

## Fraud Prevention in the Nigerian Banking Industry

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### **Abstract**

*The study is aimed at the assessment of the course of financial fraud in Nigerian banking industries and its remedies with particular reference to First Bank, Keystone Bank and Zenith Bank. No reliable statistics exist (in any report so far) on the value of successful and frustrated fraud in Nigerian banks. The research delved into silent issues on types of financial frauds, courses, remedies, the effect of financial frauds on the banking sector and effectiveness of fraud preventing measures. The research found that the annual average of financial fraud cases reported between a particular period was caused by failure of workers to observe the laid down procedures of their banks. Economic and social conditions also cause financial frauds in our banks. The research also recommends proper supervisory measures and should be taken by Central Bank of Nigeria (CBN) and NDIC in order to stop or minimize fraud in banks. They should also find out the methods used in banks to defraud the bank industry; the internet E-banking fraud, the falsification of accounts, the use of forged cheques, corruption and signatures were ranked among the highest means of fraud.*

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**Keyword:** *Fraud, Banks, Industry, Prevention*

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### **Introduction**

Fraud is recognized as a significant threat facing government, businesses and individuals all over the world. In our own environment, fraud appears to have assumed a tragedy of epic dimension. Fraudsters are not only becoming sophisticated, innovative and refined in their planning and execution of their nefarious acts, but are becoming daring as well. Our everyday living experiences are awash with reports of fraudulent acts being committed in our businesses and on individuals.

According to Oseni (2006) the incessant frauds in the bank industry are getting to a level at which many stakeholders in the industry are losing their trust and confidence in the industry. Corroborating the view of Oseni (2010) stressed that the state of fraud in Nigerian banking sector has lately become a source of embarrassment to the nation as apparent in the seeming attempts of the law enforcement agencies to successfully track down culprits. Although the incidence of fraud is neither limited to the banking industry nor peculiar to Nigerian economy, however the high rate of fraud within the banking industry calls for urgent attention with the view of finding solutions. The cost of fraud is always passed to the society in the form of increased customer inconvenience, opportunity cost, unnecessary high prices of goods and services. It was established that fraud was one of the main causes of distress in

our banks' system that lead to the closure of many banks in 1990's. As a matter of facts some resent bank failures were caused by fraud.

The subject of fraud is of great concern to an organization like the Nigerian Deposit Insurance Cooperation (NDIC) that is saddled with the responsibility of protecting depositors of banks and other financial institution section 35 and 36 of NDIC act 16 of 2006 required all insured banks in Nigeria to render to the corporation returns of frauds and forgeries or outright theft occurring in their organizations and also report on any staff dismissed, terminated or advised to retire on the grounds of fraud. The purpose of obtaining these information is not only for statistic but to assist the corporation in understanding the tricks, antics and tactics employed by fraudsters to perpetrate their nefarious acts with a view of devising counter measures that will checkmate and frustrate their efforts. The information is also to assist in ensuring that fraudsters are not allowed to circulate in our financial system.

Banks all over the world have a unique position in an economy. They have contributed immensely to the growth and development of a nation. Therefore any problem that tends to hinder their smooth operations, such as fraudulent practices is often viewed with sensuousness, seriousness for long.

The significance of any banking sector in any country stems for the role of financial mobilization from surplus to deficit unit provision of a competent payment system and facilitation of the implementation of monetary policies. In the intermediation banks mobilize savings from the surplus units of the economy and channel these funds to the deficit unit, particularly private business enterprise for the purpose of expanding their productive capacity.

According to Kumani (2011) 'A way of making money is to stop losing it'. The level of fraud in the present day Nigeria has assumed an epidemic dimension. It has eaten deep into every aspect of our lives to the extent that a three years old child talks about 419, the name given to the newly discovered advanced free fraud that is hunting our nation.

There is no legal definition of fraud just as there is no single offence that can be called fraud. Nevertheless it is usually taken to have a certain element including and intentional unlawful misrepresentation which causes prejudices, most often misappropriation which is the removal of cash or asset to which the fraudster is not entitled as well as false accounting in which records and numbers reported are falsified to give and create false impression.

Black law dictionary define fraud as "an intentional perversion of truth for the purpose of inducing another in reliance upon it to part with some valuable things belonging to him or her surrender a legal right."

Fraud is therefore a false representation, intending to mislead, whether by word, conduct that devices and is intended to deceive another, so that he/she should act upon it to legal injury. From the definition, it is obvious that the subject matter of fraud is very wide ranging from the simple theft or petty cash or cheques fraud to a major one. Fraud can be committed by employees, customer or other operating independently or in conspiracy with others inside or outside the organization Nigerian Deposit Insurance Corporation (NDIC) 2010.

The role of banks in the economy life of any nation is so strong and strategic that efforts are made to eliminate impediments that might thwart their smooth operation, growth or lead to distress. Basically banks are set up as the hand-made to industrial development and then perform other related functions in the economy such as the safe keeping of money valuable deposits accusation the provisions of consultancy and revises to customers.

