Chain (2011), ensuring effective,
integrated risk management and internal control should be a key part of governing body oversight. Various financial crises in recent years have demonstrated that in some organizations—especially in some financial institutions—risk-management and internal control practices were flawed or ineffective. According to the business leaders interviewed, these organizations did not fully comprehend the risks to which they were exposed. Before the latest string of financial crises, many organizations were overly focused on financial reporting controls.

These crises highlighted the fact that many, if not most, of the risks that affected organizations derived from areas other than financial reporting including operations and external circumstances. Moving forward, risk management and related internal control systems need to encompass a wider perspective, considering that organizations are impacted by many variables, often outside their direct control. Effective risk management and internal control should be a key part of good governance at every level of an organization and across all operations.

IFAC’s Global Survey on Risk Management and Internal Control (2011), with more than 600 respondents from around the globe and from all types of organizations, revealed that: (a) more awareness of the benefits of implementing risk management and internal control systems should be created, and (b) risk management and internal control systems should be better integrated into organizations’ overall governance, strategy, and operations. According to survey respondents, the drive to integrate risk management and internal control systems is gaining momentum, but the tools and guidance to develop and implement a genuinely integrated system do not really exist.

Currently, risk management guidelines are often separate from internal control guidelines. The first step to strengthening guidance in this area, according to respondents, is to combine these separate guidelines into one integrated set. Bringing these guidelines together would help increase the general understanding that both risk management and internal control are integral parts of an effective governance system.
Despite the existence of sound internal control guidelines, it is often the application of such guidelines that fails or could be further improved in many organizations. With this publication, the Professional Accountants in Business (PAIB) Committee aims to provide a practical guide that focuses on how professional accountants in business can support their organization in evaluating and improving internal control as an integral part of its governance system and risk management. This guidance is complementary to existing internal control guidelines and is based on those internal control matters that often cause difficulties in practice.

2.2.5 Principles for the Assessment of Internal Control Systems in Banking

As part of its on-going efforts to address bank supervisory issues and enhance supervision through guidance that encourages sound risk management practices, the Basle Committee on Banking Supervision is issuing this framework for the evaluation of internal control systems. 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 paper describes the essential elements of a sound internal control system, drawing upon experience in member countries and principles established in earlier publications by the Committee. The objective of the paper is to outline a number of principles for use by supervisory authorities when evaluating banks’ internal control systems.
The Basle Committee, along with banking supervisors throughout the world, has focused increasingly on the importance of sound internal controls. This heightened interest in internal controls is, in part, a result of significant losses incurred by several banking organizations. An analysis of the problems related to these losses indicates that they could probably have been avoided had the banks maintained effective internal control systems. Such systems would have prevented or enabled earlier detection of the problems that led to the losses, thereby limiting damage to the banking organization. In developing these principles, the Committee has drawn on lessons learned from problem bank situations in individual member countries.

These principles are intended to be of general application and supervisory authorities should use them in assessing their own supervisory methods and procedures for monitoring how banks structure their internal control systems. While the exact approach chosen by individual supervisors will depend upon a host of factors, including their on-site and off-site supervisory techniques and the degree to which external auditors are also used in the supervisory function, all members of the Basle Committee agree that the principles set out in this paper should be used in evaluating a bank’s internal control system.

The Basle Committee is distributing this paper to supervisory authorities worldwide in the belief that the principles presented will provide a useful framework for the effective supervision of internal control systems. More generally, the Committee wishes to emphasize that sound internal controls are essential to the prudent operation of banks and to promoting stability in the financial system as a whole. While the Committee recognizes that not all institutions may have implemented all aspects of this framework, banks are working towards adoption.

The guidance previously issued by the Basle Committee typically included discussions of internal controls affecting specific areas of bank activities, such as interest rate risk, and trading and derivatives activities. In contrast, this guidance presents a framework that the Basle Committee encourages supervisors to use in evaluating the internal controls over all on- and off-balance sheet activities of banks
and consolidated banking organizations. The guidance does not focus on specific areas or activities within a banking organization. The exact application depends on the nature, complexity and risks of the bank’s activities.

The Committee provides background information is section I, sets out the objectives and role of an internal control framework in Section II, and stipulates in sections III and IV of the paper thirteen principles for banking supervisory authorities to apply in assessing banks’ internal control systems. In addition, Appendix I lists reference materials and Appendix II provides supervisory lessons learned from past internal control failures.

Risk Management Sub-group of Basle Committee, (1998), issued a framework for the evaluation of internal control systems. 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. These principles are intended to be of general application and supervisory authorities should use them in assessing their own supervisory methods and procedures for monitoring how banks structure their internal control systems. The principles include the following below:

I. Management oversight and the control culture
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 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.

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 delegated responsibilities are effectively carried out; setting appropriate internal control policies; and monitoring the adequacy and effectiveness of the internal control system.

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

II. 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 recognized and continually assessed. This assessment should cover all risks facing the bank and the consolidated banking organization (that is, credit risk, country and transfer risk, market risk, interest rate risk, liquidity risk, operational risk, legal risk and reputation risk). Internal controls may need to be revised to appropriately address any new or previously uncontrolled risks.

III. 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 authorizations; and, a system of verification and reconciliation.
An effective internal control system requires that there is appropriate segregation of duties and those personnel are not assigned conflicting responsibilities. Areas of potential conflicts of interest should be identified, minimized, and subject to careful, independent monitoring.

IV. 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.

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.

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.

V. 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.

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.

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.

VI. Evaluation of Internal Control Systems by Supervisory Authorities
Supervisors should require that all banks, regardless of size, have 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 responds to changes in the bank’s environment and conditions; In those instances where supervisors determine that a bank's internal control system is not adequate or effective for that bank’s specific risk profile (for example, does not cover all of the principles contained in this document), they should take appropriate action.

2.2.6 The Objectives and Role of the Internal Control Framework
Internal control is a process affected by the board of directors, senior management and all levels of personnel. It is not solely a procedure or policy that is performed at a certain point in time, but rather it is continually operating at all levels within the bank. The board of directors and senior management are responsible for establishing the appropriate culture to facilitate an effective internal control process and for monitoring its effectiveness on an ongoing basis; however, each individual within an organization must participate in the process. The main objectives of the internal control process can be categorized as efficiency and effectiveness of activities (performance objectives), reliability, completeness and timeliness of financial and management information (information objectives) and compliance with applicable laws and regulations (compliance objectives).
Performance objectives for internal controls pertain to the effectiveness and efficiency of the bank in using its assets and other resources and protecting the bank from loss. The internal control process seeks to ensure that personnel throughout the organization are working to achieve its goals with efficiency and integrity, without unintended or excessive cost or placing other interests (such as an employee’s, vendor’s or customer’s interest) before those of the bank.

Information objectives address the preparation of timely, reliable, relevant reports needed for decision-making within the banking organization. They also address the need for reliable annual accounts, other financial statements and other financial-related disclosures and reports to shareholders, supervisors, and other external parties. The information received by management, the board of directors, shareholders and supervisors should be of sufficient quality and integrity that recipients can rely on the information in making decisions. The term reliable, as it relates to financial statements, refers to the preparation of statements that are presented fairly and based on comprehensive and well-defined accounting principles and rules.

Compliance objectives ensure that all banking business complies with applicable laws and regulations, supervisory requirements, and the organization’s policies and procedures. This objective must be met in order to protect the bank’s franchise and reputation.

2.2.7 Internal Control and Frauds
The term fraud is commonly used to describe a wide variety of dishonest behaviors such as deception, bribery, corruption, forgery, false representation, collusion and concealment of material facts. It is usually used to describe the act of depriving a person of something by deceit, which may involve the misuse of funds or other resources, or the supply of false information.

A Partner and head of risk consulting KPMG in India, Sanwalka (2002) defined fraud as deliberate deceit which is planned and executed to deprive an individual of property, money or any other valuable security. Fraud must be committed with
intent and includes actions of misrepresentations and/or acts of omission. Fraud was defined in the KPMG Survey (KPMG 2004) as any dishonest activity involving the extraction of value from a business, directly or indirectly, regardless of whether the perpetrator benefits personally from his or her actions. ACFE (2007) defined fraud as the use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets.

Further, it identified three categories of frauds that affect organization. These include assets misappropriation which involves theft or misuse of organizational assets. Examples are theft of inventory or cash, false invoicing, accounts receivable frauds and payroll frauds. The second category is fraudulent statements and lastly is corruption which includes activities like bribes, acceptance of Kickbacks, improper use of confidential information, conflicts of interest and collusive tendering.

