### IMPACT OF FRAUDS AND FORGERIES ON THE NIGERIAN BANKING INDUSTRY

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**ABSTRACT**

*This study examines the impact of frauds and forgeries on the banking industry in Nigeria. One of the major characteristics a bank must possess is that its customers must be able to have unflinching and undoubted confidence in the banking the banking system, but due to the act of fraud and forgeries, this confidence has been reduced to the barest level, this does not affect the banking sector alone, but the long-term effect in on economy as good banking system helps to promote economic development. The primary source of data collection was used for this study. The simple random sampling was used to select 60 respondent which serve as the sample size of the study. The chi-square statistical tool was used to test the stated hypotheses. The findings revealed that frauds and forgeries in the banking sector have negative impact and implication on the banking system and other sectors of the economy which make up the entire system. It was also concluded that the total loan portfolio of the banking industry affects the deposits base of the industry as performing credit facility will have a positive impact on the deposit base because loan payment will increase the deposit base and interest on such loan will be realized immediately. It was also recommended that there is the need for members of the public to shun the habit of cultivating corrupt practice as part of our lives.*

****CHAPTER ONE****

****INTRODUCTION****

****1.1   Background to the Study****

Banks all over the world have through their unique position in the economy contributed immensely to economic growth and development of nations, hence the banking sector in any country plays fundamental role in increasing the level of economic activity.

A bank is any person, partnership, or company that provide the minimum banking services and which is licensed by the federal government as a banking institution. Such minimum banking services includes acceptance of deposit from the general public making payment to depositors on demands to the extent of the money available in their accounts: granting loan and advances to credit, worthy customers be involved in the clearing of cheques, etc.

Any problem that tend to hinder their smooth operation such as fraudulent practices is often viewed with seriousness for long, Nigeria financial system has suffered from fraudulent practiced perpetrated by banks as a corporate body.

Fraud is any activity that amounts to unfair dealings, he also described forgery as any acting that led to frauds where as forgery itself is an act in which a person knowingly makes a false document or writing with the intent that it may in any way be used or acted upon as genuine, be induced to do or restrain from doing any act whether Nigeria or else where, also in the same vein, Osamwonyi (1998) defined fraud as any activity or deception practiced to cheat, deceived, or circumvent another to his injury.

Thus, the definition of fraud varies widely in nature, but can be summarized as the misappropriation, misrepresentation and manipulation of firms or persons facts and figures, for personal gains. Any acts of unfair dealing, weather against the bank by its customers or against the customer by the bank (including the officials) or against the bank by its officers are regarded as a fraud.

The effect of fraud on the banking system is sometimes very damaging, it leads to loss of money which obviously reduces the profit base of the industry. It also leads to loss of confidence in the banking sector by its shareholder as it might affect their dividend. Fraud is regarded as a leakage in the system. Bank fraud affects banks staffs by way of dismissals, termination or suspension. Therefore, fraud and fraudulent practices in banking industry of any nation retard economic progress. Efforts have being made by governments, institution and various agencies to reduce the widespread of these frauds.

The Nigeria government, for example in 1994 promulgated and ordered. The failed bank tribunal to try frauds and officers of bank connected with contributing towards failed banks. Institutions have also tightened loopholes and recommendation and applied tough measures including internal controls system, compliance with producer for the opening of new accounts and transfer, meticulous examination in hiring and recruiting personal of banks, proper inspection of books and remunerating workers are recommendations that would help to reduce frauds In the banking industry.

****1.2   Statement of Problem****

` This study is concerned with finding out the impact of fraud on the banking industry in Nigeria. Distressed banks Nigeria today have suffered a great deal of frauds and the abuse of credit facilities by insides. The extent of frauds in banks rather than abate, has continued to escalate. Since 1970s banks been maintaining a commendable growth but regrettably, our financial system has been saddled with myriads of problem one of these is the intractable fraud that has bedeviled the system. The magnitude of this problem and its impact on the banking industry has inspired this research on fraud in Nigeria’s banking industry.

The non – profitability in some of our banks is partly as a result of frequent fraud incidents. The liquidation of 31 banks in May 2003 by the regulatory authorities that is, Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance Corporation (NDIC) can be largely attributed to frauds. This study therefore seeks to evaluate the effects of fraud in bank profitability and survival.

****1.3   Research Questions****

The following questions will guide the conduct:

1.     To what extent does bank fraud affect the performance of the banking industry in Nigeria?

2.     To what extent does weak internal control contribute to bank fraud?

3.     To what extent do forgeries affect shareholders’ decision in the Nigerian banking sector?

****1.4   Objectives of the Study****

The primary objectives of the study are:

1.     To examine how bank fraud affect the performance of the banking industry in Nigeria.

2.     To ascertain to what extent weak internal control contribute to bank fraud.

3.     To ascertain how forgeries affect shareholders’ decision in the Nigerian banking sector.

****1.5   Research Hypotheses****

****Hypothesis One****

Bank fraud does not affect the performance of the banking industry in Nigeria.

****Hypothesis Two****

Weak internal control does not significantly contribute to bank fraud.

****Hypothesis Three****

Forgeries do not significantly affect shareholders’ decision in the Nigerian banking sector.

****1.6****   ****Significance of the Study****

The nature of this study involves the use of second data. Further more, an econometric model will specified to examine the impact of fraud on the banking industry in Nigeria between 2010 and 2015.

The academic study on frauds in the banking industry in Nigeria will be useful to several groups of scholars, students, government and the general public.

Student of banking and finance, economics, accounting and management etc shall make use of this work as a valuable research work. Secondly it shall enable the readers, financial institution, non-banks financial institution, financial analyst and the government to understand the causes of fraud and its impact on the banking industry in Nigeria.

The research work therefore is designed to help the general public get acquainted with various frauds and their method of execution with the view of gaining sufficient knowledge to enrich individuals and collective experience in management and prevention of fraud.

****1.7   Scope of the Study****

This study examines the impact of frauds and forgeries on the banking industry in Nigeria. It covered the time period of five (5) years (2010 – 2015). For this study, the researcher used a sample of 60 for effective survey with special reference to Benin Metropolis.

****1.8   Limitations of the Study****

In the light of these limitations, obstacles are bound to be encountered in carrying out this type of research.

More disturbing was the un-corporative attitude of bankers who where not always willing to release data on fraud as it affect their irrespective banks: this is because public perception of the corporate image of the bank will be adversely affected hence the need to withhold information on frauds.

****CHAPTER TWO****

**LITERATURE REVIEW**

**2.1 INTRODUCTION**

Our focus in this chapter is to critically examine relevant literature that would assist in explaining the research problem and furthermore recognize the efforts of scholars who had previously contributed immensely to similar research. The chapter intends to deepen the understanding of the study and close the perceived gaps.