### **Statement of the Problem**

Fraud is a major challenge to the entire banking industry; no bank is immune to it and in all facets of life (Olusegun 2010). The banking public expert is accountability, fairness, transparency in their day operation for effective intermediation.

The government and its agencies have not put enough effort in the prevention and control of bank fraud in Nigeria. Otherwise the level of bank fraud would have reduced to a bearable level. Agencies like money laundering Act which helps to place surveillance on any account through which such excess cash deposits or withdrawals are made, Nigeria Deposit Insurance Corporation which is involved in managing bank distress, failed banks and financial malpractices in bank Acts which was vested with powers to recover the debts of failed banks, dishonoured cheques Acts which affects banks in their collection and payment of cheques on behalf of their customers and bill of exchange act which helps to collect the proceeds of trade bills exchange and cheques are not putting enough effort in the prevention and control of bank fraud, that is the reason why bank is increasing day by day in Nigeria.

Though there was known cases of fraud in the sector, one major question still remain unanswered which is “what is the nature and different ways through which fraud can be perpetuated in banks”. It is asserted by Adeyemo (2012), that fraud in the bank is possible with co-operation of an insider. The banks are expected to ensure that they carry out their responsibilities with sincerity of purpose which is to devoid of fraudulent practices. This is relevant if the banking sector is to gain public trust and goodwill.

Environmental factor are those factors that can be traced to the immediate and remote environment of the bank, these factors are manifest in the following manner, the desire to get rich quick, complex legal process, poverty and the widening gap between the rich and the poor, competition among bank staff, the desire to belong to any social class, job insecurity, peer group pressure, and societal expectation.

Fraud can bring about disturbance in management objectives /budgets which might lead to non-provision of some fringe benefits such as transportation, medical facilities, service training etc.

Massive employment of contract staff in the banking industry and low payment of wages compared to the permanent staff.

Deposit target placed on the banking staff used to be high which lead to the fraudulent acts in the sector.

Inadequate or lack of training: It is not in common to find inadequately trained staff working in some banks, the rate of expansion in the banking industry since the introduction of rural banking scheme in 1977 is use to acute shortage of trained personnel in the banks, generally. The result of this is that even some clever long serving messengers can easily take advantage in experienced and half-baked officers to perpetrate fraud in banks.

### **Objectives of the Study**

Realizing that various adhoc distress resolution strategies had not significantly achieve the desired objectives in terms of the safety, soundness and stability of the financial system, the present study was initiated to;

- 1) To examine the efforts of government and it agencies in the prevention and control of bank fraud in Nigeria
- 2) To determine adequate internal control system in preventing Fraud
- 3) To assess the employee motivation

### **Research Hypothesis**

For this purpose of direction and clarity of issues raised in this study, the hypothesis formulated is a statement of declaration of assumed answer to a research problem. It is also a guess answer to the problem research under review.

The aim of research work lies on the following hypothesis being considered.

**H1:** A good internal control system in an organization serves as a control measure of fraud prevention.

**HO:** A good internal control system in an organization does not serve as a control measure of fraud prevention.

**H1:** Government efforts and its agencies have positively impacted on preventing fraud in Nigeria.

**HO:** Government efforts and its agencies negatively impacted on preventing fraud in Nigeria.

**H1:** Employee motivation have positively impacted on preventing fraud in Nigeria

**HO:** Employee motivation have negatively impacted on preventing fraud in Nigeria

### **Significance's of the Study**

The study which is an attempt to analyze the fraud remedies in the statutory organization is an immense importance to:

#### **The Banking Industry:**

The organizations under consideration has qualified account responsible for the installation of internal control as a way of preventing or controlling fraud, but weakness may still arise in relation to the aspects concerning fraud control, in such situation the researcher in the process for carrying out the research identifies such weaknesses, seek the opinion of the bank staff concerned as to existence or non-existence for such weaknesses and proper workable suggestion to the advantages of banking institution.

#### **Future Research:**

This will serve as a secondary data to the future researchers who intend to carry out research on fraud related topics. It will also help students in the financial studies in having in-depths knowledge of fraud remedies and strategies.

#### **The Public:**

The research will be useful to the general public because the banking industry touches the life of everyone in an economy. Banks all over the world have contributed immensely to the economic growth and development of nations.

As such, problems such as fraud which can hinder the smooth operation of banking industry should be viewed with all seriousness in order not to intercept or destroy the rate of development.

#### **The Government:**

The government will find this work relevant to future policy and decision making, which will particularly reconstruct its agencies for better performance in detaching frauds in the Nigerian banks.

#### **The Scope of the Study:**

This study centers on fraud in the Nigerian banking industry with a keen interest on (3) three insured banks with a data covering 2013-2014, insured banks covered key stone bank, first bank, guaranteed trust bank all in Bauchi state. To achieve the objectives of this study, primary and secondary data were used. Two hundred and fifty questionnaires were

administered to the study respondents that were purposely selected from three insured banks in Bauchi.