2.2.8 Frauds Indicators

Chris (2011) observed Fraud indicators as clues or hints that a closer look should be made at an individual, area or activity. Examples of issues that could be investigated to ensure fraud is not taking place include

i. Unusual employee behavior such as refusal to comply with normal rules and practices, fails to take leave, managers by-passing subordinates, subordinates by-passing managers, living beyond means, regular long-hours working, job dissatisfaction/unhappy employee, secretiveness or defensiveness and transaction processing during awkward hours.

ii. Unrecorded transactions or missing records like invoices, contracts and disorganized operations in such areas as accounting, purchasing or payroll. Absence of controls and audit trails (e.g. Inadequate or no segregation of duties and lack of rotation of duties).

iii. Low levels of review or approval, Policies not being followed, Lack of interest in, or compliance with, internal controls, Alterations to documents, Missing documents such as expenditure vouchers and official records, Excessive variations to budgets or contracts.
iv. Excessive movements of cash or transactions between accounts, numerous adjustments or exceptions, Duplicate payments, large payments to individuals. Unauthorized changes to systems or work practices.

v. Deficient screening for new employees including casual staff, contractors and consultants, lowest tenders or quotes passed over with minimal explanation recorded and single vendors.

vi. Unclosed but obsolete contracts, Defining needs in ways that can be met only by specific contractors, splitting up requirements to get under small purchase requirements or to avoid prescribed controls, Suppliers/contractors who insist on dealing with one particular member of staff.

vii. Vague specifications, Disqualification of any qualified bidder, Chronic understaffing in key control areas, Excessive hours worked by key staff, Consistent failures to correct major weaknesses in internal control, Management frequently override internal control.

viii. Lack of common sense controls such as changing passwords frequently, requiring two signatures on cheques or restricting access to sensitive areas

2.2.8.1 Preventing and Detecting Frauds
It is strongly recommended to have anti-fraud policy statement and communicate to Organization. Such a statement should be simple, focused and easily understood and may include some or all of the following areas:-

I. A statement about the organization’s fraud strategy
   • Set out clear goals (e.g. zero tolerance) and what this means in terms of deterring and detecting fraud, investigating cases and pursuing sanctions
   • Set the level of financial investment in work to combat fraud in proportion to the risk that has been identified
• Provide those tasked with countering fraud with the necessary authority and support;
• Ensure that those working to counter fraud have the training and accreditation they need.

II. The allocation of responsibilities for the overall management of fraud
Everybody in an organization contributes to the management of fraud risk hence they should be well informed. Specific responsibility for managing the risk of fraud may be allocated to an appropriate senior officer, preferably at board level, such as the Finance Director (FD).

Internal audit is responsible for providing the Accounting Officer with an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the organization’s framework of governance, risk management and control. The Head of Internal Audit’s opinions are a key element of the framework of assurance that the Accounting Officer needs to complete the annual Statement on Internal Control (SIC). In carrying out its work, internal audit must be alert to the possibility of significant errors, fraud or non-compliance. It is a management responsibility to put in place procedures to deter, detect and investigate fraud, and internal audit can help assess the adequacy of the control framework.

III. Reporting suspicions of fraud, including “hotline” arrangements if used
Staffs are the first line of defense in combating fraud. There should be avenues for reporting suspicions of fraud or concerns about control weaknesses that could be exploited for fraudulent purposes. Staff should be encouraged to report suspicions to their line managers or to a hotline set up for the purpose. It is important that staff know where to report their suspicions, that any suspicions reported in this way are seen to be acted upon by management and to assure those who report their suspicions that any information received will be treated confidentially. Information on reported suspicions should routinely be made available to internal audit.
IV. The development of an anti-fraud culture including a code of ethics

The creation and maintenance of an anti-fraud culture is critical to maximizing the engagement of employees in combating fraud. Creating an anti-fraud culture involves senior managers setting the right tone. Tone at the top is set by the Accounting Officer and Board members who must behave ethically and communicate their expectations for ethical behavior to staff in the organization.

The ethics policy should explain that staff must follow the organization’s rules without circumventing controls, explain that external interests may give rise to conflicts of interest and require any possible conflicts of interest to be declared, define the organization’s policy on receiving gifts from external parties, explain why it is necessary to keep certain information about the organization confidential, require employees to report suspected fraud or money laundering to a named individual or to a fraud hotline, state that breach of the policy will be treated as a disciplinary offence and provide cross-references to the organization’s anti-fraud policy and fraud response plan.

Further, maintaining good staff morale. A positive workplace environment improves staff morale and loyalty. Managers should try to create the conditions in which staff has neither the motivation nor the opportunity to commit fraud. The maintenance of good staff morale may help to minimize the likelihood of an employee causing harm to the organization through fraud.

2.2.9 Internal Control and Money Laundering

2.2.9.1 Introduction of Money Laundering

The goal of a large number of criminal acts is to generate a profit for the individual or group that carries out the act. Money laundering is the processing of these criminal proceeds to disguise their illegal origin. This process is of critical importance, as it enables the criminal to enjoy these profits without jeopardizing their source.

Illegal arms sales, smuggling, and the activities of organized crime, including for example drug trafficking and prostitution rings, can generate huge amounts of
proceeds. Embezzlement, insider trading, bribery and computer fraud schemes can also produce large profits and create the incentive to “legitimize” the ill-gotten gains through money laundering.

When a criminal activity generates substantial profits, the individual or group involved must find a way to control the funds without attracting attention to the underlying activity or the persons involved. Criminals do this by disguising the sources, changing the form, or moving the funds to a place where they are less likely to attract attention.

In response to mounting concern over money laundering, the Financial Action Task Force on money laundering (FATF) was established by the G-7 Summit in Paris in 1989 to develop a co-ordinated international response. One of the first tasks of the FATF was to develop Recommendations, 40 in all, which set out the measures national governments should take to implement effective anti-money laundering programs.

**2.2.9.2 Annual Money Laundered Impact**

By its very nature, money laundering is an illegal activity carried out by criminals which occurs outside of the normal range of economic and financial statistics. Along with some other aspects of underground economic activity, rough estimates have been put forward to give some sense of the scale of the problem.

The United Nations Office on Drugs and Crime (UNODC) conducted a study to determine the magnitude of illicit funds generated by drug trafficking and organized crimes and to investigate to what extent these funds is laundered. The report estimates that in 2009, criminal proceeds amounted to 3.6% of global GDP, with 2.7% (or USD 1.6 trillion) being laundered.

This falls within the widely quoted estimate by the International Monetary Fund, who stated in 1998 that the aggregate size of money laundering in the world could be somewhere between two and five percent of the world’s gross domestic product. Using 1998 statistics, these percentages would indicate that money laundering ranged
between USD 590 billion and USD 1.5 trillion. At the time, the lower figure was roughly equivalent to the value of the total output of an economy the size of Spain.

However, the above estimates should be treated with caution. They are intended to give an estimate of the magnitude of money laundering. Due to the illegal nature of the transactions, precise statistics are not available and it is therefore impossible to produce a definitive estimate of the amount of money that is globally laundered every year. The FATF therefore does not publish any figures in this regard.

Okogbule (2007) defined Money Laundering as a process which involves flow of money from illegal sources into legitimate channels so that it becomes difficult to trace its original source. The process is conducted secretly and it involves many people whose activities are illegal, and sometimes the flow of money does not follow normal banking procedures. Later, the money is used legally. The term may also be defined as concealment or disguise of the true nature, source, location, disposition, movement, the rights with respect to, or ownership of property, knowing that such property is derived from serious crime.

2.2.10 Processes of Money Laundering

Money laundering is not a single act but is in fact a process that is accomplished in three basic steps. These steps can be taken at the same time in the course of a single transaction, but they can also appear in well separable forms one by one as well. The process involves placement, layering and integration as here under explained.

I. Placement

This is the first stage in the washing cycle. Money laundering is a "cash-intensive" business, generating vast amounts of cash from illegal activities (for example, street dealing of drugs where payment takes the form of cash in small denominations). The monies are placed into the financial system or retail economy or are smuggled out of the country. The aims of the launderer are to remove the cash from the location of acquisition so as to avoid detection from the authorities and to then transform it into other asset forms.
II. Layering

In the course of layering, there is the first attempt at concealment or disguise of the source of the ownership of the funds by creating complex layers of financial transactions designed to disguise the audit trail and provide anonymity. The purpose of layering is to disassociate the illegal monies from the source of the crime by purposely creating a complex web of financial transactions aimed at concealing any audit trail as well as the source and ownership of funds.

III. Integration

It is this stage at which the money is integrated into the legitimate economic and financial system and is assimilated with all other assets in the system. Integration of the "cleaned" money into the economy is accomplished by the launderer making it appear to have been legally earned. By this stage, it is exceedingly difficult to distinguish legal and illegal wealth.

There are also common factors regarding the wide range of methods used by money launderers when they attempt to launder their criminal proceeds. Three common factors identified in laundering operations are

- The need to conceal the origin and true ownership of the proceeds
- The need to maintain control of the proceeds
- The need to change the form of the proceeds in order to shrink the huge volumes of cash generated by the initial criminal activity
### Table 2.1 Examples of Money Laundering Process

<table>
<thead>
<tr>
<th><strong>Placement Stage</strong></th>
<th><strong>Layering Stage</strong></th>
<th><strong>Integration Stage</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash paid into bank (sometimes with staff complicity or mixed with proceeds of legitimate business).</td>
<td>Wire transfers abroad (often using shell companies or funds disguised as proceeds of legitimate business).</td>
<td>False loan repayments or forged invoices used as cover for laundered money.</td>
</tr>
<tr>
<td>Cash exported.</td>
<td>Cash deposited in overseas banking system.</td>
<td>Complex web of transfers (both domestic and international) makes tracing original source of funds virtually impossible</td>
</tr>
</tbody>
</table>

To avoid these challenges, it has been noted that, there are three choke which makes money laundering most vulnerable. These include the following:

- a. Entry of cash into the financial system
- b. Transfers to and from the financial system

### 2.2.11 Occurrence of Money Laundering

As money laundering is a consequence of almost all profit generating crime, it can occur practically anywhere in the world. Generally, money launderers tend to seek out countries or sectors in which there is a low risk of detection due to weak or ineffective anti-money laundering programs. Because the objective of money laundering is to get the illegal funds back to the individual who generated them, launderers usually prefer to move funds through stable financial systems.
Money laundering activity may also be concentrated geographically according to the stage the laundered funds have reached. At the placement stage, for example, the funds are usually processed relatively close to the under-lying activity; often, but not in every case, in the country where the funds originate.

