Bank Statement Reconciliation in the Nigerian Private Sector: Implications of Non- Adherence to Procedures

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Abstract
This research investigated the business attitude of Nigerian private sector businesses towards formal preparation of bank reconciliation in the course of their business operations. The specific objectives of the research included investigations as to whether businesses keep formal and standardized accounts, also whether they employ services of internal and external auditors and the impact of losses resulting from not conducting periodic bank reconciliation. The methodology uses involved data collection through questionnaires and interviews and analyzed statistically using SPSS statistical package. It was evident that most businesses did not embark on periodic bank reconciliation hence lost a lot of money to fraud and professional negligence. For the few who actually did reconcile bank statements many outsourced the bank reconciliation duties to consultants and even then many businesses where only compelled to embark on bank reconciliation to make their businesses eligible to benefit from bank loans or attract investments and contracts. The conclusions of this study includes that many small businesses are reluctant to incur costs of hiring qualified accountants and services of auditors hence the dearth in the practical applications to bank reconciliation procedure in many businesses. Secondly, Nigerian businesses have lost billion's to fraud and professional negligence. Policy recommendations include emphasis on teaching and training of students and accounting personnel on theoretical and practical aspects of book keeping, financial reporting and bank reconciliation. Secondly, businesses should employ qualified accountants and auditors for enhanced quality of internal control.

Key words: *Bank statement reconciliation, Nigerian private sector, Non-adherence to procedures*

1.0 INTRODUCTION

Bank reconciliation are instituted processes that enable organizations establish evidence on transactions that are contained in the organization's books but not the corresponding bank account statements and vice versa for the period under consideration. In doing so, if there are differences (which there often are), the job of the Accounting Officer in-charge of reconciliation would be to logically justify the difference between the bank balance as contained in the bank statement and the cash book balance contained in the organization's books for the period in question. Banking reconciliation is analytical in nature but is supported by accounting theories such as *"matching concept"*. By definition the matching principle is premised on accrual accounting where income and expenditure are matched within the period they occur. As part of the financial reporting obligations of businesses in many countries, modern day accounting theories attempt to put theories in the context of conceptual framework of Accounting rules and principles. Because policy decisions have to be made by top executives or business managers, the financial reporting that comes from bank reconciliation provides vital information that has short and long term consequences to the organization and the business environment as a whole. For this policy decisions to be effective, the information required by users at various stages of the bank reconciliation process has to show that the quality of information has to be relevant, the results have to be reliably accurate, and the standard rules and regulations that guides the country of operation should be comparable and consistent.

1.1 STATEMENT OF PROBLEM

This researcher was motivated by the seeming indifference and in some cases outright apathy of many businesses in Nigeria towards instituting bank reconciliation in their Accounting & Finance units. These attitudes by businesses are often common in small scale businesses, especially sole-proprietors and partnerships. Many businesses do not have qualified Accountants others who have them find out too late that many have little or no grasp in the theoretical and practical aspects of bank reconciliation. Sequel to that, many businesses have lost billions of naira through fraud perpetuated by bank officials and Accounting Staff either independently or collaboratively. Many of these fraudulent misappropriations go undetected, unreported or unproven at best. Where fraud is not the intent, businesses may lose money from not detecting wrong entries or credit omissions in their business bank accounts. In the longer run many businesses had gone under for relying on faulty information in making decisions, especially businesses with negative balances on their bank accounts as a possible result of an existing loan facility.

1.2 RESEARCH OBJECTIVES

(1) The research intends to establish the attitude of businesses in the private sector towards keeping formal accounts of their business operations

(2) The study intends to investigate if the businesses in Nigerian private sector have an instituted internal control mechanism through periodic reconciliation of bank statements

(3) The researcher wants to find out if these Nigerian businesses actually have an independent internal auditor in its payroll.

(4) The study is intent on establishing if businesses in the Nigerian private sector engage the services of external auditors

(5) The researcher is also interested in seeking the professional opinion of audit firms on their respective experiences with the attitude of private businesses to bank reconciliation in Nigeria.

