AN APPRAISAL OF DEPOSIT MONEY BANKS' FRAUDS IN NIGERIA

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ABSTRACT

The study investigated deposit money banks' frauds in Nigeria. The data were sourced from the Nigerian Deposit Insurance Corporation's annual accounts and reports between the periods of 2006 to 2017. The approach of ex- post-facto descriptive research is used. The study investigated the relationship between a number of fraud cases, amount of fraud involved and the number of staff involved in frauds and the total expected loss. The hypotheses were tested using multiple regression technique at 5% significance level and processed with special package for social sciences version 17.0. Thus, it found that the number of fraud cases did not have significant effect on total expected loss; the amount of frauds had significant effect on total expected loss; and the number of staff involved in frauds, did not have significant effect on total expected loss. The investigation recommended a mechanism of early detection by efficient internal control system and watching over the lifestyle of staff. The performance of the bank management in keeping with the number of staff involved in fraud under control, is also commended and punitive measures of restitution of amount defrauded and the prosecution of suspected fraudsters in order to deter intending fraudsters.

Keywords*:* *Frauds, Total Expected Loss, Forgeries, Restitution*

INTRODUCTION

The scale of frauds in the deposit money banks has assumed an alarming dimension and spreading like harmattan fire (Akindele, 2011). Its magnitude and dimension cannot be predicted and estimated. This is attributable to the large quantum of frauds undetected and most times, unnoticed. Frauds occur in almost all facets of human endeavours, and the banking sector has become a critical sector commanding fraud in great heights (Olisabu, 1991). Oseni (2006), remarks that the incessant frauds in the banking sector is getting to a level whereby, many are losing interest in the sector. It is against this backdrop that Bolton and Hand (2002), observes that results of successful and unsuccessful attempts of fraud, have been shocking.

STATEMENT OF PROBLEM

Over the years, frauds have assumed different dimensions. Incidentally, banks are their major targets in recent times notwithstanding the increased use of technology in the sector. No bank appears safe from this destructive act. The issues of banking frauds have assumed unprecedented proportions and dimensions in the banking industry. Fraud in the Nigerian banking industry is endemic and seems intractable. It has its root firmly entrenched in the social setting and the extent of growth, depends on our wrong sense of value that we choose to cultivate in terms of wealth acquisition (Ikpefan, 2006). The news media are replete with reports of cases of banks' frauds with captions such as Nigerian banks lost ₦12.06 billion (Ojekunle, 2018). Ten banks accounted for 80% of banking sector fraud according to NDIC (Onuba, 2018). Further caption read thus: Nigerian banks lose ₦12.30 billion to fraud in four years (Okogba, 2018). While bank frauds affect the financial health of the banks and the economy, its effects on the total expected loss in the deposit money bank are an empirical one.

OBJECTIVES OF THE STUDY

This study aims at achieving the following objectives:

- ✓ To investigate the relationship between the numbers of fraud cases and the total expected loss;
- ✓ To investigate the relationship between the total amount involved in fraud and the total expected loss; and

- ✓ To investigate the relationship between the numbers of staff involved in fraud and total expected loss.

STATEMENT OF HYPOTHESES

Hypothesis is a stated assumption made about a population which must be tested and proved. It is said to be the conjectural statement of the relationship between two or more variables (orjih, 2009). The following hypotheses are stated in their null form:

HO_1: There is no significant relationship between the number of fraud cases and total expected loss.

HO_2: There is no significant relationship between the total amount involved in fraud and total expected loss.

HO_3: There is no significant relationship between the number of staff involved in fraud and total expected loss.

SIGNIFICANCE OF THE STUDY

The study is of immense value to bank regulators, investors, the academia and other relevant stakeholders who are beneficiaries, users and consumers of banking services. This study is meant to act as a knowledge frontier to market participants and investors. It provides banks with strategies for the prevention of frauds in the banking industry. The conclusion of the study will be of immense benefits and will provide sound incentive to regulatory authorities in formulating policies and developing strategies capable of sustaining the banking sector against the negative effects of frauds. Since the study drew from the wealth of knowledge and experiences of respected authorities through in-depth literature review, it would serve as a good reference material to future researchers in related fields.

SCOPE OF THE STUDY

The study is an appraisal of deposit money banks' frauds in Nigeria. The study is necessary because of the magnitude of the amount involved in frauds and the likelihood of the amount involved to increase over time. The study covers the report published by Nigerian Deposit Insurance Corporation (NDIC), for the period of (2006-2017) on the number of cases of fraud, amount involved, number of staff involved and total expected loss resulting from frauds in Nigerian deposit money banks.