With the layering phase, the launderer might choose an offshore financial centre, a large regional business centre, or a world banking centre – any location that provides an adequate financial or business infrastructure. At this stage, the laundered funds may also only transit bank accounts at various locations where this can be done without leaving traces of their source or ultimate destination.

Finally, at the integration phase, launderers might choose to invest laundered funds in still other locations if they were generated in unstable economies or locations offering limited investment opportunities.

2.2.12 The Effect of Money laundering on Business

The integrity of the banking and financial services marketplace depends heavily on the perception that it functions within a framework of high legal, professional and ethical standards. A reputation for integrity is the one of the most valuable assets of a financial institution.

If funds from criminal activity can be easily processed through a particular institution – either because its employees or directors have been bribed or because the institution turns a blind eye to the criminal nature of such funds – the institution could be drawn into active complicity with criminals and become part of the criminal network itself. Evidence of such complicity will have a damaging effect on the attitudes of other financial intermediaries and of regulatory authorities, as well as ordinary customers.

As for the potential negative macro-economic consequences of unchecked money laundering. One can cite inexplicable changes in money demand, prudential risks to bank soundness, contamination effects on legal financial transactions, and increased volatility of international capital flows and exchange rates due to unanticipated cross-
border asset transfers. Also, as it rewards corruption and crime, successful money laundering damages the integrity of the entire society and undermines democracy and the rule of the law.

2.2.13 Influence of Money Laundering on Economic Development

Launderers are continuously looking for new routes for laundering their funds. Economies with growing or developing financial centres, but inadequate controls are particularly vulnerable as established financial centre countries implement comprehensive anti-money laundering regimes.

Differences between national anti-money laundering systems will be exploited by launderers, who tend to move their networks to countries and financial systems with weak or ineffective countermeasures.

Some might argue that developing economies cannot afford to be too selective about the sources of capital they attract. But postponing action is dangerous. The more it is deferred, the more entrenched organized crime can become.

As with the damaged integrity of an individual financial institution, there is a damping effect on foreign direct investment when a country’s commercial and financial sectors are perceived to be subjected to the control and influence of organized crime. Fighting money laundering and terrorist financing is therefore a part of creating a business friendly environment which is a precondition for lasting economic development.

2.2.14 Money Laundering Connection with Society

The possible social and political costs of money laundering, if left unchecked or dealt with ineffectively, are serious. Organized crime can infiltrate financial institutions, acquire control of large sectors of the economy through investment, or offer bribes to public officials and indeed governments.

The economic and political influence of criminal organizations can weaken the social fabric, collective ethical standards, and ultimately the democratic institutions of
society. In countries transitioning to democratic systems, this criminal influence can undermine the transition. Most fundamentally, money laundering is inextricably linked to the underlying criminal activity that generated it. Laundering enables criminal activity to continue.

2.2.15 Relationship between Fighting Money Laundering and Crime Fight
Money laundering is a threat to the good functioning of a financial system; however, it can also be the Achilles heel of criminal activity. In law enforcement investigations into organized criminal activity, it is often the connections made through financial transaction records that allow hidden assets to be located and that establish the identity of the criminals and the criminal organization responsible.

When criminal funds are derived from robbery, extortion, embezzlement or fraud, a money laundering investigation is frequently the only way to locate the stolen funds and restore them to the victims.

Most importantly, however, targeting the money laundering aspect of criminal activity and depriving the criminal of his ill-gotten gains means hitting him where he is vulnerable. Without a usable profit, the criminal activity will not continue.

2.2.16 The Role of Individual Governments on Money Laundering
A great deal can be done to fight money laundering, and, indeed, many governments have already established comprehensive anti-money laundering regimes. These regimes aim to increase awareness of the phenomenon – both within the government and the private business sector – and then to provide the necessary legal or regulatory tools to the authorities charged with combating the problem.

Some of these tools include making the act of money laundering a crime; giving investigative agencies the authority to trace, seize and ultimately confiscate criminally derived assets; and building the necessary framework for permitting the agencies involved to exchange information among themselves and with counterparts in other countries.
It is critically important that governments include all relevant voices in developing a national anti-money laundering program. They should, for example, bring law enforcement and financial regulatory authorities together with the private sector to enable financial institutions to play a role in dealing with the problem. This means, among other things, involving the relevant authorities in establishing financial transaction reporting systems, customer identification, record keeping standards and a means for verifying compliance.

2.2.17 Money Laundering Offence
Money Laundering is a crime punishable by law. In Tanzania; money laundering is an offence under the Proceeds of Crime Act, 1991, Section 71 (3) which lists the offences as:

i. Engaging directly or indirectly in a transaction which involves the entering into or removal from the United Republic of Tanzania, of money or other property which are proceeds of crime.

ii. Receiving, possessing, concealing, disposing of, bringing into or removing from the United Republic of Tanzania, of money or other property which is the proceed of crime, knowingly or otherwise.

In United Kingdom, the following have been classified as offences:-

a. Assisting another to retain the benefit of crime

Assistance occurs where a person is involved in an arrangement with another person, and knows or suspects that the other person is, or has been involved in, or has benefited from drug trafficking or criminal conduct if the arrangement helps the other person to retain or control proceeds directly or indirectly or enables the other person to use the proceeds or to invest them for his benefit.

b. Acquisition, possession or use of criminal proceeds

Acquisition is the offence of use or possession of property which you know or have reasonable grounds to suspect to be the proceeds of drug trafficking or criminal
conduct and have acquired at less than full value. The aim of the offence is to prevent
criminal proceeds being passed on by criminals to be enjoyed by third parties. Here,
the reference is to ‘property’, rather than to ‘funds or investments’

c. Concealing or transferring proceeds to avoid prosecution or a confiscation

Concealing is disguising, removing or transferring proceeds (directly or indirectly) of
drug trafficking or criminal conduct for the purpose of avoiding or helping someone
else avoid prosecution. The offence is committed by a person who assisted in the
offence if s/he knows or has reasonable grounds to suspect the nature of the property.
Concealing or disguising any property includes concealing or disguising its nature,
source, location, disposition, movement or ownership or any rights with respect to it.

d. Failure to disclose knowledge or suspicion of money laundering

This offence only relates to drug trafficking and terrorism and not to proceeds of
crime in general. A person is guilty of an offence if, as a result of something he
learns in the course of his trade, profession or employment, he does not report a
suspicion to a police or customs officer. However, there is a question as to whether
disclosure is a waiver of professional privilege or a breach of any express or implied
duty of confidentiality owed to a customer or client. For example, legal privilege for
solicitors; if there is a criminal transaction then disclosure to the police will not
constitute a waiver of professional privilege nor will it give actionable grounds for a
claim for breach of confidence.

e. Tipping off

The requirement to report suspicions is not much use if the suspected person is
tipped off to the fact that s/he is under investigation. In order to preserve the integrity
of an investigation, the offence of ‘tipping off’ occurs when information or any other
matter which might prejudice the investigation is disclosed to the suspect of the
investigation (or anyone else) by someone who knows or suspects (or, in the case of
terrorism, has reasonable cause to suspect) that: a police investigation into money
laundering has begun or is about to begin, or the police have been informed of suspicious activities, or a disclosure has been made to another employee under internal reporting procedures.

### 2.2.18 Limitation of Internal Controls

Despite the role internal control system plays in the life of organization, it can neither guarantee efficiency in administration and completeness nor accuracy of the records. Further, it cannot also be proof against fraudulent collusion especially on the part of those holding position of authority or trust. Internal control which relies on separation of duties can be undermined by collusion (Mahushi, 1985).

The person whom the authority is rested can abuse authorization controls. Management is always in a position to override controls which it has set them up itself. Whilst the competence and integrity of the personnel operating these qualities may alter due to pressure exerted both within and outside the organization. Human error as the results of poor judgment, interpretation, misunderstanding, carelessness, fatigue or destruction may undermine the effective operation of internal controls (Wolf, 1979).

Also costs may prevent management from ever installing the internal control systems, since the management may accept to take certain risks because the costs of preventing such risks are not justified. More over management may fail to anticipate certain risks and thus fail to design and implement appropriate controls system (Manasseh, 2007).

### 2.3 Empirical Literature Review

Under this section studies of the other scholars about similar study are explained:

In his study, Al-A’ajaz (2008) identified the procedures applied in banks operating in the Gaza Strip for the control of money laundering operations, through considering procedures (the client verification, internal control, preparations to combat money laundering operations that include the committees, administrative units, compliance
with laws, international legislation and the Monetary Authority instructions, training and qualifying the staff, and the clarity of manuals and guidelines).