(6) Finally, the researcher will attempt at establishing the effect of fraud or professional negligence on business assets given the attitude of businesses to bank reconciliation.

1.3 RESEARCH QUESTIONS

(1) What is the general attitude of businesses in the Nigerian private sector with regards to keeping formal accounts?

(2) Do Nigerian businesses have formal internal control mechanisms through existing bank reconciliation procedures?
(3) Do Nigerian businesses employ the services of an independent internal auditor?
(4) Do Nigerian businesses employ the services of external auditors?
(5) What are the professional opinions held by audit firms regarding the attitude of Nigerian businesses towards bank reconciliation?
(6) What are the consequences of fraud and professional negligence on business assets as a result of the prevailing bank reconciliation culture in Nigeria?

1.4 RESEARCH HYPOTHESES

H1: Auditing firms consider Nigerian businesses as very compliant in periodic bank reconciliation
H0: Auditing firms do not consider Nigerian businesses as very compliant in periodic bank reconciliation

H1: Nigerian Businesses show significant interest in auditing their accounts
H0: Nigerian Businesses do not show significant interest in auditing their accounts
H1: The losses incurred by Nigerian businesses have been very significant because of lack of periodic bank reconciliation.
H0: The losses incurred by Nigerian businesses have not been very significant even when periodic bank reconciliation is lacking

1.5 SIGNIFICANCE OF STUDY

The study is important to academics, businesses, accountants and audit firms, because of the cover lack of periodic bank reconciliation can give to fraud and professional negligence it is important that studies such as this would assist accounting and auditing professionals in taking bank reconciliation procedures more seriously.

2.0 REVIEW OF LITERATURE

2.1 REVIEW OF THEORETICAL LITERATURE

Many accounting consultants have been attributing the weaknesses of many students and practitioners of bank reconciliation procedures to lack of grasp in theoretical applications of book keeping and financial reporting. Many small scale businesses in Nigeria may not have Accountants or keep adequate formal records but a lot of the practitioners lack the basic grasp of book keeping necessary for successful bank reconciliation. There have been reports by auditors citing laziness by many accounting personnel with regards to their seeming indifference to ensuring periodic bank reconciliation. Accounting professional bodies in previous publications have also attributed this attitude as reluctance to keep basic records in an orderly manner, reluctance to allow the independence of internal auditors where they are employed and reluctance to hire the professional services of external auditors.
Kanu Clementina and Idume Gabriel Isu (2015) discovered that many businesses simply refuse to employ qualified staff to handle their finances to save costs in employing them. Unfortunately the huge sums of money lost by the company to all manner of misappropriation makes that petty consideration of cost savings pale in comparison. Nwoko (2002) observed that a major problem in ensuring internal control of business assets is the lack of rotation of duties or lack of

segregating the duties involved between the staff responsible for accounts receivable and that responsible for accounts payable. The danger is that an official can perpetuate fraud and cover it effectively seeing that the check and balances that would ordinary prevent fraud isn't put in place. Even when duties are well rotated and segregated and accounting data are stored and retrieved timely, where bank reconciliation is not carried out periodically (preferably monthly) businesses could still lose money as a result. The theoretical expositions in bank reconciliation are difficult for students to grasp if their knowledge of book keeping is insufficient. This is because the double entry principle of book keeping places emphasis on not just how postings are made in term of *"debit"* and *"credit"* but why they are made. Without the *"why"* the student would still be in a dilemma not just because the balances derived may be wrong but even when they are right the student may not logically justify why an action is taken when it comes to financial reporting. This is why many experts insist that the student must have sufficient grasp on accounting theories. Anaeto E (2013) said that by not embarking on bank reconciliation many businesses allow bank charges to go undetected even when they are in excess of what is normally charged. This issue of over charge by banks is most common to businesses with existing loan repayment obligations to banks since it is easier to disguise all manner of charges where a bank account is in debit balance. It is the inability or unwillingness of businesses to be involved in bank reconciliation that facilitates the losses the businesses incur from avoidable debits and credit omissions to their bank accounts.