### **Literature Review**

Fraud is therefore a false representation, intending to mislead, whether by word, conduct that devices and is intended to deceive another, so that he/she should act upon it to legal injury. From the definition, it is obvious that the subject matter of fraud is very wide ranging from the simple theft or petty cash or cheques fraud to a major one. Fraud can be committed by employees, customer or other operating independently or in conspiracy with others inside or outside the organization Nigerian Deposit Insurance Corporation (NDIC) 2010.

The role of banks in the economy life of any nation is so strong and strategic that efforts are made to eliminate impediments that might thwart their smooth operation, growth or lead to distress. Basically banks are set up as the hand-made to industrial development and then perform other related functions in the economy such as the safe keeping

Fraudulent practice in our society is increasing at an alarming rate from well-meaning Nigerians.

The word fraud has variously been defined by different authors. Fraud is been referred to “as a misrepresentation of facts by words or conducts by false or misleading allegations or by a concealment of what should have been disclosed, that deceived or is intended to deceive another person, so he shall act upon it to his legal injury. It is an act of omission which owe persons certain advantages against conscience to another or which equity or public policy forbids as being prejudicial to another”. The term fraud in its broad sense suggests any activity that amount to certain dealing and in so far as the range of such activities is intimate. No completely comprehensive definition may be coined.

In auditing and accounting terminology, fraud is referred to as ‘those irregularities involving the use of criminal deception to obtain an unjust or illegal advantage’. It can come with obtaining material advantage by wrongful means.

In July 2004, central bank of Nigeria inveigled new banking guidelines to consolidate and restructure the industry through merger and acquisition. Banks and other financial institutions Acts (BOFIA) 1991 section 15 was also designed to prevent fraud and to make Nigerian banks more competitive and able to play in the global market.

The Nigeria Deposit Insurance Corporation (NDIC) 2014 annual report and statement account, report that cases of attempted fraud and forgeries in insured banks as at 2014 exceeded the record in the year 2013 disclosed that the total 10,612 fraud cases in 2014 compared with 3,786 cases reported in 2013 representing an increase of 182.77% . In the same vein, the amount involved increased by ₦3.81 billion or 17.5% from 21.80 billion Naira in 2013 to 25.61 billion Naira. Also the accepted loss increased from 7.76 billion Naira in 2013 to 6.19 billion Naira in 2014.

The ongoing statistics clearly unfolds the extent to which fraud has eaten deep into the financial strength benefit the perpetrators to the department of another person. Today, banks cannot withstand the growing pressure of competition among various banks due to the monster called bank fraud. If this act of fraud is not arrested, it might delete our resources because foreign investors might not find it wise to transact business via our banks.

Having explained what fraud is, it is pertinent to define bank fraud which is the subject matter of the study. However, bank fraud is the use of fraudulent means to obtain money, assets and other properties owned or held by a financial institution or to obtain money from depositors by fraudulently representing to be a bank or financial institution. For an action to



constitute fraud there must be a dishonest intention and the action must be intended to benefit the perpetrators to the detriment of another person.

Going by the definition, fraud in Nigeria cannot be restricted to the banks alone. A lot of fraudulent activities are prevalent in Nigerian economy ranging from bloody killings, rituals, kidnapping, robberies, forgery, misappropriation, cheating, gangsters and looting.

Fraud in its effects reduces organizational assets and increases liabilities with regard to banking industries. It may endanger crisis of confidence among the banking public, impede the going concern status of the bank and ultimately lead to bank failure (Adeyemo 2012).

### **Types of Fraud:**

According to Sharma B.R in his book titled “Bank fraud prevention and Detection “a, different types of fraud are being perpetrated both in public and private sectors of our economy of which some are scientific in nature. The bank fraud differs in nature, character and methods of perpetration. However, the most important and common types of fraud are highlighted below:

#### **1) Cheque Frauds:**

Cheque fraud includes fraud relating to customers’ cheques, bank draft, bankers’ cheques and travellers’ cheque. They are the most important fraud vis-à-vis public relations and volume-wise. They take the following forms: Counterfeit bank drafts, Travellers’ cheques and other cheques are cashed. In one case, hundreds of travellers’ cheque were stolen, filled in and cashed.

**A.** Impersonation is adopted to cash stolen cheques.

**B.** Signatures of the victims are forged on the cheques.

**C.** The cheques are materially altered:

**I.** The value of the cheque is raised.

**II.** The validity date is enhanced.

**III.** The beneficiary is changed.

**IV.** The character of the cheque is altered for example a crossed cheque is changed to bearer cheque, etc.

**D.** Cheques are issued against insufficient funds.

**E.** Cheques are issued against non-existent accounts.

**F.** Forged finger prints are used on the instruments of illiterate persons.

**G.** Cheque-writers are employed to hide the fraud.

#### **2) Deposit Account Frauds:**

Deposit account fraud is a serious headache. The fraud takes the following form:

1. A depositor opens an account without introduction or with a spurious reference which is not verified, such a depositor deposits forged or stolen bills of exchange, cashes them and vanishes from the scene.

2. A dormant account is fraudulently operated by a forger on forged signatures, specimen signature cards or signatures on letters are utilized as models.