The descriptive analytical method has been used, the study has concluded that there is a commitment by the banks operating in the Gaza Strip to refuse to open an account for the client or engage in any banking transaction that does not complete the identification process. The banks well apply preventive measures to combat money laundering. It has also found that there is a reduction in the budget allocated by banks for training and educating the staff about money laundering.

The study has made several recommendations that the most important is that the banks should strengthen the verification procedures of the client regardless of the value of the process, and take care not to block the work due to the requirements of pre-cautions, to enhance cooperation between the Monetary Authority and the banks to identify suspicious transactions and deepen international cooperation, and the study also recommends the bank to issue a clear internal procedures manual binding to counter money laundering operations.

Young (2002) says that, ample evidence exists that individual integrity of those running the banks today has never been at a higher level. Never before have we seen attention to the actual steps; procedures and control of monetary transactions. Employees’ as well as firms in all industries engage in fraudulent practices all over the world. Although the existence of fraud in our banks is not an uncommon or unexpected behavior, the prevalence of it is what is worrying because of all the various problems confronting the most untraceable (Ogwuma, 1985: Akindele et al, 2008)

According to Ogbunka (2002), explained that there are many identified causes of fraud in banks. They vary from institutional to economical, socio, psychological, legal and even infrastructural causes. The immediate causative agents of frauds in general as provided by him are as follows:

1. Availabilities of opportunities to perpetrate frauds and forgeries.
2. Human greed, avarice and instability
iii. Poverty and widening gap between the rich and the poor
iv. Prevailing misplaced social values, moral and spiritual decadence
v. Increasing incidence of unemployment,
vi. Social misconceptions that banks money is nobody’s money property and therefore can be defrauded,
vii. Weak internal control system of the bank,
viii. Lacks of effective machinery that guarantee severe punishment for fraudsters and forgers.
ix. Increasing and changing sophistication in technological equipment.

Of a truth, there are many causes of bank frauds, but, weak internal control system stands as a major cause of fraud in banks. It is therefore, expedient that adequate, efficient and effective internal control system be installed in every bank in order to reduce this disaster called fraud.

In Nigeria, fraud contributed significantly to the failure of the 36 banks in liquidation (Ogunleye, 2001). Fraud is one of the serious financial crimes being perpetrated in our banking industry today. Frauds result in huge financial losses to banks and their customers, the depletion of shareholders’ funds and banks capital base as well as loss of confidence in the sector. Fraud is therefore of special concern to the regulatory authorities who are saddled with the responsibility of ensuring the safety and soundness of the entire banking system. The incidence of fraud in the Nigerian banking system should be of serious concern to all stakeholders.

Measures aimed at fraud detection include checking of cashiers, call-over, reconciliation and balancing of accounts at branches, interbank at head office levels, periodical submission of statement of accounts, stock taking of security items and cash in the vaults and inspection by bank inspectors Ojeigbede (2000).

Despite the numerous cause of bank fraud, there exist some others factors that influences the risks of fraud within the bank and accordingly steps ought to be taken to minimize them. According to Izedonmi (2000), these factors include:

i. Where it is difficult to obtain explanations from management and staff of the banks during the audit,
ii. Where the bank is experiencing insolvency problems,

iii. Where the authority is concentrated within a few hands within the bank.

iv. Where management continually fails to implement internal control recommendations, made by an external auditor,

v. Where the accounting system is inadequate and the books of accounts cannot be reconciled within the financial statements.

Other factors that could influence the risk of frauds in banks, according to Raji (1997), these include:

i. Experience: when too much confidence is reposed on a staff because of his apparent ability to work with minimum supervision due to his experience, it could degenerated into a situation that could breed an opportunity for committing fraud.

ii. Understaffing: most banks today, strife that strenuous efforts be made to cut down costs. This idea is however over stretched that at times results to entrusting too many sensitive function to a staff. No matter how good a staff is, carrying out is functions efficiently may not be easy to sustain. Understaffing will create opportunity for fraud, as there would be no room for any form of supervision.

It can be deduced from these factors that management needs to do a good job by installing on effective internal control system to reduce the exposure of the banks to frauds.

Ovuakiporia (1994) gave account of thirty three types of bank frauds in the banking sector. These includes theft, embezzlement, defalcations, forgers, substitutions, suppressions, payments against unclean effects, unauthorized lending, lending to ghost borrowers, kite flying and cross firing, unofficial borrowing, foreign exchange malpractice, impersonation, over-involving, manipulation of vouchers, factious accounts, over and under valuation of properties, false declaration of cash shortages, falsification of status reports, duplications of cheque books, mail transfer,
interception on clearing cheque, computer frauds, fake payments, teeming and lading, robbers and others.

The above numerous types of fraudulent practices in banks, serve as threats to the success of many banks. If adequate preventive and detective measures are not put into action, it could lead to the complete failure financial institutions especially banks. Ekechi (1990) states that measures aimed at fraud prevention include dual control, operational manual, graduated limits of authority, lending units, reporting systems, close circuit television, establishment of inspectorate units, referencing on presentation of document of value, segregation of duties, verification of signatures, controls of dormant accounts, detection of passport sized photos, close watch on the lifestyle of staff and coding/decoding and testing of telex messages.

2.4 Practical Guidance on Implementing the Principles

2.4.1 The Scope of Internal Control

Internal control is often perceived and treated as a compliance requirement, rather than as an enabler of improved organizational performance. Effective internal control can help organizations improve their performance by enabling them to take on additional opportunities and challenges in a more controlled way. Therefore, there needs to be a better understanding of how organizational performance relates to effective risk management and the role and effectiveness of internal control.

- Organizations always face uncertainty in achieving their strategic, operational, and other objectives. However, they can decide the level of risk they wish to be exposed to in the pursuit of those objectives. Proper risk assessment and internal control assist organizations in making informed decisions about the level of risk that they want to take, and implementing the necessary controls, in pursuit of the organizations’ objectives. However, risks should not be taken without an explicit understanding of their potential consequences for achieving an organization’s objectives. Therefore, decision makers require relevant and reliable information, produced through the
internal control system, to effectively implement and execute their strategic and operational plans.

- In recent years, focus has shifted from internal control as a separate concept to internal control as an integrated part of risk management and governance. For example, corporate governance codes worldwide now generally put greater emphasis on effective risk management than just on internal control. Internal control can be most effective when it is integrated with risk management and both are embedded in all the governance processes of an organization. Risk management and internal control should therefore be viewed as two sides of the same coin, in that risk management focuses on the identification of threats and opportunities, while controls are designed to effectively counter threats and take advantage of opportunities.

- Sustainable organizational success depends on how well an organization can integrate risk management and internal control into a wider governance system as an integral part of its overall activities and decision-making processes. A strong, integrated governance system is an integral part of managing a disciplined and controlled organization. Effective integration can result in an enterprise-wide governance, risk management, and internal control system that: supports management in moving an organization forward in a cohesive, integrated, and aligned manner to improve performance, while operating effectively, efficiently, ethically, and legally within established limits for risk-taking; and Integrates and aligns activities and processes related to objective setting, planning, policies and procedures, culture, competence, implementation, performance measurement, monitoring, continuous improvement, and reporting.

- An excessive and exclusive focus on financial reporting controls distracts management from ensuring that operational or strategic controls exist and are functioning as intended. Root-cause analyses of business failures frequently identify insufficiently controlled risks at the operational level that caused
significant problems before the financial statements could even be prepared. The challenge is to recognize that key financial controls might be able to pass a validation test, while underlying ineffective controls still expose the organization to unacceptable levels of risk. For example ensuring the effectiveness of financial reporting controls on inventory does not necessarily lead to sufficient reduction of inventory risk, such as waste, obsolescence or theft.

- Evaluating and improving risk management and internal control are among the core competencies of many professional accountants in business. Therefore, professional accountants can play a leading role in ensuring that risk management, including internal control, forms an integral part of an organization’s governance system. With an integrated, organization-wide approach to risk management and internal control, professional accountants in business also encourage the practice that risks be viewed and treated in a more holistic way. Therefore, all important business decisions should be based on proper risk assessment that defines the overall effect of uncertainty on the organization’s objectives, so that individual risks are not assessed and dealt with in isolation or in a linear, unconnected way.

2.4.2 Responsible For Internal Control System

Responsibility with respect to internal control should reside with those who have the highest level of authority, instead of being delegated to staff who lack executive powers. Responsibilities for internal control are distributed among numerous groups. The governing body should assume overall responsibility for the organization’s internal control strategy, policies, and system, and act accordingly. It should define risk management strategy, approve the limits for risk taking and criteria for internal control, and make sure that management has effectively undertaken its responsibilities relating to management of risks and corresponding internal controls.

- Management, as the primary risk owner, should design, implement, maintain, monitor, evaluate, and report on the organization’s internal control system in
accordance with risk strategy and policies on internal control as approved by the governing body. Each person within the organization—management and other employees alike—should be held accountable for proper understanding and execution of risk management and internal control within his or her span of authority.