2.2 BANK RECONCILIATION AND PRIVATE BUSINESSES IN NIGERIA

The highest employer of labour in the Nigerian private sector remains the sole proprietorship. It is the realization of this that this study views as important the consequences of continuous indifference to periodic bank reconciliation. Man y small businesses are confronted with limited funds for expansion, lack of markets for their products resulting in low sales and increasing taxes. But one of the most vulnerable ways a firm can go under is by not having a sound mechanism for internal control such as periodic bank reconciliation. In addition to not embarking on bank reconciliation many small businesses do not rotate or segregate different accounting functions such as accounts receivable and accounts payable functions. Kanu and Idume (2015) in their investigations established that preparing regular reconciliation of bank account helps to draw attention to differences, errors and fraudulent activities on the accounts. Variances that are common include bank charges, fees, insufficient funds and incorrect record of transactions. Organizations that do regular, half yearly or annual audit may find it beneficial to prepare bank reconciliation because it enhances audit process and reduces inconsistencies in the end of the bank reconciliation. They went further to say that completion of bank reconciliation helps in cash management. It shows errors recorded and ensures that the discrepancies were satisfactorily resolved. Bank reconciliations can help a company to verify that its bank account ending balance per the bank matches the balance on hand of the business organization.

Many auditing reports had established that these businesses largely have in-complete records where they even keep a few set of books and hardly bother collecting monthly bank statements. Others who manage to collect bank statements do not do it for every single month of the year and even when they collect bank statements they do not bother reconciling them. Many businesses too do not file bank tellers of deposits by their staff and customers and are often careless in articulating their cheque book tally assessment. In many firms there are more marketing and sales staff than accounting staff, the reason's adduced by many sole proprietors is simply that these sales personnel generate more money than the accounts staff. Because of the apathy to bank reconciliation many businesses lose money from credit omissions and avoidable bank charges. According to some audit reports many sole proprietorships have been exploited by unscrupulous staff and banking personnel resulting in avoidable losses of hundreds of millions to billions of naira over the years.

2.3 REVIEW OF EMPIRICAL LITERATURE

Luca pacioli's principle of double entry premised on the "matching concept" means that every transaction in a business has a two-way effect on the balance sheet assets or liabilities.

Table 2.3.1

THE TWO-WAY EFFECT OF BUSINESS TRANSACTIONS ON THE ASSETS AND LIABILITIES IN A BALANCE SHEET

S/N	TRANSACTIONS		
1	Pays cash to buy goods for sale	Asset of cash at bank reduces	Asset of stock increases
2	Cash sales of goods	Asset of cash at bank increases	Asset of stock reduces
3	Purchase of goods with cash	Asset of stock increases	Assets of cash at bank reduce
4	Credit sales of goods	Asset of debtors increased	Assets of stock reduces
5	Credit purchase of goods	Asset of stock increase	Liability of Creditors increases
6	Payment of salary arrears	Asset of cash at bank reduces	Liability of Arrears reduce
7	Withdrawal of money from the bank for office imprest	Asset of cash at bank reduces	Asset of cash imprest increases
8	Cash receipt in settlement of debt	Asset of cash at bank increases	Asset of debtors reduces
9	Cash payment to creditors	Asset of cash at bank reduces	Liability of creditors reduces
10	Introduction of additional capital to the business	Asset of cash at bank increases	Capital increases

Note: It is instructive to note that the examples to the above are not limited to the above.

2.4 LITERAURE GAPS

There is a dearth in literature on practical approaches to bank reconciliation problems in small scale businesses in Nigeria. This research recognizes these gaps and intends to contribute to the theory and practical applications that will help businesses appreciate the importance of bank reconciliation to their operations and long term survival especially in these hard times where there are rising costs in business and a shrinking market for goods and services generally.