3. Joint accounts are operated by one of the signatories (forger) and forging the signatures of others if needed. A bank also plays havoc in deposit frauds. For example,

**i.** A mine deposit collections are not deposited by the collecting banker.

**ii.** The bankers temporarily embezzle the depositors.

**iii.** The bankers manipulate the depositor’s passbook.

**iv.** The banker becomes joint account holder and withdraws the money.

### 3. Hypothecation Fraud:

Cash advances against pledge goods, as securities are fertile field for frauds. The avenues are varied:

- a. Hypothecated stocks or part therefore are removed from the goods.
- b. In large stocks, most of the materials may be of inferior quality and hence of lesser value.
- c. In some cases, it is out right cheating.
- d. Stock statement is inflated.
- e. Useless and unmarketable stocks are offered as security.
- f. Duplicate keys are obtained and materials is removed later on theft is alleged.

### 4. Loan Fraud:

The general policy of the government is to encourage loans to the agriculturist, to small artisan and business men. In fact, certain targets for these purposes are fixed for the banks. In the initial stages, it resulted in losses in the bank due to lack of expertise in the field. The following types of fraud were perpetrated:

1. Loans were taken by different persons on the same item. In an interesting case, three different agriculturists obtain loans against the same well, each farmer showing the well as his own to different inspection teams of different banks, at different times.
2. Nomadic artisans obtained loans and vanished from the scene.
3. Bogus firms appeared every-where and obtained loans.
4. Loans taken for agricultural development were later used for marriage celebrations.
5. In connivance with the suppliers, farm machinery bills were inflated for accessories which were never supplied and yet included in the bill.

### 5. E-Banking Fraud:

E-banking is comparatively new, so are the e-banking frauds. A complete picture of the frauds' vis-à-vis their extent modus operandi investigation and prevention techniques are yet to emerge. E-banking frauds are a different species from the traditional frauds literally unearthly at times. The losses are colossal. E and M-banking, Network or Internet banking is creating new format for bank frauds and for their handling and non-handling.

E-bank frauds involve, as already, seen manipulations, alterations, obliterations, hiding, eliminations and corruption of electronic documents, messages, emails, SMS, digital data, digital signatures, command menu and software used in E-banking, money laundering also involve E-banking frauds. They include illegal and unauthorized use of the equipment protocol and software (algorithms) used in E-banking. They are usually committed for wrongful gains, but the fraud can be for revenge, for embarrassment, for mischief, for sadistic pleasure or to prove it prowess to self or to friends. E-bank frauds involves huge money, they are committed day in day out.

Some experts have classified e-banking as:

1. Internet (Net-banking, Cyber-banking, M-banking etc.), Banking Frauds.
2. Non Internet Banking Frauds.
  - a. Internet E-banking frauds

When a fraud involves internet in its commission, it is an **Internet Fraud**. It is also known as Cyber or Net frauds, it takes many forms.

- b. Non-internet computer frauds

Non-internet computer frauds are similar to internet frauds, but they do not involve internet. They are achieve by fiddling with computers, its data, record or programmed etc. at site or through LAN/WAN through pots.

The computer is the main workhorse of the computer frauds. E-banking business can be hampered, sometimes seriously by fraudsters through email bombing, induction of virus, worm, logic or time-bombs. Further hackers and crackers can disrupt (block) cyber traffic etc. They thus, create problems in E-banking. It may be worth-while to be acquainted with them.

### 6. Credit Card Frauds:

The fraudster has been busy in making a fast buck with a credit card. Fraudster uses genuine card. He may steal it from a purse, a car, house, and the mail, at a point of sale (POS), purchase it, from a pick pocket, may find it lost by the card holder, and get a new card by impersonating a VIP victim. He uses them till the real person or the bank catches up with him. The impersonate fraudster may vary the technique. Cards obtained from mail or through impersonation have blank signature panels. The fraudster simply 'signs' the name of the victim and abuses the card to collect cash and kind. In all other cases, the fraudster practice copying the signature available on the card panel.

### 7. ATM Fraud

The use of the Automated teller machines (ATM) via ATM cards has increased tremendously in recent years in Nigeria and it is increasing. The security measures by the banks have made the mode of disbursement of money very popular. However, the fraudster is also in pursuit to abuse the ATMs.

ATM card is like a debit card. All the frauds which are committed with a credit card or debit card can be committed with an ATM card. A few years ago, an ATM of a bank was placed away and outside the bank. The wires had to pass through space which could be approached by public. Two fraudsters were on the lookout for a convenient time. One day, they found a customer coming to the ATM at an odd hour. The fraudster put up an electronic device along the wires connecting to the ATM with the bank and recorded the signals created by the withdrawal process. As soon as the customer left the ATM, one of the two went inside the ATM booth and the other replayed the recorded data. The ATM responded and delivered the money to the fraudster.