- The governing body could have an audit or risk management subcommittee, to which it could entrust some of its primary oversight tasks with respect to internal control. However, the governing body as a whole should retain overall responsibility for overseeing risk management and internal control. In some organizations, separate risk management functions exist. The risk officer function should enable broad risk management and internal control awareness across the organization, rather than an enforcer of compliance. Risk officers can strengthen the risk management and control competence of governing bodies, management, and employees, but should never take over risk management and internal control responsibilities from line managers.

- As risks should have “owners,” controls should also be owned by someone who is responsible for their operation. The control owner or operator would normally be the person who executes the control on a day-to-day basis and can be someone other than the risk owner. The organization should explicitly designate and communicate the various risk and control owners. The professional accountant in business, with his or her specific training and mindset, is in a good position to support management in determining, as well as implementing and monitoring, the various roles and responsibilities with respect to internal control. Professional accountants may also serve as risk officers in organizations.
2.4.3 Obtaining of Management Attention on Internal Control Objectives

Recognizing positive performance can have a huge impact on strengthening internal control. In order to get the appropriate attention of executive and line management, as well as of all other employees in an organization, internal control objectives should not only be linked to the organization’s objectives but also to individual performance objectives.

- The crucial importance of internal control to sustainable organizational success cannot be over emphasized. Achieving the organization’s objectives and maintaining effective controls are inextricably linked. Sustainable success is based on people who create opportunities and properly control their business. This should, therefore, be explicitly recognized in the organization’s process of performance assessment. Managers should also be held explicitly accountable for being in control, for example, by issuing in control statements or letters of representation.

- This is supported by the view that emerged from the UK Financial Reporting Council’s Review of the Turnbull Guidance on Internal Control—Evidence Paper, which states that: “It was felt that those companies that viewed internal control as sound business practice were more likely to have embedded it into their normal business processes, and more likely to feel that they had benefited as a result, than those that viewed it primarily as a compliance exercise.”

- The organization should also ensure that those who are responsible for each risk are maintaining those risks within established limits for risk taking, as they may be inclined to choose their own risk limits over those of the organization. Further, professional accountants in business can support their organization in incorporating information on control objectives and control
performance into the various organizational and personal or team performance management systems.

2.4.4 Living in internal control system responsibilities

There is a risk that people with assigned internal control responsibilities might not have sufficient knowledge, experience, skills, or time to adequately fulfill those responsibilities. This can seriously weaken and even jeopardize the effectiveness of the internal control system, which can in turn damage an organization.

- Competence in this respect means: having sufficient understanding of how changes in the organization’s objectives, external and internal environment, strategy, activities, processes, and systems affect its exposure to risk; knowing how risks can be treated with appropriate controls, in line with the organization’s risk management strategy and policies on internal control; knowing the principles of the segregation of duties to ensure that incompatible duties are properly segregated, so that no individual has total control over a transaction; being able to implement and apply controls, monitor their effectiveness, and deal with any insufficiently covered risks, as well as with possible control weaknesses or failures; having sufficient capabilities available to evaluate and improve individual controls; and being able to execute or review the evaluation and improvement of the organization’s internal control system.

- While professional accountants in business can support the organization as coaches and provide on-the-job training on risk management and internal control, they need senior-level management sponsorship and financial support to serve in these roles. With this sponsorship, professional accountants in business can help enhance the level of internal control competence within the organization.
2.4.5 Internal Controls Selection, Implementation and Application

Often, organizations implement internal controls without adequate assessment of the external and internal environment, as well as their objectives, activities, processes, or systems that are sources of risk. Controls are a means to an end—the effective management of risks, enabling the organization to achieve its objectives. Before designing, implementing, applying, or assessing a control, the first question should be what risk or combination of risks the control is supposed to modify. Organizations should mandate that all strategic and operational decision making is supported by risk management and the subsequent implementation of appropriate controls. All important deviations from the intended outcome need to be assessed. Therefore:

- Organizations should be aware that various risks can create an aggregated effect of uncertainty on the achievement of their objectives. Therefore, risks should be assessed and controls designed taking common causes and synergies into account, including escalation and domino consequences. For example, a flood can create a domino effect, starting with damage to assets (via interruption of the supply chain and the consequential loss of production), falling sales, increasing liquidity shortages, and other similar difficulties, which could eventually lead to business failure.

- Controls should be cost-effective in a broad sense—the overall benefits, taking into account economic, environmental, and social considerations, regulation, and the organization’s limits for risk taking, should be larger than the costs, and the greater the difference, the more cost-effective the control. The consequence of this principle is that internal control can, therefore, only provide reasonable assurance that an organization meets its control objectives. It should be recognized, though, that some risks, albeit relatively small from a monetary perspective, can nevertheless have very significant consequences if they materialize, warranting a greater degree of control than a purely quantitative approach might suggest. For example, the payment of even a small bribe can cause very serious reputational damage to any organization.
The balance between risks and related controls is continually changing in a dynamic environment and controls should be continually reevaluated and re-optimized. Risk reassessment and adjustment of internal controls should be carried out on a continuous cycle. For each business cycle, when management revisits strategy the related risk and control policies also need to be reassessed. Changes in risk-taking strategy lead to changes in the amount of risk taken on or the level of controls applied. Additionally, external developments may affect risk, which, in turn, may necessitate changes in internal controls.

The effort to design, plan, execute, and monitor internal control must be properly balanced with the effort to plan, execute, and monitor the organizational business plan. With too little attention on internal control, business objectives will not be achieved. On the other hand, overly stringent control requirements can paralyze the organization: internal control becomes a goal in itself. Moreover, professional accountants in business can support their organization by designing controls to be more cost effective, for example, by altering the mix of controls or by better embedding controls into the normal course of business (more “built-in” and less “add-on” controls).

2.4.6 Ingrained internal control into organization’s DNA

In many organizations, the internal control system exists in written instructions and procedures, but these may not be sufficiently adopted or followed in everyday management or actual operations.

Internal controls can only work effectively when they, together with the risks they are supposed to modify, are clearly understood by those involved. Therefore, controls should not be documented and communicated in isolation but integrated through formal and informal channels into the elements of the management system in which they are intended to operate, including the related objectives, activities, processes, systems, risks, and responsibilities. Further, proper documentation and communication are vital for effective
internal control. When documenting and communicating controls, attention should be paid to the usability and understandability of the various policies, procedures, etc. The use of plain language supports effective internal control. This language should meet professional and technical standards but also be understandable for non-professionals in this area, such as line managers and process owners.

- Documentation is only the beginning; risk management and internal control should also be embedded into the way people work. Therefore, management should ensure, through active communication and discussion, that what is written in a policy document or handbook is understood widely across the organization and applied in practice by employees. A natural way of internalizing risk management and internal control is to actively engage people, through training and team meetings, in the treatment of the risks they “own” and the development, implementation, operation, and evaluation of the related controls. This is especially important when people change roles—the risk profile, the relevant limits for risk taking, the controls in place, and the residual risk should be fully passed on to incoming staff.

- Changes in the internal control system should be reflected in updated documentation and additional communications. This requires identifying, documenting, and communicating who makes the decisions; assigning responsibility for various processes; and determining how changes in the internal control system are to be approved, implemented, and monitored. It is crucial to test the design of newly implemented and documented controls, followed by monitoring their operating effectiveness. Also the common use of online systems both facilitates and challenges the effective documentation, communication, and monitoring of internal control. This reality must be considered in ensuring effective dissemination and use of the organization’s internal control policies and procedures, including updates. Not only this but also professional accountants in business are frequently engaged in the improvement of documentation and communication of internal control.
systems. In addition, a professional accountant in business can support the organization, for example, by organizing internal control training sessions and establishing an understandable, common internal control language that meets professional and technical standards.

2.4.7 Monitoring and evaluation of internal control system

The organization should become aware that a problem with either an individual control or the internal control system has occurred as soon as possible, so that further damage can be prevented or contained and the issue rectified. In many cases, however, not enough attention is given to defining what, exactly, should be monitored and evaluated with respect to internal control, how this should be done, and by whom. Many people confuse the monitoring and evaluation of the internal control system with the monitoring and evaluation of the individual controls. At first glance, an individual control might seem to be effective, but it should also be evaluated in the context of how the overall internal control system is intended to work. Conversely, an effective internal control system should be able to detect and remediate, in a timely manner, individual controls that have become deficient or redundant. Therefore, both the individual controls and the overall internal control system should be regularly monitored and evaluated in conjunction with each other. This completes the “Plan-Do-Check-Act Cycle” with respect to internal control.

2.5 Research Gap

Based on the above empirical literature, it is evident that a good number of similar researches to this research have been done. However, there is no evidence which show that the same research has been done where this research was done. Hence, findings from this study will cover the gap.
2.5 Conceptual Framework

Figure 2.1: The conceptual framework indicating relationship between Internal Control and Financial frauds and Money Laundering.