The two formats for bank reconciliation can be used to arrive at the same conclusion. Many students or even accounting practitioners may have theoretical understanding as to how bank reconciliation is done but when one asks them to explain why an action is carried out differently from another they find it difficult to articulate a logical and coherent answer. For instance in the course of the survey it was immediately apparent that many accountants are not familiar with bank reconciliation. For those who admitted having some appreciable knowledge of the theoretical fundamentals of bank reconciliation only few could tell how outstanding items like *'unpresented cheques'* are treated depending on the format in use. But fewer can actually explain the *'why'* and not just the *'how'*. In other words only few people can actually educate the student or trainee on why certain items are added or subtracted from the book's balances or bank balances.

Many authors cover bank reconciliation as chapters of books at the introductory level of book keeping and emphasis is placed on the mechanics of bank reconciliation without equally emphasizing the logic behind the treatment of items differently or similarly as to another. This observation is a major gap in theory which this research has to point out in this literature review. For instance when performing bank reconciliation from the perspective of the cashbook balance the objective is to find the items that cause the difference between the cash balance and the bank statement balance. Alternatively, when one chooses to work from the bank statement balance perspective the goal remains the same. But it is fundamentally essential that the student or trainee understand the *'why'* and not just the *'how'* as to the reason an item is treated in a certain way and not the opposite. I shall illustrate the reasons as follows

(i) **Unpresented cheques**: When one is reconciling bank statements from the cashbook balance perspective unpresented cheques are added in arriving at the bank balance, alternatively when working from the position of the bank statement balance they are deducted in arriving at the same figure as the cash book balance. The reason for adding unpresented cheques to the cash book balance is because the amounts represented by the cheques were deducted in the cash book before the period end balance was derived so adding them back is a step towards making it equal to the bank balance. Simultaneously, unpresented cheques are deducted from the bank statement balance since they are not found in the bank statement they could not have been part of the transactions culminating in the bank's balance hence their deduction.

(ii) **Uncredited lodgements**: From the cash balance perspective these lodgements had been added as credit balance hence increasing the cash book balance. Because the objective is to determine the differences with the bank balance these lodgements not found in the bank statement to the credit of the business account are deducted from the cash book balance to arrive at an equivalent of the bank balance. If one was working from the perspective of the bank balance then lodgements not yet credited would be added back in arriving at the cash balance equivalent because in arriving at the bank's balance they were not considered in the first place.

(iii) **Unjustified bank charges**: These charges are part of the total charges by the bank which the accountant considers excessive and are matched as outstanding until the bank performs a contra entry to correct the anomaly caused by the undue charges probably in the next period's statement. Charges of this nature are deducted from the cash book balance since they were debit deductions already in arriving at the bank statement balance. Secondly, when bank statement balance is used as a denominator to reconciliation then they are added back in arriving at the cash balance equivalent since they were not part of the transactions culminating in the cash book balance in the first place.

In summary of the above, all outstanding transactions which form integral parts of the reconciliation statement are treated as follows.

Outstanding items	**Reconciliation treatment using balance as per cash book balance**	**Reconciliation treatment balance as per bank statement balance**
Unpresented cheques	Addition	Subtraction
Uncredited cheques	Subtraction	Addition
Bank charges	Subtraction	Addition

2.4.1 A FORMAT FOR BANK RECONCILIATION (AS PER CASH BOOK)

	₦'m	
Cash book balance		XXX
Plus Unpresented cheques		XX
	XXX	
Less Uncredited lodgements	- XX	
Less unjustified bank charges	X	
Bank statement balance		XXX

2.4.2 A FORMAT FOR BANK RECONCILIATION (AS PER BANK STATEMENT BALANCE)

	₦'m	
Bank statement balance	XXX	
Plus Uncredited lodgements	XX	
Plus unjustified bank charges	XX	
	XXX	
Less Unpresented cheques		- XX
Bank statement balance		XXX

3.0 RESEARCH METHODOLOGY

3.1 SOURCE OF DATA

The study was conducted using the research instruments of questionnaires and interviews administered to audit firms based in some Nigerian commercial cities of Lagos, Abuja, Onitsha and Aba with large number of businesses located within. The choice of audit firms alone was to ensure objective responses devoid of emotions of fear, bias and other things that may affect the answers given. Since the data from the study is primarily derived from the respondents and not from measurable discrete data as found in secondary data care had to be taken to have respondents got from the professional category given the technical nature of the topic in question.