**Banking Industry**

The banking industry in Nigeria comprises of the commercial banks, the merchant banks and the development bank. At the apex of the industry is the central bank of Nigeria (CBN). The commercial banks provides services like acceptance of deposits, granting of short and (very recently) medium term loans to customers, safe-keeping of valuables, offering of pieces of advice to investors etc. The merchant bank on the other hand provide medium and long-term loans etc. The development banks services the development activities by making available about medium and long-term finances for this purpose. The central bank functions regulate the activities of these banks.

Easily, we can point at a member of factors that may be contributing to the unhealthiness and instability in the banking sector. Such factors as unstable macro-economic and fiscal policies, unethical and unprofessional practices, as well as inadequate supervisory activities, rank high on the scale. Developments in the Nigerian political economy since the mid 80s have greatly led to changes in the structure and art of banking. The period witnessed the proliferation of banks and other financial institutions. From CBN annual report (1994), there were 66 (sixty-six) commercial banks and 54 fifty-four) Merchant banks in Nigeria. According to the CBN diary 2003, as at June 2002, we had the following licensed financial institution 89 (eighty-nine) commercial and Merchant banks, 6 (six) development finance institutions, 97 (ninety-seven), finance companies and 125 (one hundred and twenty five) Bureau de change companies in Nigeria.

**The Role Of Banks In Economic Development**

It is widely acclaimed that banking system in particular and the financial system in general, play crucial role in economic development. By mobilizing savings and channeling them for investments especially in the real sectors, the banking system, increases the quantum of goods and services produced in the economy thus, national output increases and the level of employment improves. At a broad levels of generalization, empirical studies have established strong evidence of a positive correlation between real growth of output and bank assets (Adelman and Morris, 1967; Goldsmith, 1969; Cameron, 1972; McKinnon, 1973; Gurley and Shaw, 1976; Geffen and Rose, 1991; Levine, 1992 among others).

Needless to say that the banking system is able to play the positive role only if it is functioning efficiently. However, if it is repressed or distressed, in efficient and incapable o providing timely and quality services, the banking system could become a major hindrance to economic growth and development as observed by Cameron (1972) and McKinnon (1973). It is for this reason that governments the world over take keen interest in the performance of their financial system and would like to see the system being “supply – leading” and therefore catalystic for industrialization and development. This was particularly the case in Germany and Japan as reported by Patrick and Cameron (1967).

Government’s interest in the banking sector is usually aimed at ensuring a safe and sound system were depositors and consumers are protected so as to ensure monetary stability (Spong, 2009). Also, government through in laws, policies and regulatory institution exclusively regulates banks in order to minimize bank and cost of failure (Dale, 1984).

However, in spite of government’s efforts to protect the financial system, especially the banking sub – sector, failures do occur.

The failures have had serious implications for the financial system and by extension, the economy (NDIC, 1998). A generalized state of banking distress is expected to retard the economy’s rate of capital formation, reduce the level of employment and lower output, largely because banks will be unable to excess financial resources and put them at the disposal of the deficit economic units for increased consumption and output.

Recent macroeconomic statistics in Nigeria support these claims: real GDP growth was 2.3% in 1993, 1.3% in 1994 and 2.17% in 1995. Similarly, manufacturing capability utilization fell from 37.2% in 1993 to 30.4% in 1994 and 27.9% in 1995. While the number of distressed banks for the corresponding period was 38 in 1993; 45 in 1994 and 60 for 1996 (NDIC, 1998). Also, securities issued by banks to fund owners become less attractive in the event of widespread insolvency, thereby increasing the holders’ risk exposure and also making them lose confidence in banking system. This clearly undermines the development of a good banking culture.

Another serious danger posed by generalized distress among banks is the threat to the development of an efficient payment mechanism. Settlement of transaction becomes predominantly cash – based with its associated risk. Also, the effectiveness of monetary policy is reduced in direct proportion to the extent of loss of confidence in the banking system as reflected in the instability that would characterize the demand for money and the proportion of money in circulation that would be outside the banking system as banks are no longer seen as safe depositories. In Nigeria today, more than 50% of money supply is estimated to be outside the banking system (NDIC, 2008).

According to Utomi (2002), 80% of the country’s money never passes through a bank. Until the 1990s, the figure was 90%. Many Nigerians prefer it that way.

Ede (2002) said, “in an age when electronic commerce drives the world’s economies, Nigerian banks remain “inhospitable” behemoths whose customers spend hours or days to get the simplest transactions completed”. As a result, many Nigerians squirrel away naira notes at home, preferring to risk armed break – in rather than face exorbitant transaction fees.

**2.2 FRAUD**

The term ‘Fraud’ has been defined in different ways by different scholars and authors. According to the Collins English Dictionary, fraud can be defined as: "deceit, trickery, sharp practice, or breach of confidence, perpetrated for profit or to gain some unfair or dishonest advantage". Also, the Association of Certified Fraud Examiners defines fraud as “any illegal acts characterized by deceit, concealment or violation of trust. These acts are not dependent on the application of threat of violence or of physical force”. Frauds are perpetrated by individuals and organizations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage. Awe (2005) define fraud as the intentional alteration of records accompanied by the defalcation of asset in order to deceive certain group of people for the benefit of the perpetrator. Although not all fraud are accompanied by the defalcation of asset but majority of frauds perpetrated by low and middle officers normally involve the defalcation of asset. According to KirkPatrick (1985), fraud means an act of dishonest, deceit and imposture. A person who pretend to be what he’s not is a fraud, a snare a deceptive trick and a cheat. Fraud covers a range of irregularities and illegal acts characterized by intentional deception. It can be perpetrated for the benefit of or to the detriment of the organization and by persons outside as well as inside the organization. It can also be described as diverse means used by resourceful people to get an advantage over another by suppressing the truth, trickery misinformation, false suggestions, cunning, deceit, and other methods by which to cheat. By extension, fraud is clued embezzlement, theft, or any attempt to steal or unlawfully obtain the assets of banks (see also Bank Administration Institute 1989). Employees, customers, in conjunction with others within and outside the Bank can commit fraud. Frauds are not new in banks; they are as old as the industry itself. Therefore, it is not surprising when it is realized that many Nigerians have chosen to become a sudden millionaires by engaged themselves in all sort of manna and activities that is constitutionally and traditionally wrong all in the name of becoming millionaire overnight, as a result of this fraudsters launch different attack on the bank with the wrong notion that the banking industry is one of the most buoyant and the most profitable sector of economy. It is believe that the banks make a lot of profit annually and is always liquid. Consequently, any amount of financial loss to bank will not materially affects its operation/existence however, this is not correct, because the published accounts of some banks show that some of their banks cannot even fully provide for losses sustained through fraud in their accounts. In view of this, management control systems aimed at preventing fraud and reducing fraud to its beeriest minimum.

**2.3 TYPES OF FRAUD IN BANKING INDUSTRY**

Fraud has been classified in various ways and using various parameters. However for the purpose of this paper, we shall employ the perpetrators criteria stated by Adeyemo (2012) as thus:

1. Management of the banks (otherwise referred to as management fraud)
2. Insiders fraud (These perpetrators are purely the employees of the banks).
3. Outsiders Fraud (These include customers and/or non-customers of the banks).
4. Outsiders/Insiders.(This is a collaboration of the bank staff and outsiders as described.