**Independent Variable**

<table>
<thead>
<tr>
<th>Internal Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Separation of duties</td>
</tr>
<tr>
<td>• Responsibility &amp; Authorization</td>
</tr>
<tr>
<td>• Supervision &amp; approval</td>
</tr>
<tr>
<td>• Voucher System &amp; Management</td>
</tr>
<tr>
<td>• KYC and Anti Money laundry law</td>
</tr>
</tbody>
</table>

**Dependent Variable**

<table>
<thead>
<tr>
<th>Financial Frauds &amp; Money Laundering</th>
</tr>
</thead>
<tbody>
<tr>
<td>• High performance</td>
</tr>
<tr>
<td>• High profitability</td>
</tr>
<tr>
<td>• Good reputation</td>
</tr>
</tbody>
</table>

**Intervening Variables**

- Government Accounting Policy and Laws
- General Accepted Accounting Principles
- International Audit Standard and International Financial Reporting Standard

Source: NMB Audit and Compliance Manual
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In this chapter, the methodology which was employed in this study is provided. The explanations are on the research area, the population, sample and sampling procedures. The explanations are also on data collection methods and instruments as well as data analysis procedure.

3.2 Type of the Study

This study is causal analysis in which shows how are variable affects or is responsible for changes in other variables. In business research, the researcher often find causal and effect relationship less explicitly we are more interested in understanding, explaining, predicting and controlling relationship between the variables than we discover causes.

Causal studies seek to discover the effect that a variable(s) has on another (or other) or why certain outcomes are obtained. The concept of causality is grounded in the logic of hypothesis testing, which in turn produces induction logic. Causal relationship is determined in this study in order to seek the following: Measuring the co-variation among the variables, determine the time order relationship among variables and ensure that other factors do not conformed the explanatory relationship. Using these methods and techniques; the researcher seeks to ensure the measurements between the relationships are as accurate and objective as possible.

3.3 Study Area

The research was conducted at NMB Head office. The researcher selected this area because it is where the organization is located, convenient for data collection, accessible and possesses the information the researcher would need for the study.
3.4 Population of the Study

The population consisted all NMB employees and stakeholders in Dar es Salaam region.

3.5 Units of Analysis

The respondents were located in Dar Es Salaam City, Ilala district. The data was collected from managers, and employees at NMB House – Head office. It was focused on business areas or department which are involved in setting up, implementing and review the risk phenomena which are likely to impact the bank through financial frauds or money Laundering.

3.6 Population and Sample Size

A population was derived from NMB stakeholders in Dar es Salaam region.

Sample

A sample was derived from the population and the respondents were mainly from the bank that is employees. Table 3.1 indicates sample distribution.

Table 3.1: The table shows the Sample size of the study.

<table>
<thead>
<tr>
<th>No.</th>
<th>Department at Head Office</th>
<th>Number of Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Finance and Control</td>
<td>5</td>
</tr>
<tr>
<td>2.</td>
<td>Risk and Compliance</td>
<td>5</td>
</tr>
<tr>
<td>3.</td>
<td>Internal Audit</td>
<td>7</td>
</tr>
<tr>
<td>4.</td>
<td>Operation</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>30</td>
</tr>
</tbody>
</table>

Source: Personal Basing on Research Design
The researcher used random sampling method to obtain relevant data. A maximum total of 30 employees from the population will be a sample.

3.7 Sampling Techniques

The researcher used purposive sampling method because; targeted group of people as earlier identified are reliable and have enough experience in this area. The power of purposive sampling lies in selecting information rich cases for in-depth analysis related to the central issues being studied (Kombo and Tromp, 2006).

3.8 Types and Source of Data

This research adopted both primary and secondary types of data. Primary data were obtained from Managers and staff through questioners and interviews. Secondary data was obtained from bank operating manuals, product performance reports files and other related documents.

3.9 Data Collection Methods and Instruments

The following are the methods which were employed by the researcher as a means to collect data; these included Interviews, Questionnaires, Observation and Documentation.

Interview

An interview guide was used especially with senior officers in all departments. A structured interview questions were used. This is because interviews are flexible, clear and appropriate in making the researcher formulate questions on the bases of respondents’ answers; also the method was useful in soliciting information, views and opinions from the respondents so as to obtain more findings due to their gestures, and facial expressions.
Questionnaires
This was instrument used for data collection. The researcher used pre-formulated written set of questions where the respondents were recorded their answers. It was efficient data collection mechanisms which are affordable and give respondents enough time to answer the questions more correctly whilst they can be kept for future review. The questionnaires used were Closed ended.

Observation and Observation Schedule
The researcher employed observation techniques during the data collection because it was possible to gather data without asking questions rather by observing people in their natural work environment and recording their status. The researcher collected data as participant observer. The observation schedule was designed as an instrument and that ensured systematic observations.

Documentary Review and Documentary review schedule
The researcher read relevant documents relevant to the study such as material related with the research questions like the impact of internal control on various offences like financial fraudulent activities and extent of money laundering, bank manual, process, policies and procedures. The aim of the researcher in choosing this method was to learn what has been done by others and give the wider area to deal with the problem.

The documentary review schedule was used as a guide for systematic review of identified documents.

3.10 Data Analysis Procedure
Data analysis is an important step towards finding solutions of a problem under study. Data analysis is also viewed as a systematic process involving with data coding, organizing and dividing them into small manageable portions. Furthermore, data are further synthesized in order to discover what is important and what has been learned so as to decide what to tell others.
The coding technique was employed during data analysis. Coding refers to the process of assigning numerals or other symbols to answers so that responses can be put into a limited number of categories or classes. The classes possess the characteristic of exhaustiveness (That is, there must be a class for every data item) and again the class must be that of mutually exclusive such that a specific answer can be placed in one and only one cell in a given category.

Coding is necessary for efficient analysis through it the several replies may be reduced to a small number of classes which contain the critical information for analysis. Data from the field was given labels which were entered in the Integrated Microcomputer Processing System (IPMS) developed by the US Bureau of Census. Furthermore, responses were entered into the computer using Integrated Microcomputer Processing System (IMPS) software and were processed. IMPS have facilities for the construction of data dictionary, application software and data processing capabilities. Data was exported to Statistical Package for Social Scientists (SPSS) for analysis; the analysis was done in the SPSS where various tables and charts were constructed.
CHAPTER FOUR
DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter revealed the presentation of findings of the research that was conducted at NMB Head office Dar es Salaam located in Ilala District. The study is about the role of internal controls on combating financial frauds and money laundering. A total of 30 questionnaires were distributed to 30 respondents.

4.2 Demographic Characteristics of the Respondents

Table 4.1: Classification of Respondent by Gender

<table>
<thead>
<tr>
<th>Valid</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>12</td>
<td>40.0</td>
<td>40.0</td>
<td>40.0</td>
</tr>
<tr>
<td>Female</td>
<td>18</td>
<td>60.0</td>
<td>60.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Data 2012

The study found that a large number of staff about 18 (60%) out of 30 are female, also the study observed 12 (40%) were male.

Table 4.2: Classification of Respondents by Education

<table>
<thead>
<tr>
<th>Valid</th>
<th>Diploma</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bachelor</td>
<td>15</td>
<td>50.0</td>
<td>50.0</td>
<td>76.7</td>
</tr>
<tr>
<td></td>
<td>Masters</td>
<td>5</td>
<td>16.7</td>
<td>16.7</td>
<td>93.3</td>
</tr>
<tr>
<td></td>
<td>CPA/ACCA</td>
<td>2</td>
<td>6.7</td>
<td>6.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>30</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Data 2012
The table 2 above indicates that 15 (50%) of respondents they have Bachelor degree qualification, 8 (26.7%) of respondents they have Diploma / Advanced Diploma qualification, 5 (16.7%) of respondents they have Master’s Degree and it is 2(6.7%) of respondents they have acquired CPA (T).

Table 4.3: Respondents work experience in the Banking Sector

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 2 years</td>
<td>9</td>
<td>30.0</td>
<td>30.0</td>
</tr>
<tr>
<td>Between 2 to 5 years</td>
<td>11</td>
<td>36.7</td>
<td>36.7</td>
</tr>
<tr>
<td>Between 5 to 10 years</td>
<td>5</td>
<td>16.7</td>
<td>16.7</td>
</tr>
<tr>
<td>Over 10 years</td>
<td>5</td>
<td>16.7</td>
<td>16.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Field Data 2012

The data above indicates that 11 respondents which is 36.7% of 30 respondents they have work experience of 2 to 5 years in Banking Sector, 9 respondents which is 30% of 30 respondents they have work experience of less than 2 years in Banking Sector, 5 respondents which is 16.7% of 30 respondents they have work experience of 5 to 10 years in Banking Sector and 5 respondents which is 16.7% of 30 respondents they have work experience of over 10 years in Banking Sector.

4.3 Impact of Internal Control on Frauds and Money Laundering

Table 4.4: Awareness about internal control system

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>22</td>
<td>73.3</td>
<td>73.3</td>
</tr>
<tr>
<td>No</td>
<td>8</td>
<td>26.7</td>
<td>26.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Field Data 2012
From the field data above, 22 respondents out of 30 which is 73.3% of respondents they replied Yes implying that they know internal control and the remained 8 respondents out of 30 respondents they replied No to indicate that they do no internal controls.