3.2 MODEL SPECIFICATION

Since the research is based on questionnaire and interview we shall employ the Likert scale of 4-points in measuring the levels of agreements or disagreements by the respondents. The response is formatted as follows;

A = (76%-100%), B = (50%-75%), C = (26%-49%), D = (25% and below)

Because the data would eventually be analyzed the frequency distribution and Chi-square would be used to evaluate the response pattern of variables being investigated. The Chi-squared formula is specified as follows;

$$X2 = \frac{\Sigma\,(O - E)2}{E}$$

Where: O is Frequency observed and E is Frequency Expected

4.0 DATA ANALYSIS AND DISCUSSION OF RESULTS

The questionnaires distributed was fifty in number and only 38 was returned by respondents all of whom where either principal partners or at least staff of audit firms that have spent over five years working as auditors. This means that 76% of responses were received and is considered sufficient for further analysis.

QUESTIONAIRE ANALYSIS

(1) How do you rate the attitude of Nigerian businesses towards keeping formal accounting records?

(A) Very Strong (B) Strong (C) Poor (D) Very Poor

	76%-100%		**50%-75**		**26%-49%**		**< 26%**		**TOTAL**	
	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%
	7	18.42	17	44.74	8	21.05	6	15.79	38	100

(2) How do you assess the culture of Nigerian businesses in regards to filing, posting and retrieving primary documents like tellers, cheque books, receipts etc?

(A) Very Strong (B) Strong (C) Poor (D) Very Poor

	76%-100%		**50%-75**		**26%-49%**		**< 26%**		**TOTAL**	
	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%
	3	7.895	6	15.79	18	47.37	11	28.95	38	100

(3) How do you assess the attitude of Nigerian businesses towards collecting periodic bank statements?

(A) Very Strong (B) Strong (C) Poor (D) Very Poor

	76%-100%		50%-75		26%-49%		< 26%		TOTAL	
	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%
	0	0	1	2.632	8	21.05	29	76.32	38	100

(4) Is it likely that Nigerian businesses conduct periodic bank reconciliation regularly?
(A) Very Likely (B) Likely (C) Unlikely (D) Very Unlikely

	76%-100%		50%-75		26%-49%		< 26%		TOTAL	
	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%
	0	0	1	2.632	8	21.05	29	76.32	38	100

(5) Is it likely that Nigerian businesses who conduct bank reconciliation do it for internal control routine?
(A) Very Likely (B) Likely (C) Unlikely (D) Very Unlikely

	76%-100%		50%-75		26%-49%		< 26%		TOTAL	
	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%
	2	5.263	6	15.79	7	18.42	23	60.53	38	100

(6) Is it likely that Nigerian businesses employ the professional services of internal auditors?
(A) Very Likely (B) Likely (C) Unlikely (D) Very Unlikely

	76%-100%		50%-755		26%-49%		< 26%		TOTAL	
	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%
	1	2.632	7	18.42	9	23.68	21	55.26	38	100

(7) For those that have internal auditors are they actually independent in their recommendations?
(A) Very Independent (B) Independent (C) Quite Non-Independent (D) Very Non - Independent

	76%-100%		50%-755		26%-49%		< 26%		TOTAL	
	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%
	0	0	4	10.53	11	28.95	23	60.53	38	100

(8) Are internal auditors recommendations implemented to the letter?
(A) Very well implemented (B) Quite well implemented (C) Poorly implemented (D) Very poorly implemented

	76%-100%		**50%-755**		**26%-49%**		**< 26%**		**TOTAL**	
	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%
	3	7.895	3	7.895	7	18.42	25	65.79	38	100

(9) What is the attitude of Nigerian businesses to hiring professional services of external auditors?
(A) Very Strong (B) Strong (C) Poor (D) Very Poor