**Management Fraud**

Management fraud is frequently committed by management staff of a reporting entity, which comprises the director, general managers, and managing directors to mention but a few. The category of victims of management frauds are investors and creditors, and the medium for perpetrating the fraud is financial statement. The predilection for management fraud in most cases is to pull in more investment from both existing and potential shareholders to the organization. Another motivation for management fraud is to paint the bank in good light in the eyes of the regulatory authorities such as Central Bank of Nigeria (CBN), Nigerian Deposit Insurance Corporation (NDIC), Nigerian Accounting Standards Board (NASB) etc. Additionally management fraud can also be effectuated to secure tax advantage from tax authorities. Fakunle (2006), defines management fraud is the manipulation of records and the accounts, typically by the enterprise’s senior staff with a view to benefiting in some indirect ways.“OCPS Internal Audit Department” defines management fraud as fraud designed to benefit the organization generally produces benefit by exploiting an unfair or dishonest advantage that also may deceived an outsider. Deception and Deprivation are the two elements of fraud and management fraud meets the criteria.

According to “OCPS Internal Audit Department”, the key elements of management frauds are: Intentional, Improper representation or valuation of transaction, assets liabilities or income, Intentional and improper related party transactions in which one party receives some benefit not obtainable in the arm’s length transaction, Intentional and failure to record or disclose significant information to improve the financial picture of the organization to the outsiders, and Prohibited business activities such as those that violate government statutes, rules, regulations or contract.

**Insiders or Employees Frauds**

This is the fraud perpetrated/committed by the employees of the bank or organization is also known as non-management fraud. According to “OCPS Internal Audit Department” is the fraud perpetrated to the detriment of the organization generally is for the direct or indirect benefit of an employee e.g. acceptance of bribes, diversion to an employee of a potentially profitable transaction that would normally generate profits for the organization, embezzlement, falsification of financial records, intentional concealment of event or data etc. Boniface (1991) identifies some of the typical manifestations of employee’s frauds in the banks to include: Cash thefts from the tills by banks’ staff, Forgeries of customer’s signature with the intention of illegally withdrawing money from the account with the bank, Use of forged cheques to withdraw money from the customer’s accounts, Opening and operating of fictitious account to which illegal transfers could be made and false balance credited, Lending to fictitious borrowers effected through fictitious account opened at a branch, Claiming of overtime for hours not worked, Suppression of cash/cheques. Fund Diversion: In this case, bank staff (for personal use), sometimes diverts customers’ deposits and loan repayment. Another case of this is the tapping of funds from interest in suspense accounts in the bank. Computer Fraud: This type of fraud takes the form of alteration of the programmes or application packages and even bursting into the system via remote sensors. Diskettes and flash drives can also be tampered with to gain access to unauthorized domains or even give credit to accounts for which the funds were not ab initio intended. This kind of fraud can remain undetected for a long time.

**Outsiders Frauds**

These are frauds perpetrated by customers and non-customers at the detriment of the banks. This class of fraud includes the followings: - Advance Fee Fraud - Forged Cheques - Cheque Kitting - cheque cloning - Account Opening Fraud - Counterfeit fin securities - Money Transfer Fraud - Letter of Credit Fraud - loan fraud - Clearing Fraud - Duplicating or skimming card data, copying magnetic stripe information off a card for duplication.

**Outsiders/Insiders Fraud**

This is the types of fraud committed by outsiders (customers/non-customers) of the bank with effort of insider (bank staff). For this type of frauds to be successful there must be an insider providing with necessary information and other logistic in secret.

**2.4 CAUSES OF BANK FRAUD**

Alashi (1994) grouped the major causes of the bank fraud into two. These are institutional factors and environmental factors. Institutional factors are those traceable to the internal environment of the financial institution, while the environmental factors are those which result from the influence of the environment on the banking industry.

**Institutional Causes Of Fraud**

The institutional factors or causes are those that are traceable to the in-house environment of the banks as stated by Ojo (2008). Though the list of institutional factors is inexhaustible, the notable ones are:

1. Weak accounting and internal control system;
2. Inadequate supervision of subordinates;
3. Disregards for “know your customers (KYC)” rule;
4. Poor information technology and data base management;
5. Hapless personnel policies
6. Poor salaries and conditions of services
7. General frustrations occasioned by management unfulfilled promises
8. Failure to engage in regular call-over
9. Employees’ refusal to abide by laid-down procedures without any penalty or sanction;
10. Banks reluctance to report fraud due to the perceived negative publicity or image. This is capable of engendering more fraud;
11. Banking Experience of staff: frauds in banks occur with higher rate of recurrence among staff with little experience and knowledge in financial praxis. The more experience and knowledgeable a staff is, the less that frauds would pass such staff undetected unless with active support of that staff.
12. Inadequate Infrastructure: Poor communication systems and power failure, result to a buildup of unbalanced postings, overcrowded office space etc, these encourage the committal of fraud in banks.
13. Inadequate training and re-training;
14. Poor Book-Keeping
15. Genetic traits:- These are trans-generational (or inherited) attribute possessed by an individual that propels him to engage in frauds. For instance, a kleptomaniac who pathologically steals for the fun of it would naturally not do well as professional banker.
16. Lack of security of tenure: the incessant downsizing of staffs in the banking industry which had rendered many jobless in the recent time has contributed to the perpetration of fraud.

**Environmental/Societal Causes Of Fraud**

These have been identified as follows:

1. Personality Profile of Dramatize Personae; most individuals with inordinate ambitions without qualm are prone to committing frauds. These kinds of individuals bent on making money by hook or crook and to them the end justifies the means.
2. Societal Value: when the possession of wealth determines the reputation ascribed to a person, that society is bound to witness unnecessary competition for acquisition of wealth.
3. Lack of Effective Deterrent/Punishment: this is a moot point because it is argued in some quarters that lack of effective deterrent such as heavy punishment could be a factor that contributes to the high perpetration of frauds in financial institutions.
4. Fear of Negative Publicity: many financial institutions fail to report fraud cases to the authorities. They believe that doing so will give unnecessary negative publicity to their institutions. This is not only a chance for fraudsters to thrive; it is great challenge to a researcher as regards to data collection.
5. Unemployment and High level of Poverty in Nigeria: Nigeria is one of the riches economies in the Sub Saharan Africa and indeed the world both in human and natural resources (oil) but 80% of the Nigeria youths especially university graduates are unemployed.
6. Most of the politicians squirrel away the looted funds in foreign banks without been punished. This causes capital flight, unemployment, dearth in infrastructure which is not particularly good for a developing country like Nigeria.