**Table 1: Returns of insured DMBs on fraud and forgeries in 2014**

QUARTER	YEAR	TOTAL NO.OF FRAUD CASES	TOTAL AMOUNT INVOLVED (₦)	TOTAL EXPECTED WAS (₦)	PROPORTION OF EXPECTED LOSS TO AMOUNT INVOLVED
1 <sup>st</sup>	2014	1,897	3,552	1,221	34.38
	2013	983	7,805	2,506	32.11
2 <sup>nd</sup>	2014	2,357	12,195	473	3.66
	2013	768	4,859	1,164	23.96
3 <sup>rd</sup>	2014	2,173	4,002	1,538	38.43
	2013	1,067	3,844	906	23.57
4 <sup>th</sup>	2014	4,194	5,138	2,960	57.60
	2013	968	5,287	1,180	22.32
Total	2014	10,621	25,608	6,192	24.18
	2013	3,786	21,795	5,757	26.14

**Source: NDIC- Bank Returns**



The increase of 7.5% in expected/actual loss in fraud and forgeries was mainly due to the astronomical increase in the incidence of web-based (online banking) ATM and fraudulent transfer/withdrawal of deposit frauds.

**Table 2: Types of fraud and forgeries with frequency and actual losses sustained**

NATURE OF FRAUD	2014 FREQUENCY	2014 ACTUAL NO.SUSTIANED	2013 FREQUENCY	ACTUAL WAS SUSTIANED
1.ATM/card related fraud	7.181	1.242	1.739	0.585
2.Web-base(internet banking fraud)	1.277	3.196	316	1.683
3.Fraudulent transfer withdrawal of deposit	1.099	0.583	394	1.162
4.Suppression of customer deposit	483	0.312	324	0.482
5.Fraudulent conversation of cheques	138	0.088	219	0.338
6.Presentatotion of stolen cheques	59	0.054	196	0.120
7.Presentation of fraud cheques	62	0.067	118	0.18
8.Outright theft by staff(cash deflection)	107	0.297	116	0.205
9.unauthirizes credits	98	0.231	132	0.511
10.Outright theft by outsider(customer)	14	0.021	34	0.037
11.Forieng currencies theft	22	0.033	41	0.049
12.Diver of bank charges (commission & fees)	42	0.036	63	0.056
13.lodgement of stolen warrant	39	0.033	55	0.034
14.Non dispensing of money by electronic journal	NIL	NIL	39	0.427
Total	10.621	6.193	3.786	5.757

**Source:** NDIC Banks Returns

In 2014, attempted fraud and forgeries involved the sum of 25.6 billion Naira compared with 21.80 billion Naira in 2013. Which represented an increase of 17.49%? Similarly, the expected/actual loss was 6.19 billion Naira in 2014 compared with 5.76 billion Naira in 2013, representing an increase of 7.6%. As represented in table 1.2 in terms of actual loss sustained,

Web-based(internet banking) Fraud was the highest in the year representing 51.60% of total actual loss, an increase in 90% over 2013 figure. There was significant in the frequency of ATM/card-Related fraud cases from 1.739 in 2013 to 7.181 in 2014 while loss suffered by the industry due to such frauds amounted to 1.24 billion Naira or 20.06% of total industry loss to frauds and forgeries. The rising frauds due to internet/ATM transactions may be attributed to the weak IT infrastructure signaling a need for the DMBs to improve electronic payment controls and security. The table also highlights a decline in unauthorized credits, indicating better corporate government practices and good internal control processes. Foreign currencies theft also reduced by 32% compared with 2013 figure outright theft by outsiders/customers also declined indicating a probability that frauds were mostly insider-related. The DMBs needed to take necessary measures to improve IT controls and security.

**Table 3: Categories of staff involved in frauds and forgeries for the period of 2012-2014**

Status	2012 Number	%	2013 Number	%	2014 Number	%
1.Superrisors & Managers	78	14.69	97	14.22	58	12.47
2.Officers, Accountant, executive, Assistants	89	16.76	234	34.31	176	37.85
3.Clerk and Cashiers	117	22.03	128	18.77	78	16.77
4.Typist Technicians & stenographers	5	0.94	12	1.76		0.00
5.Messengers, Drivers, Cleaners & Security guards and Stewards	16	3.01	34	4.99	2	0.43
Full Staff				33	4.84	
Temporary Staff	226	42.56	144	21.11	126	27.10
Others					25	5.38
Total	531	100	682	100	465	100

**Source:** Bank Returns

The table reveals that the highest percentage of fraud and forgery cases was perpetuated by officers, Accountants & Executive Assistants constituting 37.85% of the total staff figure. Temporary staff accounted for 27.10%, while clerks& cashiers constituted 16.77%. These three categories of staff recorded the highest incidences of frauds and forgeries in 2014. That development highlights the need for DMBs to aggressively tackle cyber-crimes as well as implement robust internal control system and adherence to the codes of corporate governance to check the prevalence insider-related frauds and forgeries.

### Causes of Fraud

Fraud is a dishonest act and behavior by which one person gains or intends to gain advantage over another person. The gain may be accrued to the person himself or someone else. The rate at which fraud is being perfected in our society at this period of great concern and it is of great importance to the research to know the reason for the perpetration of fraud which includes:

#### I. Negligence

This is the most common and most susceptible factor which fraudsters who move around in the bank usually point at.