	76%-100%		**50%-755**		**26%-49%**		**< 26%**		**TOTAL**	
	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%
	1	2.632	3	7.895	16	42.11	18	47.37	38	100

(10) Are external auditors recommendations implemented to the letter?
(A) Very well implemented (B) Quite well implemented (C) Poorly implemented (D) Very poorly implemented

	76%-100%		**50%-755**		**26%-49%**		**< 26%**		**TOTAL**	
	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%
	3	7.895	7	18.42	15	39.47	13	34.21	38	100

(11) Do you think it is likely that losses are suffered by Nigerian businesses that do not conduct bank reconciliation?
(A) Very Likely (B) Likely (C) Unlikely (D) Very Unlikely

	76%-100%		**50%-75**		**26%-49%**		**< 26%**		**TOTAL**	
	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%
	36	94.74	2	5.263	0	0	0	0	38	100

(12) Is it likely that losses suffered by businesses that don't engage in bank reconciliation can significantly affect their asset quality?
(A) Very Likely (B) Likely (C) Unlikely (D) Very Unlikely

	76%-100%		**50%-75**		**26%-49%**		**< 26%**		**TOTAL**	
	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%
	27	71.05	8	21.05	2	5.263	1	2.632	38	100

NPAR TEST
/CHISQUARE=VS S FS NS

/EXPECTED=EQUAL
/STATISTICS DESCRIPTIVES QUARTILES
/MISSING ANALYSIS
/METHOD=MC CIN(95) SAMPLES(10000).

NPar Tests
[DataSet0]

Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum	Percentiles 25th	50th (Median)	75th
76%-100%	38	.3158	1.25430	.00	7.00	.0000	.0000	.0000
51%-75%	38	.8158	3.02114	.00	17.00	.0000	.0000	.0000
26%-50%	38	1.2895	3.68274	.00	18.00	.0000	.0000	.0000
1%-25%	38	2.5789	7.56104	.00	29.00	.0000	.0000	.0000

Chi-Square Test
Frequencies
76%-100%

	Observed N	Expected N	Residual
0	35	9.5	25.5
2	1	9.5	-8.5
3	1	9.5	-8.5
7	1	9.5	-8.5
Total	38		

51%-75%

	Observed N	Expected N	Residual
0	33	9.5	23.5
1	2	9.5	-7.5
6	2	9.5	-7.5
17	1	9.5	-8.5
Total	38		

26%-50%

	Observed N	Expected N	Residual
0	33	9.5	23.5

7	1	9.5	-8.5
8	3	9.5	-6.5
18	1	9.5	-8.5
Total	38		

1%-25%

	Observed N	Expected N	Residual
0	33	7.6	25.4
6	1	7.6	-6.6
11	1	7.6	-6.6
23	1	7.6	-6.6
29	2	7.6	-5.6
Total	38		

Test Statistics

			76%-100%	51%-75%	26%-50%	1%-25%
Chi-Square			91.263[a]	77.579[a]	77.789[a]	1.062E2[b]
Df			3	3	3	4
Asymp. Sig.			.000	.000	.000	.000
Monte Carlo Sig.	Sig.		.000[c]	.000[c]	.000[c]	.000[c]
	95% Confidence Interval	Lower Bound	.000	.000	.000	.000
		Upper Bound	.000	.000	.000	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 9.5.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 7.6.

c. Based on 10000 sampled tables with starting seed 92208573.

Decision rule on hypothesis one

From the analysis of the questionnaire by percentage method and chi squared the research links the first five questions to the first hypothesis which places emphasis on the measuring the level of formal accounts records kept in the private sector. Our findings indicate that businesses generally have a poor attitude to keeping formal records an even worse attitude towards bank reconciliation. The decision is to accept the null hypothesis (H0) which states that "Auditing firms do not consider Nigerian businesses as very compliant in periodic bank reconciliation".