Directly or indirectly some Nigeria youths especially those with little ICT knowledge with special reference to those that find themselves in the banking industry with criminal intent engage in one bank fraud or the other in order to eradicate poverty. Most of them have some of their family members that depend on them for what to eat drink or even put in their pockets. All these make fraudsters to have the feeling that they are above the law and as such can get away with ill-gotten wealth unpunished.

**2.5 EXTENT OF FRAUDS IN THE NIGERIAN BANKING SYSTEM**

The incidence of frauds in our banking system has continued to be of grave concern to the Regulatory Authorities going by the magnitude of loss recorded by the system to the fraudsters over the years.Sections 35 and 36 of Nigerian Deposit Insurance Corporation (NDIC) Act 2006, mandates banks to render monthly returns of frauds and forgeries and also notify the corporation of any staff dismissed or whose appointment was terminated on accounts of frauds or financial irregularities. The incidence of frauds and irregularities in our banking system has continued to be of grave concern to the Corporation going by the magnitude of losses recorded by the system over the years. The experience with those banks that were closed in recent year clearly showed the trends as well as the damaging impact of frauds on the affected banks and the entire Nigerian financial services industry.

Over 3,380 fraud cases was reported in the year 2012 involving the sum of ₦17.97 billion with expected/contingent loss of about ₦4.52 billion. The expected/contingent loss had increased by ₦455 million (10.9%) over ₦4.072 billion reported in 2011. Notwithstanding the 43.7% increase in the number of fraud cases from 2,352 in 2011 to 3,380 in 2012, the amount of fraud cases decreased by 36.4% from ₦28.40 billion in 2011 to ₦17.96 billion in 2012 as shown in the Table. The increase in the number of fraud cases could be said to be as a result of rising fraud cases through ATM, internet banking and suppression of customers' deposits (NDIC ANNUAL REPORT 2012).

Within the eight years (2005-2012), a total of 3,337 were reported to have been involved in frauds and forgeries, while in 2011 and 2012 the total of 1,029 members of bank staff were reported to have taken part in financial impropriety, this statistics accounted for 30.83% of the whole figure, the numbers of the staff involved has been increasing since the last three years. According to NDIC 2011 report, the banking industry performance and the level of soundness were a bit affected in 2011. DMBs are usually categorized into five levels of soundness, namely: AVery Sound;B-Sound; C-Satisfactory; D-Marginal, and E-Unsound. The Banking Industry performance and level of soundness during the year ended 31st December, 2011 indicated that five (5) banks were in Category B, thirteen (13) banks in Category C and two (2) banks were in Category D. There were no banks in Categories A& E as at 31stDecember, 2011. The combined Total Assets of the two (2) banks in Category D stood at ₦560.02 billion or 3.07% of the Industry Total Assets (NDIC 2011).

**2.6 EFFECT OF FRAUD IN BANKING INDUSTRY**

Undoubtedly, frauds leads to loss of money which belongs to either the bank or customers. This loss results in a decline of productive resources available to the bank. Adewunmi (1986), identified the under listed effects of bank frauds and forgeries: a) It destroys the bank’s reputation b) It discourages banking habit among the banking public. c) The bank ceases to meet up with staff welfare d) The trust and understanding among staff is reduced e) The bank will lack the ability to compete favourably with its competitors f) Fraud reduces bank’s profitability g) It places emotional and psychological burdens on the fraud victims. Others include: Increased operating expenses, reduced operational efficiency, damage to credibility, public criticisms, endangered bank’s plans and strategies, bank’s liquidation, a decrease in foreign direct investments (FDI) and foreign investors, depletion of shareholders’ funds and banks’ capital base, and bad national image. Summarily, it can be said that the Cost of Fraud in Banks = Instantaneous loss due to fraud + Cost of fraud preclusion and exposure + Cost of lost business + Opportunity cost of fraud avoidance and uncovering + deterrent effect on spread of e-commerce.

**2.7 FRAUD DETECTION**

A code of conduct correctly applied represents one of the most important mechanisms of communicating to the employees the acceptable standards in their activity and to draw attention to the commitment the management undertook in order to respect the entity’s integrity. This is achieved through setting up a clear organizational structure, formulation of a policy concerning the conflict of interests, and the existence of a department of internal audit.

A carefully planned programme of communication and training will increase the employees’ understanding of their obligations regarding the controls conducted on professional fraud and transgression (for example, regular discussions on professional ethics or setting up a hotline for fraud reporting).

Fraud detection refers to recognizing the early warning signs of a possible fraud. The management of an entity must take notice of different warning signs that emerge: changes in an employee’s behaviour, changes in one’s lifestyle, drug/alcohol or gambling addictions, discrepancies about taken leave, etc. In this sense, the management can set up a confidential support system for his employees that can include family counselling, addiction counselling and aid, or financial counselling.

An important action in fraud detection is the establishment of an appropriate internal control system tasked exactly with this responsibility. It should aim to: respect the principle of separating functions (no function should allow an employee to execute a whole cycle of transactions, i.e. an employee should not have the authority to execute both front office and back office activities); examine the staff on their qualifications, competence, education, previous jobs, regular evaluations of their performances, taken leave; access the public resources to compare the accounting data to their physical existence; properly investigate the employees and third parties, especially in cases of authority positions in the process of financial reporting. Through the means of proactive data analysis concerning the acts of fraud such as searching information in databases in order to identify connections between different persons, screening the employees’ background in terms of convictions, financial incidents, loans, etc. can help to detect possible frauds and professional transgressions that may otherwise continue to go on unnoticed by the management.

Furthermore, a complex assessment of fraud and professional transgression risks can help the management to better understand the unique risks that their company faces, to identify the gaps and deficiencies in their controls, and to formulate a plan to identify the appropriate resources and procedures of control. Another aspect that could prevent fraud refers to the attitude towards fraudsters. An important step in creating a culture of intolerance towards fraud is to act consistently when an economic infraction is discovered. In this way, the staff understands what are the consequences of a possible involvement in a fraud and that its detection is certain and inevitable thanks to the efficient system of control and risk management. Such an attitude can lead to the dissuasion of most wrongdoers. It is also essentially to demonstrate to the employees that all wrongdoers will be equally treated, regardless of the position they hold in the company. Lastly, the reaction a company has when detecting a fraud is as well of importance, as it should act in a manner of publicly disclosing the fraud and professional transgression. Once the fraud or transgression was discovered, it should undertake action to restore the situation: voluntarily disclosing the results of the investigation to a regulatory body or any other competent authority, fix the prejudice committed, and examine the causes in order to ensure the decrease of fraud risk. It should discuss with the parties involved and those in executive positions that were not able to prevent or detect such events. Moreover, the company should transmit to the employees that the management has acted and responded accordingly in such a situation when fraud or transgression occurred. However, a disciplinary system that details the accountability protocol is essential in order to effectively prevent fraud and professional transgression and to ensure the employees that the management of risk assessment is considered to have precedence.