**Table 4.5: Opinion on whether proper and satisfactory internal controls can detect and prevent frauds and money laundering**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Yes</td>
<td>22</td>
<td>73.3</td>
<td>73.3</td>
<td>73.3</td>
</tr>
<tr>
<td>No</td>
<td>8</td>
<td>26.7</td>
<td>26.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field Data 2012

The researcher wanted to know the opinion from the respondents on whether proper and satisfactory internal controls can detect and prevent frauds and money laundering. According to the field data shown above 22 respondents which is 73.3% they replied yes to show that proper and satisfactory internal controls can detect and prevent frauds and money laundering, the remained 8 respondents which is 26.7% they replied no to show that proper and satisfactory internal controls cannot detect and prevent frauds and money laundering.

**Table 4.6: How relevant the internal controls are**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Very relevant</td>
<td>22</td>
<td>73.3</td>
<td>73.3</td>
<td>73.3</td>
</tr>
<tr>
<td>Relevant</td>
<td>8</td>
<td>26.7</td>
<td>26.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field Data 2012

The researcher wanted to know the relevance of internal control from the respondents. From the field data above 22 respondents which is 73.3% they replied
that internal controls are very relevant, while the remained 8 respondents which is 26.3% they replied to this question they replied that internal controls are relevant.

**Table 4.7: Absence of internal controls can lead to collapsing of the Bank**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Yes</td>
<td>26</td>
<td>86.6</td>
<td>86.6</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>4</td>
<td>13.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>30</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field Data 2012

The researchers aim was to see whether the absence of internal controls can lead to collapse of the Bank or not. The respondents were asked to reply on their opinion. According to their response it was found that a large number of respondents who are 26 respondents which are 86.6% they replied Yes to indicate that absence of internal controls can lead to collapsing of the Bank while the remained 4 respondents which is 13.4% they replied absence of internal control cannot lead to collapsing of the Bank.

**4.4 Inefficiency and Ineffectiveness of Internal Control**

**Table 4.8: Amount Bank Officer cannot debit or credit customers’ account without supervisory authorization**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Yes</td>
<td>21</td>
<td>70.0</td>
<td>70.0</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>9</td>
<td>30.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>30</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field Data 2012

Out of 30 respondents who replied to this question, 21 (70%) they agreed that there is amount where Bank Officer cannot debit or credit customers’ accounts without supervisory authorization while the remaining 9(30%) they replied that there is no
amount where Bank Officer cannot debit or credit customers’ accounts without supervisory authorization.

**Table 4.9: The amounts range in figures**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Above TZS 2,000,000</td>
<td>21</td>
<td>70.0</td>
<td>70.0</td>
<td>70.0</td>
</tr>
<tr>
<td>Above TZS 500,000</td>
<td>9</td>
<td>30.0</td>
<td>30.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

**Source: Field Data 2012**

From the respondents’ feedback on table 9 above, the researcher wanted to know if there is such an amount and at what range in Tanzanian Shillings can be credited or debited to customers’ accounts with authorization. Out of 30 respondents who replied to this question, 21 (70.0%) they agreed that there is amount which is above TZS 2,000,000; 9 (30%) of the respondents agreed and accept the amounts being above TZS 500,000 where Bank Officer cannot debit or credit customers’ accounts without supervisory authorization.

**Table 4.10: Cash basis transactions**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>27</td>
<td>90.0</td>
<td>90.0</td>
<td>90.0</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>10.0</td>
<td>10.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

**Source: Field Data 2012**

Field data above indicates that 27 (90%) of respondents replied to this question they supported Yes that most of the customer they do cash transactions while the remained 8 (10%) they replied No to indicates that most of customers do not do cash basis transactions.
Table 4.11: Is the bank export cash and deposit in oversees banking system

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>19</td>
<td>63.3</td>
<td>63.3</td>
<td>63.3</td>
</tr>
<tr>
<td>No</td>
<td>11</td>
<td>36.7</td>
<td>36.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field Data 2012

Field data above indicates that 19 respondents (63.3%) of respondents replied to this question they supported Yes that the bank export cash and deposit in oversees banking system while the remained 11 respondents (36.7%) they replied No to indicates that the bank do not export cash and deposit in oversees banking system.

4.5 Proactive, Strong and Satisfactory Internal Control Systems

Under this section the researcher wanted to know that does any of the issue highlighted in tables below takes place within the Banking environment. The responses are as follows:

Table 4.12: Excessive variations to budgets or contracts

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>3</td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>No</td>
<td>25</td>
<td>83.3</td>
<td>83.3</td>
<td>93.3</td>
</tr>
<tr>
<td>Not sure</td>
<td>2</td>
<td>6.7</td>
<td>6.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Data 2012
From the field data above, 25 respondents (83.3%) replied to this question they replied No to indicates that there is no excessive variations to budgets or contracts, 3 respondents (10.0%) replied Yes to support that there is excessive variations to budgets or contracts, while the remained 2 respondents (6.7%) they replied that they are not sure on whether there is excessive variations to budgets or contracts.

Table 4.13: Transactions processing during awkward hours

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>16</td>
<td>53.3</td>
<td>53.3</td>
<td>53.3</td>
</tr>
<tr>
<td>No</td>
<td>8</td>
<td>26.6</td>
<td>26.6</td>
<td>79.9</td>
</tr>
<tr>
<td>Not sure</td>
<td>6</td>
<td>20.1</td>
<td>20.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Data 2012

From the field data above, 16 respondents (53.3%) replied to this question they replied Yes to indicates that transaction processing are taking place during awkward hours, 8 respondents (26.6%) replied No to indicate that transaction processing are not taking place during awkward hours, while the remained 6 respondents (20.1%) they replied that they are not sure on whether transaction processing are taking place during awkward hours.

Table 4.14: Excessive movements of cash or transactions between accounts

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>20</td>
<td>66.7</td>
<td>66.7</td>
<td>66.7</td>
</tr>
<tr>
<td>No</td>
<td>6</td>
<td>20.0</td>
<td>20.0</td>
<td>86.7</td>
</tr>
<tr>
<td>Not sure</td>
<td>4</td>
<td>13.3</td>
<td>13.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Data 2012
Out of 30 respondents who replied to the question on whether there is excessive movements of cash or transactions between accounts, 20 (66.7%) they agreed that there is excessive movements of cash or transactions between accounts within the Banking environment, 6 (20.0%) they replied No to show that there is no excessive movements of cash or transactions between accounts within the Banking environment, and the remained 4 (13.3%) they are not sure on whether excessive movements of cash or transactions takes place between accounts within the Banking environment.

Table 4.15: Management frequently overrides internal control

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>4</td>
<td>13.3</td>
<td>13.3</td>
<td>13.3</td>
</tr>
<tr>
<td>No</td>
<td>24</td>
<td>80.0</td>
<td>80.0</td>
<td>93.3</td>
</tr>
<tr>
<td>Not sure</td>
<td>2</td>
<td>6.7</td>
<td>6.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Data 2012

From the field data above, 4 respondents (13.3%) replied to this question on whether management frequently overrides internal control they replied Yes to indicates that management frequently overrides internal control, 24 respondents (80.0%) replied No to indicate that management do not frequently overrides internal control, while the remained 2 respondents (20.1%) they replied that they are not sure on whether management frequently overrides internal control.
Table 4.16: Customer who insist on dealing with one particular member of staff

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Yes</td>
<td>20</td>
<td>66.7</td>
<td>66.7</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>7</td>
<td>23.3</td>
<td>90.0</td>
</tr>
<tr>
<td></td>
<td>Not sure</td>
<td>3</td>
<td>10.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>30</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field Data 2012

From the field data above, 20 respondents (66.7%) replied to this question on whether there are customer who insist on dealing with one particular member of staff, they replied Yes to indicates that there are customer who insist on dealing with one particular member of staff, 7 respondents (23.3%) replied No to indicate that there is no customer who insist on dealing with one particular member of staff, while the remaining 3 respondents (10.0%) they are not sure whether there are customers who insist on dealing with one particular member of staff.

Table 4.17: Unusual employee behavior such as refusal to comply with normal rules

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Yes</td>
<td>4</td>
<td>13.3</td>
<td>13.3</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>23</td>
<td>76.6</td>
<td>89.9</td>
</tr>
<tr>
<td></td>
<td>Not sure</td>
<td>3</td>
<td>10.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>30</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field Data 2012

From the field data above, 23 respondents (76.6%) replied to this question on whether there is unusual employee behavior such as refusal to comply with normal rules, they replied No to indicates that there is no unusual employee behavior such as
refusal to comply with normal rules, 4 respondents (13.3%) replied Yes to indicate that there is unusual employee behavior such as refusal to comply with normal rules, while the remained 3 respondents (10.1%) they are not sure on whether there is unusual employee behavior such as refusal to comply with normal rules.
CHAPTER FIVE
DISCUSSION OF THE FINDINGS

5.1 Introduction

The study was designed to study the role of internal control on financial frauds and money laundering the case of NMB PLC head office Dar es Salaam. This chapter presents the discussion of the findings which emerged from the information gathered. It starts with introduction, demographic characteristics of respondents, impact of internal control on frauds and money laundering, inefficiency and ineffectiveness of internal control and proactive, strong and satisfactory internal control systems.

5.2 Demographic Characteristics of the Respondents

Description of silent features of sample

A total number of thirty respondents who works at NMB Head Office were interviewed through survey questionnaire. From the information gathered and presented in table 1 majority of respondents who works at NMB Head Office were Female compared to Male who was few in number.