Decision rule on hypothesis two

The questions answered by the respondents from question number six to number ten (five in all) as analyzed above are linked to the second hypothesis which investigates the auditing culture by businesses. In this case, majority of the respondents were convinced that the attitude towards engaging the professional services of the internal and external auditors, level of independence of the auditors and implementation of their recommendations is very poor. The decision here is to accept the null hypothesis (H0) which states that "Nigerian Businesses do not show significant interest in auditing their accounts".

Decision rule on hypothesis three

Just as in the other hypotheses above some questions where linked to the conjecture that businesses in the Nigerian private sector have lost significant amounts of money by not conducting periodic bank reconciliation over the years. Most respondents agree that this was very likely and fall in the first option A. Consequent to that the decision is to accept the alternate hypothesis (H1) which states "The losses incurred by Nigerian businesses have been very significant because of lack of periodic bank reconciliation".

5.0 CONCLUSIONS

REPORTS BY AUDITING FIRMS ON PRACTICAL SCENARIOS OF AVOIDABLE LOSSES TO BUSINESSES IN THE NIGERIAN PRIVATE SECTOR OVER THE YEARS

(i) Auditors have identified that a greater number of private sector businesses solicit their auditing services only when the businesses are looking for a bank loan, looking for new investors or harbor the suspicion that there has been fraudulent alleged to have occurred that needs to be uncovered. This is at cross roads to a few organizations that routinely carry out bank reconciliation on a periodic basis.

(ii) It is also observed that many businesses prefer to employ the services of personnel with limited qualifications, such as Ordinary National Diploma, Higher National Diploma or students on industrial attachment rather than qualified and experienced hands just to save remuneration costs. But in the long run the businesses (especially large ones) lose more money than they attempt to save.

(iii) Many businesses believe it is a waste of money to hire the services of internal auditors and external auditors. Again not exposing the business operations to audit can lead to continual loss of money since fraud and other forms of misappropriation can remain uncovered and may continue to be perpetuated indefinitely.

(iv) Many businesses do not keep or update primary accounting documents even as a matter of routine. Documents such as bank tellers, cheque books and bank statements in many businesses are either not kept or filed in a disorderly manner making periodic reconciliation difficult.

(v) Investigations have shown that many businesses employ accounts personnel that do not have the theoretical and practical grasp of bank reconciliation. This by far portrays the gravest danger to internal control in many a business. If the accounting personnel cannot perform bank reconciliation functions then the business is vulnerable to possible misappropriation by unscrupulous bank officials or costly honest mistakes leading to avoidable losses that could have been prevented by periodic bank reconciliation.

PRACTICAL PROBLEMS ENCOUNTERED BY ACCOUNTANTS DURING BANK RECONCILIATION

(i) Accountants have observed that many banks over charge their accounts especially when the accounts are in debit thereby contravening the terms of the bank's letter of credit regarding the account being surcharged. It is important that the accountant is familiar with the terms of the bank loan to justify bank charges seen in the bank statement for the period in question. Many banks would be happy to grant a loan facility to a business with great market potential but are quick to take advantage of a business that they perceive do not take periodic bank statement reconciliation serious. A closer look at a bank letter of credit or any other contract document on any loan facility after reconciliation reveals that many banks charge above the agreed debit interest and charge on turnover (COT) which increases the amount of value added tax (VAT) paid on COT as well. Bank reconciliation is especially useful in a business with large loan facilities.

(ii) Accountants have complained that some banks make certain charges with obscure labels thereby adding to the confusion. There are even credit lodgements that do not show the name and deposit details of the particular depositor making it difficult for businesses with high turnover to determine which of their clients made what lodgements. The accountant reserves the right to issue a letter to the bank requesting a more detailed bank statement to make a more informed report of his bank reconciliation. This problem is much more common in businesses with high turnover where different people may make similar payments on the same day of trading, so the reconciling accountant faces a dilemma if his cash book reveals eight clients paid the same amount on the same day but the bank statement reveals six lodgements for the same details without the individual names of the customers. The question is how does the accountant know which of the two customers cheques where omitted? The accountant obviously would write to the bank explaining the anomaly while enclosing copies of the eight tellers. If the bank investigates and takes the necessary action, then the next period's bank statement would show the outstanding two deposits credited, that way the business recovers its money.