**2.8 PREVENTION AND CONTROL OF BANK FRAUDS**

Fraud prevention and control involved series of control activities put in place by the management of the bank to discourage fraud amidst their staffs. There is no gainsaying that the control and prevention of banks fraud is a collaborating effort that involves management of the banks, government and its agencies and the society. The ability of the management to prevent and control frauds in the bank depends deeply on the quality of the staff employed and the soundness of internal controls system in place. Babatunde (2002) define internal control system thus: This is the whole system of controls financial or otherwise, established by management in other to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the asset and secure as far as possible the completeness and accuracy of the records. It is the responsibility of management to install and maintain reasonable system of internal control to protect the entity from loss through fraud or error.

However, management’s responsibility for internal control does not stop at installation and maintenance alone. Management should demonstrate a concern for effective control by actions and also motivate personnel to take responsibility for the control and hold them accountable for their actions for the best of control can be impair by the actions and the reactions of the management. The usual measures, which ensure timely prevention and control of bank frauds, are categorized by Shongotola (1994) as: 1) Personnel controls 2) Administrative controls 3) Accounting controls 4) Financial controls 5) Inventory controls 6) Process controls Under personnel controls, we have proper recruitment and proper disengagement procedures, posting and placement, job rotations, enforced holidays and annual vacations, and training programmes. Under administrative controls, we have segregation of duties, security devices e.g. Regiscope Cameras, passwords, etc. and franking machine.

Under accounting controls, we have data validation, prompt posting of transactions, balancing of accounts, reconciliation, and proper identification of authorization and approvals. Under financial controls, we have cash limits, signing power and specialized stationer. Under inventory controls, we have physical checks and counts and bin cards, stock receipt notes, stock issued voucher, etc.

Under process control, we have input/output validation and program controls. Although all the controls are used in every aspect of bank operations as fraud antidotes or prevention techniques, special attention is given to the accounting controls as their proper application is very vital to the system's efficiency and effectiveness against bank frauds. Bank's financial operations are reviewed at regular intervals by means of interim account and report. Shongotola (1994) summarizes how frauds are prevented and controlled in the following words: … *if every voucher is properly checked and due approval confirmed, if proper postings are made and posted entries promptly called over, if balancing and reconciliation exercises are regularly performed, if figures are measured against projections/standards and variances are analyzed, if statistics are monitored and appropriate returns are sent and received on time, the possibility of fraud occurrence or non-detection would be quite remote.*

Bank Managers should pay particular attention to means of payment and customer's accounts. There are rules for cash movement, such as physical checks and balancing of cash, agreeing the Vault Book with the Bullion Officer's Cash Control Book, paying surprise visit to Cashiers and daily exchanges of tills and till books. Special attention is also paid to the non-cash payment instruments such as cheques, bankers' payment, etc. When it comes to clearing, care is taken to prevent substitution, loss or destruction of clearing documents.

Government has promulgated appropriate statutes and established relevant institutions that will ensure that incidence of frauds in banks and other financial institutions are eliminated. These statutes include the CBN Decree, BOFI Decree, NDIC Decree, CAM Decree, SEC Decree, FMBN Decree and the Money Laundering Decree. The institutions include Securities and Exchange Commission (SEC), Nigerian Deposit Insurance Corporation (NDIC), the Central Bank of Nigeria (CBN) and the National Drug Law Enforcement Agency (NDLEA). All these statutes and infrastructure are put in place to ensure safe and sound banking operations and good financial system.

The altitude of the general public (Society) toward the preventing and controlling of fraud in the society has not been encouraging as we continuing to celebrate the fraudsters knowing fully well that their source is not genuine. The society should tailor their altitude toward discouraging and exposed the fraudsters. Under SAS No. 82, the auditor has the responsibility to plan and perform an audit to obtain reasonable assurance about whether financial statements are free of material misstatement. The auditor is required to consider forty-one risk factors relating to fraudulent financial reporting and misappropriation of assets when designing an audit plan. Furthermore, the plan needs to be continuously modified during the audit on the basis of information gathered concerning these factors. It is also important that the auditor exercise a degree of skill and care in the performance of his assignment because if it is proved that the auditor failed to exercise reasonable skill and care as a result of which fraud or other irregularities which should have been discovered were not discovered and the client sustained financial losses, the auditor may be liable. The SAS has provided examples of conditions that would require reconsideration of an initial risk assessment. However, auditors must still use subjective judgment in analyzing the many risk factors. For example, one risk factor to be assessed by the auditor is "management displays a significant disregard to regulatory authorities" (SAS 82 1997). However, the auditor must use "professional judgment" in conducting an audit where risk factors such as this are present and must document these risk factors in the work papers (SAS 82 1997).

**2.9 THEORETICAL FRAMEWORK**

**Fraud Theory**

Since there are no absolutes as regard the characteristics of those people who commit fraud in the bank but there are theories put forward to explain rationale behind the fraud been committed. The understanding of the motive behind fraud is most important in preventing it. The proponent of the theory of fraud triangle came to the conclusion that the propensity for fraud occurred when three elements came together: pressure, opportunity, and rationalization. These elements are interdependent on each other for a person to actually commit a fraud.

**Financial Pressure** – The first phase in the fraud triangle is pressure which is believed to be the motivating factor in committing fraud. It is the element that makes perpetrator act and often implies an emotion or desire. The fraud perpetrator in this situation has financial problems that he is unable to solve through legitimate means, so he begins to figure out illegal means such as stealing money or falsifying a transaction document as a way to meet its end means. The financial problem can be in form of inability to ones bills, drug addiction, desire for impressive status such as having a nicer car or bigger apartment etc. Financial pressure could also be as a result of lack of job security (an occasion which sometimes makes employees feel insecure on their job and look for any possible means to perpetrate before they are been sacked), or reduced bonuses (Biegelman, M.T, and Joel T.B, 2012, 33).

**Opportunity –** The second phase in fraud triangle is opportunity which explains the method by which the perpetrator carries out his/her fraudulent act. The opportunity to commit fraud has to do with which position the perpetrator is holding in the bank. The higher the position of trust a person holds the higher the likelihood that such person will have access to vital information, assets and records which he abuse to solve his financial problem with a low perceived risk of getting detected. In the case of fraud, opportunity to commit fraud could be as a result of weakened internal controls which employees or managers sometimes override or lack of segregation of duties. Among these three proposed elements, opportunity is the only area in which fraud prevention can prevail (Biegelman, M.T, and Joel T.B, 2012, 34).

**Rationalization -** The third phase of the fraud triangle is rationalization which explains how fraudster justifies their illegal act. The perpetrator in this situation try to justify their action has been honest who are caught in a bad set of situations. When the first two elements in fraud triangle (Pressure and Opportunity) come together, the fraudster in this situation is convinced that what occurred is never bad. For instance, a nation of borrowing from the bank money is consider to them as not been stealing since they are going to pay the money back; or by trying to justify their action due to inadequate compensation, lack of promotions or sense of mistreatment (Biegelman, M.T, and Joel T.B, 2012, 35).