Respondents Level of Education

Generally from the table 2 above, majority of respondents who replied to the questions they have Bachelor degree as their academic qualification, few of them they have acquired a diploma and Master’s Degree level and these are the ones who works as the Head of different departments within the head office. About professional qualification they are few and are the one who serves as the Head of Department of Finance and Control together with Head of Internal Audit Department. This shows elite population at NMB Bank is at significant level to make operation running smooth while adhering to policy and procedures as per bank requirements and financial act.
Respondents work experience

From the information presented in table 3 above it is only 30% of total respondents who having the work experience of less than 2 years in a Banking sector while the remained 70% of respondents they are found having experience of more than 2 years in the Banking sector. This means not only the high population is knowledgeable but also possess experience which is a cornerstone of success in organizations like Banks.

5.3 Impact of Internal Control on Frauds and Money Laundering

Awareness on Internal Control

From the information gathered by researcher majority of staffs who works at NMB Head Office they know internal controls and in their opinion they argued that proper and satisfactory internal controls can detect and prevent frauds and money laundering. Also they continued to argue that internal controls are relevant in day to day operations of the Banking activities. Also they supported that in their opinion, which they think that absence of internal controls can lead to collapsing of the Bank.

Inefficiency and Ineffectiveness of Internal Control

At NMB Head Office it is found that there is inefficiency and ineffectiveness of internal control since the respondents replied to the questions aimed at finding whether there is inefficiency and ineffectiveness of internal control they argued that there are amounts where Bank Officer cannot debit or credit customers without supervisory authorization. Also they suggested that most customers do cash transactions although others they said that there are other method customers do transactions such as NMB Mobile, ATM and by cheque.

D: Proactive, Strong and Satisfactory Internal Control Systems

Under this section there was one question which requires the respondents to respond on whether several issues listed are taking place within the Banking environment. According to their responses it is observed that there are no excessive variations to budgets or contracts, no excessive movements of cash or transactions between
accounts and no unusual employee behavior such as refusal to comply with normal rules. Also management do not frequently overrides internal control. But also it was found that sometimes transactions processing are taking place during awkward hours as emergence if it is found that there are some accounts failed to balance.
CHAPTER SIX
SUMMARY, CONCLUSION AND POLICY IMPLICATIONS

6.1 Introduction

This chapter presents the summary of the study, conclusion and recommendations. The recommendations are both for immediate action and further study.

6.2 Summary of the Study and Conclusion

A research on the role of internal controls on combating financial frauds and money laundering was done at the NMB PLC. The problem studied was among greatest challenges facing commercial. The problem was fueled by the continuous growth in technology and lack of proper internal control system has put most banks in the stressful and unrest atmosphere.

The general objective was to investigate role of internal controls on combating financial frauds and money laundering was done at the NMB PLC. Specific objectives were: To identify the impact of Internal Control System on frauds and money Laundering, to learn why current Internal Control System are inefficient and ineffective, to investigate the corrective measure to assure strong and satisfactory Internal Control system are proactive.

In light of these, the background to the problem were merely underpinned by the widespread of global corporate accounting scandals that assumes near epidemic proportions in recent years inform this study. Notable cases include Enron and WorldCom in the USA, Parmalat in Europe, and Chuo Aoyama in Asia. In South Africa, cases of accounting scandals have been recorded in JCI and Rand gold and Exploration companies. In Nigeria, the Managing Director and Chief Financial Officer of Cadbury Nigeria PLC were dismissed in 2006 for inflating the profits of the company for some years before the company’s foreign partner acquired controlling interest. These scandals emphasize the need to evaluate, scrutinize, and formulate systems of checks and balances to guide corporate executives in decision-
making. These executives are legally and morally obliged to produce honest, reliable, accurate and informative corporate financial reports periodically whilst ensure cash management controls are in place.

Furthermore, with regard to the background, one of the factors which led to an investment bank like Lehman Brother collapse during financial crisis as result of accounting manipulation was poor and or weak internal controls. In the report of Valukas (2010) explains that the Bankruptcy Examiner, the report drew attention to the use of Repo 105 transactions to boost the bank's apparent financial position around the date of the year-end balance sheet. The attorney general later Andrew Cuomo filed charges against the bank's auditors Ernst & Young in December 2010, alleging that the firm "substantially assisted... a massive accounting fraud" by approving the accounting treatment.

Both empirical and theoretical literature was reviewed. Case study research design was employed and the population of the study included all NMB stakeholders and staff. The sample constituted 30 NMB staffs. Four methods of data collection were employed which are interview, observation and documentations. Instruments used were interview questions, questionnaires, observation schedule and documentary review guide.

Collected data was analyzed through Statistical Package for Social Scientist (SPSS).

Findings from the study revealed that, internal control plays a significant role in combating financial frauds and Money laundering. Most respondent commented that, if these appropriate and satisfactory were lacking the bank would have experience a significant number of frauds and money cleaning cases. It is generally concluded that money frauds and laundering in commercial sector have negative influence on bank performance. It affects bank capital and lead corruption of the highest order. Furthermore, these were revealed to lead into inflations and hence, negative influence to the country’s economy including socio-economic development.
6.3 **Recommendations**

The following are recommendations for both immediate action and further research.

- The government should make innovations into the present policy and enact very tough law including long life imprisonment for those who will be proved guilty in money laundering and fraud actions.

- The bank of Tanzania (BOT) should improve strategies for monitoring and management of other financial institutions inside and outside Tanzania. This will enable the BOT to easily detect money flounders and launders.

- The commercial institutions should train employees on how to combat money flounders and fraud.

- All financial institutions should adopt science and technology in their operations.

- The same research to be done in other banks such as the National Bank of Commerce (NBC), Exim Bank, Standard Chartered Bank to mention a few. This will enable different researchers on the same issue to emerge with converging conclusions and recommendations.

- The researcher also recommends other issues in NMB PLC which influence the performance of the bank to be studied.
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Mahushi, P. (1985), Basic internal control, Songea: Peramiho Printing Press


Rana Farooq Alajiz (2008), The Role of Banks in the Control of Money Laundering Operations applied study on Palestinian banks in the Gaza Strip, "Master Thesis, Faculty of Economics University of Gaza


**Internet Based Information**

http://aaahq.org/audit/midyear/07midyear/papers/Coram_TheImportanceOfInternalAudit.pdf

http://www.bis.org/publ/bcbs40.pdf

http://www.Laundering_man.u-net.com/page5_mlstgs.html

APPENDIX I

RESEARCH QUESTIONNAIRES

Dear respondent, I am a bonafide student of Mzumbe University pursuing MBA in Corporate Management. I am conducting the research on the role of internal control on frauds and money Laundering.

This research is purely for academic purpose and all the information given will be treated in utmost good faith and Confidential. Further privacy and anonymity of the respondent will be highly observed.

A. DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS

Please check the most appropriate answer by putting the symbol “✓”

1. What is your gender? Male ☐ Female ☐
2. What is your level of Education?
   Diploma ☐ Bachelor ☐ Masters ☐ PA / ACCA ☐
3. How long have you been working in a Banking Sector?
   Less than 2 years ☐ between 2 to 5 years ☐
   Between 5 and 10 years ☐ Over 10 years ☐

B. IMPACT OF INTERNAL CONTROL ON FRAUDS AND MONEY LAUNDERING

4. Do you know internal controls? Yes ☐ No ☐
5. In your opinion, do you think proper and satisfactory internal controls can detect and prevent frauds and money laundering?
   Yes ☐   ☐ No ☐

6. If yes, how relevant do you think the internal controls are? Very Relevant
   Relevant ☐ Irrelevant ☐ Very irrelevant ☐

7. In your opinion, do you think absence of internal controls can lead to collapsing of the bank?
   Yes ☐ No ☐

C. INEFFECTIVENESS AND INEFFECTIVENESS OF INTERNAL CONTROL

8. Is there any amount where bank officer cannot debit or credit customers account without supervisory authorization?
   Yes ☐ No ☐

9. If yes, the amounts range between what figures? Above TZS 500,000 ☐
   Above TZS 1,000,000 ☐ above TZS 2,000,000 ☐
   Above TZS 5,000,000 ☐

10. Are most of your customers do cash basis transactions? Yes ☐ No ☐

11. Is the bank export cash and deposit in oversea banking system?
    Yes ☐ No ☐

D. PROACTIVE, STRONG AND SATISFACTORY INTERNAL CONTROL SYSTEMS
Does any of this take place within the Banking environment?

<table>
<thead>
<tr>
<th>No.</th>
<th>Particulars</th>
<th>Yes</th>
<th>No</th>
<th>Not Sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>Excessive variations to budgets or contracts.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Transaction processing during awkward hours</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Excessive movements of cash or transactions between accounts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Management frequently overrides internal control</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Customer who insist on dealing with one particular member of staff</td>
<td></td>
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</tr>
<tr>
<td>17</td>
<td>Unusual employee behaviour such as refusal to comply with normal rules</td>
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<td></td>
</tr>
</tbody>
</table>

Thank you for your Cooperation and support in completing these questionnaires.