(iii) In some cases bank accounts are charged with withdrawals on cheques that were never issued, the bank is notified that the business never issued the cheque and on closer examination it becomes apparent that the cheque was issued by another business and had been cashed by the beneficiary but was erroneously debited to the bank account of another firm. This is a clear example of an unjustified but avoidable cost that periodic bank reconciliation prevents.

(iv) Many businesses with large turnover has lost millions of naira to unscrupulous bank staff because deposits that should have been lodged in their accounts where either deliberately or erroneously lodged to another bank account. There have been reported cases of large single deposits lodged in a company's account where the existing loan facility for that account surpasses the singular payment. Because of the debit balance the company operating the business cannot withdraw the amount even if they wanted to, however because the business that should benefit from that deposit does not engage in bank reconciliation they would be unaware that they lost so much. As previous experience had revealed the fraudulent bank staff waits for several months before transferring that deposit out of the account whose debit balance was the only leverage they had to prevent any withdrawals. By this time the business that should have benefited from that deposit would not even notice anything amiss because of the volume of turnover they are engaged in and the fact that bank reconciliation is not common practice to them.

(v) Many clients of auditing firms had in the past lost money over the years or went bankrupt because their loan facility was not serviced regularly with proceeds from sales. In our survey, it was brought to our notice that a business man whose property was about to be forfeited as a foreclosure in securing an overdue loan facility by the bank was introduced to an auditing firm, being desperate to save his property. On examining his bank statement, cheque books, deposit slips over a three year period, it was discovered that his apprentices who had been in charge of his banking transactions were depositing less than the daily sales as well as withdrawing more than was approved. The businessman's low level of education was a factor that contributed to his apprentices perpetuating fraud under his watch but this was made worse where the business had no accounting staff nor kept formal accounting records. Periodic bank reconciliation would have revealed the misappropriation and put a stop to further losses from fraud and extra costs from penalties charged by the bank for lack of proper and timely servicing of the loan facility.

(vi) One very knotty problem of bank reconciliation can occur when the initial bank transaction posts are made to the cashbook. Many accountants (especially beginners) have a tendency to make a wrong entry that may not be noticed until reconciliation takes place. Even when all transactions match or outstanding ones accounted for, the bank balances and cash book balances don't add up. These errors can be avoided where the accountant matches the transactions with the figures in both records. But the errors can occur if the figures are different, but may be harder to spot if the errors are for instance 0.01. For instance where the cash book puts a transaction's figure at ₦23, 981.01 and the bank statement for the same transaction shows ₦23, 981.10 the accountant will be confronted with a ₦0.09 difference. An inexperienced hand on facing a problem like this, would most likely start looking for ₦0.09 in either records, another more experienced accountant might have encountered this problem before and would start looking at the decimals after decimal point.

6.0 POLICY RECOMMENDATIONS

Policy recommendations include emphasis on teaching and training of students and accounting personnel on theoretical and practical aspects of book keeping, financial reporting and bank reconciliation. Secondly, businesses should employ qualified accountants and auditors. But more specifically, internal auditors and accountants have a more detailed and routine responsibility to quality internal control by making sure that checks and balances are in place such as segregation and rotation of the accounting roles of staff through constant monitoring. For instance the officer in charge of accounts payable should not have overlapping functions to perform the duties of another for accounts receivable. For instance, an officer in charge of cash collection may not be in charge of issuing receipts or bank lodgements. It is more cost effective in the long run to train personnel on bank reconciliation procedure than outsourcing such services to external consultants. The head of finance or his immediate accountant in charge of bank reconciliation should be familiar with the contents of bank correspondence and other related documents especially where those banks involve large transactions and may have given loan facility to the organization. It is especially useful to the business that the accountant opens a record to file all correspondence with the bank, document observations from previous bank reconciliation, attaches reports to management on action taken or recommended to be taken but pending etc.

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