**2.10 EMPIRICAL REVIEW**

Considerable empirical studies have been conducted in the area of the present study.

Nwofor (2006) conducted a study on fraud and the Nigeria economy (1991-2006). It was a case study of selected commercial banks in Enugu state of Nigeria. The major purpose of the study was to identify and examine the causes, effects and control of bank frauds. The findings of the study were that (a) Bank frauds mostly occur as a result of inadequate internal control, dishonesty of some bank staff and their collaboration with third parties (b) inability of on-line banking to minimize fraud even with the recruitment of qualified staff by banks (c) Frauds reduce the reputation of banks, the confidence and trust the customers repose on them. The present study is related to that of Nwofor in that both focus on the examination of fraud control systems in commercial banks. But Nwofor’s study was a case study of selected commercial banks while the present study used descriptive survey design to investigate the corporate fraud control and prevention systems in all commercial banks in Enugu state. In another related study, Ossai (2005) conducted a study on the effectiveness of internal control in fraud prevention and control in the Nigerian public sector. It was a case study of the cash-off centre of Delta State University at Abraka. The population of the study comprised all the permanent staff of the cash-off centre. The study adopted descriptive survey design. The major purpose of the study was to ascertain the extent of the effectiveness of internal control in fraud prevention in the public sector. The study concluded that internal controls are established to help meet an organization’s goals especially in fraud reduction. It was also on the conclusion of the study that internal controls consist of specific policies and procedures designed to provide management with reasonable assurance that goals and objectives of the organizations will be met.

In the same vein, Mbamalu (2004) conducted a study on the management of fraud in Nigerian commercial banks. The study surveyed selected commercial banks in Nnewi. The population of the study was made up of the managers, accountants and supervisors of all the selected commercial banks. The major purpose of the study was to determine the extent of implementation and the effectiveness of anti-fraud management strategies in commercial banks. The study found that the commercial banks established and implemented many fraud control and prevention strategies. The study also found that some of the strategies were not effective because of their complexity and sophistication together with inadequate qualified staff to operate them. Mbamalu’s study is related to the present study because both focus on the extent of implementation and the effectiveness of fraud control systems in commercial banks. However, the present study is delimited to commercial banks in Enugu state while the previous study was on selected commercial banks in Nnewi, Anambra State. The present study also differs from the previous study because it is determining the corporate fraud control and prevention systems in commercial banks in Enugu state.

Similarly, Nduka (2001) conducted a study on the effectiveness of the internal control method as a tool for preventing bank frauds in Nigeria banks. It was a case study of five commercial banks in Enugu. The population of the study comprised all the management staff of the five commercial banks. The management staff were the managers, the accountants and the supervisors in the commercial banks. The major purpose of the study was to determine the effectiveness of internal control methods utilized in commercial banks for fraud control and prevention. The study found that the commercial banks had adequate internal controls but while some controls were effective others were not because of collusion and over-ride of controls by both management and staff of banks. The present study is related to Nduka’s study in that both focus on the effectiveness of fraud control systems. However, while Nduka’s study was centred on internal control only in five commercial banks, the present study considers the entire corporate fraud control and prevention systems in all the commercial bank branches operating in Enugu State. The present study is interested in the availability, the extent of utilization and the effectiveness of corporate fraud control and prevention systems in the banks.

Ume (2001) conducted a study on the role of management in fraud control and detection. The study was a comparative study of two public and two private organizations in Enugu. The major purpose of the study was to examine comparatively the role of management in fraud control and detection in public and private establishments. The study found that management in the public and private sectors, respectively, implemented fraud control and detection strategies to achieve the organisational goals. It also found that management in public organisations more frequently manipulate the fraud control measures than those in the private sector. The present study is related to Ume’s study in that both focus on fraud control measures adopted by business organisations. However, the present study is not a comparative study but purely on commercial banks, which are in the private sector. In another study, Nzekwu (1999) conducted an assessment of the manual and computer-aided fraud techniques in Nigerian Banking systems. Nzekwu conducted a case study of Union Bank of Nigeria PLC. The area of the study was Enugu. The study surveyed all the permanent staff of the bank. The major purpose of the study was to evaluate the manual and computer-aided fraud control and prevention techniques used in Nigerian banks to ascertain their effectiveness. The findings of the study include: (a) that both manual and computer-aided fraud control and prevention techniques were utilized in banks but the computer-aided techniques were more effective (b) That some computer-aided techniques were not fully utilized because of the complications in their operation and shortage of qualified staff to operate them. The present study is related to that of Nzekwu in that both focus on the fraud techniques used in Nigerian banks. But the present study differs from the previous study because it is not a case study on one commercial bank. The present study also differs from the previous study because it is on the corporate fraud control and prevention systems in commercial banks in Enugu state while the previous study was only on the manual and computer-aided techniques.

Furthermore, Ugwunna (1999) conducted a study on fraud in the Nigeria banking industry in Enugu. The major purpose of the study was to determine how accounting controls and procedures were used to minimize fraudulent activities in banks. The study found that most of the banks employed adequate accounting control measures for fraud reduction but because there were misconceptions about the measures, some staff violated and rendered the measures ineffective through collaborations.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

**3.1 INTRODUCTION**

In this chapter, we described the research procedure for this study. A research methodology is a research process adopted or employed to systematically and scientifically present the results of a study to the research audience viz. a vis, the study beneficiaries.

**3.2 RESEARCH DESIGN**

Research designs are perceived to be an overall strategy adopted by the researcher whereby different components of the study are integrated in a logical manner to effectively address a research problem. In this study, the researcher employed the survey research design. This is due to the nature of the study whereby the opinion and views of people are sampled. According to Singleton & Straits, (2009), Survey research can use quantitative research strategies (e.g., using questionnaires with numerically rated items), qualitative research strategies (e.g., using open-ended questions), or both strategies (i.e., mixed methods). As it is often used to describe and explore human behaviour, surveys are therefore frequently used in social and psychological research.

**3.3 POPULATION OF THE STUDY**

According to Udoyen (2019), a study population is a group of elements or individuals as the case may be, who share similar characteristics. These similar features can include location, gender, age, sex or specific interest. The emphasis on study population is that it constitute of individuals or elements that are homogeneous in description.

This study examines the impact of frauds and forgeries on the banking industry in Nigeria. It covered the time period of five (5) years (2010 – 2015) using Benin Metropolis of Edo State as case study. Therefore, staff of some selected banks form the population of the study.

**3.4 SAMPLE SIZE DETERMINATION**

A study sample is simply a systematic selected part of a population that infers its result on the population. In essence, it is that part of a whole that represents the whole and its members share characteristics in like similitude (Udoyen, 2019). In this study, the researcher adopted the convenient sampling method to determine the sample size.

**3.5 SAMPLE SIZE SELECTION TECHNIQUE AND PROCEDURE**

According to Nwana (2005), sampling techniques are procedures adopted to systematically select the chosen sample in a specified away under controls. This research work adopted the convenience sampling technique in selecting the respondents from the total population.