#### II. Institutional Factors/Lapses/Inadequacies

These are factors or causes that we can trace to the internal environment of the organization.

They are to greater extent, factors within the central management of the bank.

The major institutional cause of fraud is poor management. This is often manifested in various ways: lack of supervision is a manifest of poor management. This causes fraud. When junior staffs are inadequately supervised, those with fraudulent tendencies among them get the impression that their working environment and/or circumstances are safe for the perpetration of fraud.

Inadequate control in the form of effective policies, procedures and system is indicative of poor management. When controls are inadequate, loopholes become glaring to the fraudulent minded operation in the system and he sees it as opportunity he must avail himself of. Few banks nowadays however, can be said to lack the basic collection of control policies and procedures, which they require for acceptable level of efficiency. This, for instance, recently causes a Nigerian bank to lose over 1 million Naira. In this case, a banker paid the sum involved from a newly opened account on which appropriate retrenches were yet to be received and relying on unclear fee too.

Particularly in the banks, experience counts a great deal. Where operators lack adequate experience, they are liable to commit intentional fraud by facing prey of the trap set up for them by fraudsters. The in-experience operators too will be unlikely to smell the rat and take the revolution and society in general while others have fallen victims of their live to be joblessness.

It may be well argued that it is greed rather than poor salaries and conditions of service that make bank employees resort to fraud. The reason is that the bank employees are usually among the best paid class of workers in any economy, not until recently that the bank started employing contract of temporary staff which increased the rate of crime in our society.

### **III. Socio Economic Lapses/inadequacies**

The bank is not an island. It is an integral part of the society. It is affected as well, it affects the elements in its immediate and remote environment. If the whole society of which the bank is a part is manually bankrupt, it will be difficult if not possible to expect the banks to be insulated from effects of such moral decadence. Our societies have defied all the odd moral standards and appear to be in concern with probity, honesty, integrity and good name, family frauds, the religious houses and society at large seem not to care how you come about your riches, but accept accommodate and even respect you for your wealth, however dishonestly it has been acquired. All this encourage fraud as the end seems to justify the means now and no means seem to be morally unacceptable.

Another closely related sociological cause of fraud is the misplacement of our social values. What societies appreciate and generally worship is money. In the past, people were respected and honoured for their achievements in various fields of human endeavors. Today, however, hardly does any human achievement have value other than wealth. Thus, it is a fact of our times that fraud has its roots firmly entrenched in the social setting, and the extent of growth depends naturally on the sense of value we chose to cultivate in terms of acquisition of wealth. In effect this problem is compounded by the inordinate urges to get rich quickly. The get rich quickly man normally pushes the bank employee to defraud his employer as he sees that approach is the quickest to his quest.

Lapses and inadequacies often lead to frauds. If firm customer loses its cheque book or a leaf there, and delays in reporting such to the bank, this document may be used to perpetrate fraud. Similarly, if firm is careless in the handling of its security materials such as the seal, it

may be aiding the perpetration of fraud using its bank accounts.

#### **IV. Inadequate or lack of training.**

It is not in common to find inadequately trained staff working in some banks. The rate of expansion in the banking industry since the introduction of Rural Banking Scheme in 1977 has led to acute shortage of trained personnel in the banks generally. The result of this is that even some clever long serving messengers can easily take advantage in experienced and half-baked officers perpetrate frauds in banks.

#### **V. Poor Supervision**

This is another resultant effect of shortage of qualified and trained officers. In order to produce more officers, some banks have resorted to an accelerated promotion policy. In such a situation, the standard of supervision on the part of staff to be promoted is almost bound to be very poor.

#### **VI. Inadequate Control System**

To understand the control system of the basic necessities for a manager, if however, he is not opportune to know or familiarize himself fully with the control system. It would not be possible for him to know whether the control system at this branch is adequate or not.

#### **VII. Irregular Balancing Account**

This is another veritable ground of fraudsters. If they are insider fraudsters, they would ensure that some of the books of account are never balanced, for they must have created the balancing problems in the first place thereby paving the way for themselves to perpetrate frauds later.

#### **VIII. Lack of Discipline**

This is one of the resultant effects of recruitment policy that is not based on merit, but as various subject factors, industrial discipline in such a situation can be very difficult to maintain.

#### **IX. Poor Security Arrangement for Security Document**

This can also be taken advantage of by fraudsters. Easy access to cheque books, demand draft, bankers' payment, term deposit receipt, specimen signature card can be exploited by fraudsters. Similarly, printing of these bank instruments by fraudster is not uncommon.

#### **Ways of Committing Fraud**

Fraud in organization are committed in various manners depending on the nature of the organization, position of the fraudulent employee, level of collusion among the employees and effectiveness of its internal control. The following ways are identified.

- a. Alteration of documents by changing date, amounts payee etc.
- b. Teeming and lading by cashiers.
- c. Forging of cheques and authorizing signatures.
- d. Collusion with outsiders to defraud the bank.
- e. Collusion between the cashier and ledger check to manipulate accounts so as to cancel or misrepresent accounting information.
- f. Inclusion of ghost worker in payment vouchers.
- g. Inflation of figures for expenditure and reducing figures for income.
- h. Raising fictitious payment vouchers to make false payment.
- i. Issuing false receipts for value not received.