In this study, the researcher adopted the convenient sampling method to determine the sample size. Out of all the entire population of Bank Staff in Benin Metropolis, the researcher conveniently selected sixty (60) participant as the sample size for this study.

According to Torty (2021), a sample of convenience is the terminology used to describe a sample in which elements have been selected from the target population on the basis of their accessibility or convenience to the researcher.

**3.6 RESEARCH INSTRUMENT AND ADMINISTRATION**

The research instrument used in this study is the questionnaire. A survey containing series of questions were administered to the enrolled participants. The questionnaire was divided into two sections, the first section inquired about the responses demographic or personal data while the second sections were in line with the study objectives, aimed at providing answers to the research questions. Participants were required to respond by placing a tick at the appropriate column. The questionnaire was personally administered by the researcher.

**3.7 METHOD OF DATA COLLECTION**

Two methods of data collection which are primary source and secondary source were used to collect data. The primary sources was the use of questionnaires, while the secondary sources include textbooks, internet, journals, published and unpublished articles and government publications.

**3.8 METHOD OF DATA ANALYSIS**

The responses were analyzed using the frequency, tables and simple percentage which provided answers to the research questions. Hypothesis was tested using Chi-Square statistical tool (SPSS v.2.3)

**3.9 VALIDITY OF THE STUDY**

Validity referred here is the degree or extent to which an instrument actually measures what is intended to measure. An instrument is valid to the extent that is tailored to achieve the research objectives. The researcher constructed the questionnaire for the study and submitted to the project supervisor who used his intellectual knowledge to critically, analytically and logically examine the instruments relevance of the contents and statements and then made the instrument valid for the study.

**3.10 RELIABILITY OF THE STUDY**

The reliability of the research instrument was determined. The Pearson Correlation Coefficient was used to determine the reliability of the instrument. A co-efficient value of 0.68 indicated that the research instrument was relatively reliable. According to (Taber, 2017) the range of a reasonable reliability is between 0.67 and 0.87.

**3.11 ETHICAL CONSIDERATION**

The study was approved by the Project Committee of the Department. Informed consent was obtained from all study participants before they were enrolled in the study. Permission was sought from the relevant authorities to carry out the study. Date to visit the place of study for questionnaire distribution was put in place in advance.

**CHAPTER FOUR**

**DATA PRESENTATION AND ANALYSIS**

**4.0 INTRODUCTION**

This chapter presents the analysis of data derived through the questionnaire and key informant interview administered on the respondents in the study area. The analysis and interpretation were derived from the findings of the study. The data analysis depicts the simple frequency and percentage of the respondents as well as interpretation of the information gathered. A total of sixty (60) questionnaires were administered to respondents of which all were returned and validated. This was due to irregular, incomplete and inappropriate responses to some questionnaire. For this study a total of 50 was validated for the analysis.

**4.1 DATA PRESENTATION**

**Table 4.2: Demographic profile of the respondents**

|  |  |  |
| --- | --- | --- |
| **Demographic information** | **Frequency** | **percent** |
| **Gender**  Male |  |  |
| 41 | 68.3% |
| Female | 19 | 31.7% |
| **Age** |  |  |
| 25-30 | 21 | 35% |
| 31-35 | 11 | 18.3% |
| 36-40 | 16 | 26.7% |
| 41+ | 12 | 20% |
| **Marital Status** |  |  |
| Single | 38 | 63.3% |
| Married | 21 | 35% |
| Separated | 01 | 1.7% |
| **Education Level** |  |  |
| OND/HND | 17 | 28.3% |
| B.Sc./M.Sc | 43 | 71.7% |

**Source: Field Survey, 2021**

**4.2 DESCRIPTIVE ANALYSIS**

**Question 1:** To what extent does bank fraud affect the performance of the banking industry in Nigeria?

**Table 4:2: Respondent on the extent bank fraud affect the performance of the banking industry in Nigeria?**

|  |  |  |
| --- | --- | --- |
| **Options** | **Frequency** | **Percentage** |
| Very High Extent | 40 | 66.6 |
| High Extent | 16 | 26.6 |
| Low Extent | 04 | 6.6 |
| **Total** | **60** | **100** |

**Field Survey, 2021**

From the responses derived in the table above, 66.6% of the respondent said to a Very High Extent bank fraud affect the performance of the banking industry in Nigeria. 26.6% of the respondent said High Extent. 6.6% of the respondent ticked Low Extent.

**Question 2:** To what extent does weak internal control contribute to bank fraud?

**Table 4:3 Respondent on the weak internal control contribute to bank fraud?**

|  |  |  |
| --- | --- | --- |
| **Options** | **Frequency** | **Percentage** |
| Very High Extent | 42 | 70 |
| High Extent | 13 | 21.7 |
| Low Extent | 05 | 8.3 |
| **Total** | **60** | **100** |

**Field Survey, 2021**

From the responses derived in the table above, 70% of the respondent said to Very High Extent weak internal control contributes to bank fraud.. 21.7% of the respondent said No, 8.3% of the respondent ticked uncertain.

**Question 3:**   To what extent do forgeries affect shareholders’ decision in the Nigerian banking sector?

**Table 4.4: Respondent on extent to which forgeries affect shareholders’ decision in the Nigerian banking sector?**

|  |  |  |
| --- | --- | --- |
| **Options** | **Frequency** | **Percentage** |
| Very High Extent | 30 | 50 |
| High Extent | 08 | 13.3 |
| Low Extent | 22 | 36.7 |
| **Total** | **60** | **100** |

**Field Survey, 2021**

From the responses derived in the table above, 50% of the respondent said to Very High Extent forgeries affect shareholders’ decision in the Nigerian banking sector, 13.3% of the respondent said High Extent, 36.7% of the respondent ticked Low Extent.

**4.3 TEST OF HYPOTHESIS**

**Hypothesis One**

**Table 4.5: Bank fraud does not affect the performance of the banking industry in Nigeria.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Options** | **Fo** | **Fe** | **Fo - Fe** | **(Fo - Fe)2** | **(Fo˗-Fe)2/Fe** |
| Yes | 38 | 20 | 18 | 324 | 16.2 |
| No | 06 | 20 | -14 | 196 | 9.8 |
| Undecided | 16 | 20 | 04 | 16 | 0.8 |
| **Total** | **60** | **60** |  |  | **26.8** |

**Source: Extract from Contingency Table**

Degree of freedom = (r-1) (c-1)

(3-1) (2-1)

(2) (1)

= 2

At 0.05 significant level and at a calculated degree of freedom, the critical table value is 5.991.

**Findings**

The calculated X2 = 26.8 and is greater than the table value of X2 at 0.05 significant level which is 5.991.

**Decision**

Since the X2 calculated value is greater than the critical table value that is 26..8 is greater than 5.991, the Null hypothesis is rejected and the alternative hypothesis is accepted which states that Bank fraud do affect the performance of the banking industry in Nigeria.