- j. Issuing false receipts for money not received.
- k. Claim of out of pocket expenses.
- l. Inflation and deflation of stock value
- m. Some bankers flouted bank rules and regulations, procedures in lending and exceeding their discretionary power.
- n. Did not carry out pre-sanction scrutiny of the alleged business of the loanee.

### **Remedies to Fraud/Prevention**

The mere mention of the word “Auditor” to the public is like talking about fraud finding mechanism. In the past, the detection of fraud was regarded as being a major past function of an auditor as this belief still extends too many who employ auditors.

The auditors are seen as wizards of account. That is, as discoverers of fraud errors, omission and irregularities in financial records. Both management and public see and detect hidden fraudulent figures and manipulations in accounts not knowing that the responsibility of the detection and control of fraud and irregularities has largely rely with the management of an organization, who may discharge these responsibilities by instituting an adequate system of internal controls.

Internal Auditors are therefore expected to conduct the auditing job in a systematic and objective manner. The subject of auditing must be economic actions and event, in order to ascertain their interest in the organization in doing these working conditions:

#### **a. Remedies to Fraud by Managements**

The responsibility for fraud control is the exclusive reserve of management and not machines, because the perpetrators and beneficiaries are human beings. Fraud can never be eliminated completely due to the hardship nature of the economy today and corruption all over. The management should be able to study the individual motives of their subordinates, issued either by the CBN note. Besides, the internal auditor must have the ability of marrying the above knowledge to the audit operational manual of the bank.

Though, discovery of fraud and other irregularities may be described as the by-product of well-planned and properly conducted audit, it will not necessarily prevent errors and fraud from occurring. The moral check imposed by an auditor can be a major deterrent, which will minimize the possibility of perpetrating fraud. The general public expects auditors as a means of detecting frauds without realizing that the cost of detecting those fraud and irregularities may exceed the loss arising from there.

An auditor should report all frauds detected to management level and should be responsible for frauds, which he failed to detect, if such leads to discovering of the financial system of the company/banks.

#### **b. Approaches to the Minimization of Bank Fraud**

It is being realistic to state that it is near impossible to completely prevent fraud. Fraud will occur in our increasingly materialistic and morally decaying societies. The attainable goal that bank management must seek is to minimize fraud. This is very important because “deflections can be a source of extreme embarrassment to bank managements regardless of protection screening headlines always asks in effect, how management could have been so incompetent as to permit such a thing to happen. The bank name is smirched, even though its assets may be recouped.

In doing this, managements must see that it uses the preventive rather than the curative approach. That is to say, that the prevention of fraud is much preferred to its detection and the avoidance of loss is better than its recovery.

In appreciation of the damaging consequences of frauds, many groups in society including the organization concerned work to prevent and if necessary, try to detect fraud and punish fraudsters. Government also legislates in restraint of fraud. The group that work to prevent fraud in Nigeria include Central Bank of Nigeria, Bank Examiners, Bank external Auditors, Bank Internal Auditors, EFCC and ICPC.

The Nigerian Police and the Laws in restraints of bank frauds in Nigeria are:

Bankruptcy Decree of 1979

Dud cheques Decree of 1979.

### c. Common Law

Individual banks inspection departments specifically. However, the banks and society must take active measures to prevent fraud, detect it all and punish offenders. Broadly, the efforts must be on two points. Some aimed at reducing the temptation of committing fraud and the other, at increasing the risk of detection.

The establishment of a good salary structure and conditions of service can help in reducing the temptation of defraud. This however will not be enough as no salary level is ever sufficient in meeting the needs of all at all times. In addition to good work of conditions and salaries, management must seek to know and be kindly disposed to the financial needs which will make him feel a higher sense of belonging to the bank and result in higher productivity and efficiency.

There is a great need for moral rejuvenation of our societies, our values system must change and begin to recognized and give credit to success measured in dimensions other than money.

The law enforcement agents must be more properly educated about banking procedures, instruments and practices. This will enable them become familiar with banking industry activities and the probable sins and causes of fraud and consequently be more effective in helping society to minimize fraud.

The temptation to reduce fraudulent act can be reduced if there is adequate punishment in most societies today are too low to serve as effective deterrent. Besides after the punishment, usually prison terms, the fraudster is allowed, received and accepted into the society to enjoy his Punishment for fraudulent act which includes the recovery of stolen funds.

### Effect of Fraud in Banking

Fraud in the banks leads to:

1. Large financial losses to bank and their customers
2. The depletion of shareholders' firms and bank's capital base.
3. Sources of extreme embarrassment to banks management and loss of confidence in our banks.
4. The closure of some banks in the country.

The time, energy and money that would have been expended in improving customer services are being expended in setting up fraud and prevention systems.

### Methodology

The data used in this study were obtained from secondary sources. The data were collated from different sources such as journals, Newspapers, Annual statistical bulletin of the central bank of Nigeria, Commercial banks reports and Central bank of Nigeria website.

Stratified sampling technique was used to select 400 sample sizes. This was based on the sample size guideline that when the population is about 5000 or more, 400 sample size is



adequate for the study (Leedy and Ormrod, 2005), Olatunji, 2010 and Usman, 2015). The data will be analyzed using analysis of variance (ANOVA)

### **Discussion of Major Findings**

The finding of the study shows that the internal control system established in banking industries is 90% good, as there are internal auditors department which should serve as a moral check on any fraudulent act.

Hypothesis has proved that fraud can be controlled only if there is job satisfaction in banking industries; there is good or strong internal control systems and undermining the fact that there is no internal auditor's department, which the researcher believes that if introduced, will go a long way in solidifying the internal control systems of fraud on existence. The few reported cases of fraud remain detected because of the installation of good internal control system in some banks.

The findings of the study reveal that the rate of fraud committed by Bank staff are due to the inadequate training, job rotation, poor employee motivation and engagement of outsource staff

### **Conclusion**

In the previous pages, we saw the type of frauds, the cases of frauds, their possible solutions, and the remedies preferred to its detection. It is quiet better to prevent loss than to engage in powerful recovery effect.

The banking industries are sustained by the level of confidence the public have. The effect of fraud should therefore not be left to evade the amount of confidence the industry has built for herself over decades or years mostly, now that the world, including Nigeria is working hard to uplift the level of banking habits in the population or populace.

Nowadays, our minds are full of acquisition intents and this is indeed a moral weakness in our lifestyle. In view of all this facts therefore, it is my solemn appeal to all and sundry to contribute his or her quarter to the total eradication of this word called FRAUD. But this can only be done, if we make up our minds to do away with the get-rich-quick syndrome.

Material alteration is a serious menace in banking business. The same can be detected if the banker is given some initial training. The equipment needed for the detection is simple, mainly, a magnifying glass, transmitted light arrangements and a ultra-violet lamp. The detection process does not consume much time after the banker have acquired some skill. It is been done by some banks abroad through special background printing on the instrument.

Bank frauds are creation of professional criminals, desperate customers or errand bankers or their collusion inters. Most of the time, they are committed through forged documents and generally they are crook attempt which can be detected easily. Knowledge of the possible avenues can keep the banker warned and hence fore-armed against fraud. Eternal vigilance and sticking to rules are the basic preventive measures

### **Recommendation**

In order to remedy/prevent fraud as a manager, you are always to bend as a servant of all the transactions taking place, and monitor closely all the books to ensure that they are properly kept. One must try as much as possible to avoid risk and at the same time maximize profit.

Furthermore, before any organization employs a staff, they must ensure that the person is capable of handling the task needed of him, by putting into cognizance the political and personal interest attached to it.

Fraud works only because of desperation and the get-rich-quick syndrome, not been patient for good time, which is the best. Due to this reason, I felt that it is of paramount importance

for our financial organizations to organize seminars, trainings from time to time to update the knowledge they have in respect of this work, because of the rapid growth in science and technology and enlighten them about the papers and consequences of fraud and to keep them apprised of all legal implication and ensure that people are posted to sensitive offices on any basis.

The staff salaries to be paid promptly, management also should endeavor to review staff salaries when due. With this, worker will be placed in the position that matches their set concept and staff will be able to adjust their standard of living with the cost of living.

Government should create awareness in the public by organizing symposium, seminars, related workshops, public lectures, etc. on the control and evils of fraud to the economy and the society. Also, management should try to install computer machines for the smooth operation of its activities, as this reduces errors committed and control fraud, since only knowledgeable and authorized personnel operation will operate the computer.

On the basis of findings, it is recommended that government should make their impact to be felt in combating fraud by establishing more agencies for combating fraud. Those managers and directors involved in looting of funds should be prosecuted to serve as a deterrent to subsequent ones. In addition, bank staff should be properly screened to test their morality and integrity before recruitment.

Adequate internal control system should also be established to have checked and balances among bank staff. It is envisaged that if all this are put in place, fraud will be reduced to its nearest minimum, thereby, restoring confidence to bank customers.

Against this background, government in its effort to combat fraud and other financial crimes has set up various monitoring and control commissions such as The Independent Corrupt Practices and Other Related Offences Commission (ICPC) which is the apex body saddled with the responsibility of fighting corruption and other related offences. The ICPC was inaugurated on the 20<sup>th</sup> of September, 2002. The act establishes this commission and gives the chairman authority to rescue order for the control and general administration of the Economic and Financial Crimes Commission (EFCC) which was established in 2002. Another is the National Drug Law Enforcement Agency (NDLEA).

All financial instruments should be kept under tight security to avoid an outsider gaining their position, because it's assigned that anyone in possession of some instrument like draft, cheque, etc. is the owner.

Government assist part can also help in reducing rigidity to the already laid down bankruptcy decree of 1972 [Due check decree of 1979 and the common law], whatever the small transaction is and also enlighten the public through our media houses on the effect and consequences of this dreaded crime called FRAUD. The decree which laid down offence and penalties to persons been found committing fraudulent acts

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