**Hypothesis Two**

**Table 4.6: Weak internal control does not significantly contribute to bank fraud.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Options** | **Fo** | **Fe** | **Fo - Fe** | **(Fo - Fe)2** | **(Fo˗-Fe)2/Fe** |
| Yes | 30 | 20 | 10 | 100 | 5.0 |
| No | 08 | 20 | -12 | 144 | 7.2 |
| Undecided | 22 | 20 | 02 | 04 | 0.2 |
| **Total** | **60** | **60** |  |  | **12.4** |

**Source: Extract from Contingency Table**

Degree of freedom = (r-1) (c-1)

(3-1) (2-1)

(2) (1)

= 2

At 0.05 significant level and at a calculated degree of freedom, the critical table value is 5.991.

**Findings**

The calculated X2 = 12.4 and is greater than the table value of X2 at 0.05 significant level which is 5.991.

**Decision**

Since the X2 calculated value is greater than the critical table value that is 12.4 is greater than 5.991, the Null hypothesis is rejected and the alternative hypothesis is accepted which states that weak internal control do significantly contribute to bank fraud..

**Hypothesis Three**

**Table 4.7: Forgeries do not significantly affect shareholders’ decision in the Nigerian banking sector.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Options** | **Fo** | **Fe** | **Fo - Fe** | **(Fo - Fe)2** | **(Fo˗-Fe)2/Fe** |
| Yes | 29 | 20 | 09 | 81 | 4.1 |
| No | 09 | 20 | -11 | 121 | 6.1 |
| Undecided | 22 | 20 | 02 | 04 | 0.2 |
| **Total** | **60** | **60** |  |  | **10.4** |

**Source: Extract from Contingency Table**

Degree of freedom = (r-1) (c-1)

(3-1) (2-1)

(2) (1)

= 2

At 0.05 significant level and at a calculated degree of freedom, the critical table value is 5.991.

**Findings**

The calculated X2 = 10.4 and is greater than the table value of X2 at 0.05 significant level which is 5.991.

**Decision**

Since the X2 calculated value is greater than the critical table value that is 10.4 is greater than 5.991, the Null hypothesis is rejected and the alternative hypothesis is accepted which states that Forgeries do significantly affect shareholders’ decision in the Nigerian banking sector.

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**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.1 SUMMARY**

This study examines the impact of frauds and forgeries on the banking industry in Nigeria covering the period of 5years (2010 – 2015) using Benin Metropolis of Edo State as case study. The study ascertained what extent bank fraud do affect the performance of the banking industry in Nigeria. It examine what extent weak internal control do contribute to bank fraud. It determined what extent do forgeries affect shareholders’ decision in the Nigerian banking sector.

Survey research design was employed for the study and with aid of purposive sampling sixty (60) staff of Banks in Benin Metropolis was selected as the participant of the study. The sources of data collection was both primary and secondary with the application of questionnaires as an instrument to gather the necessary data. The questionnaires were properly completed after being administered and this was a basis by which the primary data were collected. Textbooks, journals, articles, law reports, newspapers publications, were collected as secondary data, and also limitations to the study were indicated. The hypothesis was tested using chi-square test statistical tool (SPSS v.2.3) and the result were similar to those of the responses drawn from the questionnaires.

**5.2CONCLUSION**

In view of getting and amassing quick and sudden wealth in Nigeria, misplaced value judgment and prevailing harsh economic environment, big time frauds are on the increase and the banks are losing amounts running into millions of naira to fraudsters almost every day. Fraudsters are busy devising new methods for their nefarious activities. We should in like manner devise preventive, controlling and counter measures to check them.

Finding from the study revealed that some banking practices to in Nigeria banking industries are the sole contribution to fraudulent occurrence.The result of the study also revealed that the causes of fraud include Weak accounting and internal control systems, Inadequate supervision of subordinates, Disregards for “know your customers (KYC)” rule, Poor information technology and data base management, Hapless personnel policies, and failure to engage in regular call-over.

The findings revealed that frauds and forgeries in the banking sector have negative impact and implication on the banking system and other sectors of the economy which make up the entire system. It was also concluded that the total loan portfolio of the banking industry affects the deposits base of the industry as performing credit facility will have a positive impact on the deposit base because loan payment will increase the deposit base and interest on such loan will be realized immediately.

**5.3 RECOMMENDATION**

From the findings of the study, the following recommendations were made:

1. The management of the commercial banks should ensure that the available corporate fraud control and prevention systems are utilized, maintained and updated for effective fraud control and prevention.
2. A viable audit committee to evaluate and oversee everyday transactions of the bank and assist the management with oversight of reporting any lapses in the internal controls process of the bank.
3. Anti-fraud seminars should be conducted on regular basis to employees.
4. Job rotations within the bank should be planned by auditors and other senior officers to ensure effectiveness and the rotations should not be communicated ahead of time to the involved employee.
5. Staff recruitment procedure should be done strictly and Upward review of staff remuneration
6. Expanding the scope of an internal audit may help to mitigate the “expectation gap” problem as auditors would then be performing additional duties not previously required. It is hoped that by implementing both approaches, the public’s expectation and auditor’s duties will be brought into closer accord.

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**APPENDIXE**

**QUESTIONNAIRE**

**PLEASE TICK [√] YOUR MOST PREFERRED CHOICE(S) ON A QUESTION.**

**SECTION A**

**PERSONAL INFORMATION**

**Gender**

Male [ ] Female [ ]

**Age**

20-30 [ ]

31-40 [ ]

41 and above [ ]

**Educational level**

OND/HND [ ]

B.Sc/MSC/ [ ]

PHD [ ]

**Marital Status**

Single [ ]

Married [ ]

Separated [ ]

**SECTION B**

**Question 1:** What are the remote causes of fraud in the banking sector?

|  |  |  |  |
| --- | --- | --- | --- |
| **OPTIONS** | **Yes** | **No** | **Uncertain** |
| Weak accounting and internal control system |  |  |  |
| Inadequate supervision of subordinates; |  |  |  |
| Disregards for “know your customers (KYC)” rule |  |  |  |
| Poor information technology and data base management |  |  |  |
| Hapless personnel policies |  |  |  |
| Failure to engage in regular call-over |  |  |  |

**Question 2:** To what extent does bank fraud affect the performance of the banking industry in Nigeria?

|  |  |
| --- | --- |
| **Options** | **Please tick** |
| Very High Extent |  |
| High Extent |  |
| Low Extent |  |

**Question 3:** To what extent does weak internal control contribute to bank fraud?

|  |  |
| --- | --- |
| **Options** | **Please tick** |
| Very High Extent |  |
| High Extent |  |
| Low Extent |  |

**Question 4:**   To what extent do forgeries affect shareholders’ decision in the Nigerian banking sector?

|  |  |
| --- | --- |
| **Options** | **Please tick** |
| Very High Extent |  |
| High Extent |  |
| Low Extent |  |