LITERATURE REVIEW

Hur-Yagba (2003), notes that there is a general consensus among criminologists that fraud is caused by three elements called: Will, Opportunity, Exit (WOE) i.e., the will to commit frauds by the individual, the opportunity to execute the fraud and the exit which is the escape from sanctions against successful or attempted fraud or deviant behavior. Gire (2005), posits that attitude tends to vary in strength as some are being much stronger or weaker than others. The strength of an attitude lies in the fact that strong attitudes are presumed to be more difficult to change. People tend to hold attitudes only towards objects that exist in their psychological world. Chizea (1991), observes fraud as any premeditated act of criminal deceit, trickery or falsification by a person or group of persons with the intention of altering facts in order to obtain undue personal monetary advantage. The following are typical manifestations of frauds: cash thefts from the tills of banks by staff, forging of a customer's signature, use of forged cheques to withdraw money from other people's accounts with the bank, unauthorized and illegal transfer of fund from a customer's account, opening and operating of fictitious (ghost) account for illegal transactions, lending to fictitious borrowers through fictitious account opened at a branch, suppression of cheque by disloyal staff, payment against uncleared effects, granting loans without adequate information and collateral security from borrowers etc. In his contribution, Kolawole (2003), attributes cases of frauds in the banking system to unskilled employees who are not professionally sound and our legal system that prolongs cases of fraud for too long, thus making room for undue interference. Atijosan (1993), observes that frauds could be carried out through addition of fictitious transactions, altering transactions through wrong posting of accounts and deleting transactions by omitting specific figures. Archibong (1993), notes that the long term survival and growth of the banking, depends on how the issue of fraud and fraudulent practices in the organization is handled. Ojo (1997), comments that the economic down-turn, unstable political environment and fragile financial outlook in Nigeria, require adequate preventive and control measures to manage the banks and other institutions and enterprises. Ajisebutu (2006), identifies management fraud, while Boniface (1991), and identifies insider and outsider frauds as those perpetrated by members who are not employees of the bank.

Causes of Fraud

There are many causes of fraud depending on the enabling environment. The causes of fraud can be categorized into two, that is, institutional and environmental/societal factors. Adeoti et al., (2015), identify the following causes of frauds to be: Lack of experienced and adequate personnel, weak internal audit and control, inadequate book keeping/accounting procedure, poor credit administration and ineffective bank management. Others are: poor knowledge of the job, clearing fraud, societal expectation and delayed justice in prosecuting fraudulent cases.

Effects of Fraud on Nigerian Banks

According to NDIC (2009), the performance or the level of soundness of banks declined in 2009. Out of the 24 banks in the country, 13 were rated sound, one was marginal, while 10 were rated unsound as against just one unsound in the previous year. Adewunmi (1996), identifies the under listed effects of bank frauds and forgeries: It destroys the bank's reputation; it discourages banking habit among the banking public, the trust and understanding among staff is reduced, the bank would lack the capacity to function properly, fraud reduces bank's profitability and it places emotional and psychological burdens on the fraud victims.

Control of Bank Fraud and Forgery

To guarantee effective strategies of fraud prevention and control, Adeyemo (2012), observes that banks are to ensure that operational systems are designed with in-built control devices. Banks can reduce or better still eradicate frauds and forgeries if all control devices built into the system are uncompromisingly respected on the observance of the followings:

1) Installation of an encouraging work atmosphere: An encouraging work environment propels employees to follow established policies and procedures and operate in the best interest of the organization. It opens line of communication between employees and management of the bank, and guarantees positive employees recognition and sound reward system. This kind of environment is likely to reduce the drive for fraud and forgeries.

2) Hire sincere people: The need to hire honest people cannot be over emphasized. Though, it is the ambition of every organization, but it is easier said than done. Cost of hiring a dishonest employee is incalculable: a dishonest employee will undermine any attempt to create a positive work environment and constantly strive to defeat any internal control put in place. Pre-employment background checks that cover criminal history, educational history verification, previous employment verification, civil history for possible lawsuits etc., will be helpful in hiring honest people.

3) Perform expected and unexpected audits: Every bank should have regular assessments procedure which will be complemented with uncustomary, random, unannounced financial audit and fraud assessments. This can help to unearth any vulnerability and appraise the effectiveness of the existing control, and send the message to all employees that fraud prevention and control are of high priority to the bank.

4) Enforce internal controls: This should be designed to promote operational efficiency and effectiveness, provide reliable financial information, safeguard assets and records, encourage adherence to prescribed policies, and comply with regulatory agencies. A sound internal control will ensure that transactions are: valid, properly authorized and recorded, properly valued, properly classified, reconciled to subsidiary records and not carried out through by a single employee (i.e. to ensure separation of duties)

5) Probe every unpleasant incident: A meticulous and timely investigation of any allegation of frauds, threat to internal control and warning signals of fraud, will give the indication that frauds and forgeries are not treated with kid-gloves by the organization.

6) Exemplary leadership: Top management of the bank must set the standard for other employees by their conducts. A cavalier approach to rules

and regulations by senior management, will soon be reflected in the stance of the employees. Every staff, no matter how highly placed, should be governed by the rules of the organization.

7) Adequate training and education most especially, on frauds and forgeries should be organized from time to time for banks' staff.

8) The judicial process should be reinforced to encourage speedy hearing of fraud cases brought before it.

METHODOLOGY

In the words of Cohen and Manion (1980), methodology refers to the range of approaches used in research to gather data which are to be used as a basis for inference and interpretation, explanation and prediction. Orjih (2009), opines that this is the procedural phase of the investigation. Data for this study were generated from the Nigeria Deposit Insurance Corporation's annual reports from 2006 to 2017, and from literature in the library. The study investigated the existing twenty four banks operating during the study period under review. The study is an *ex-post facto descriptive research*, implying that the manifestations had already taken place. Sharma (2012), argued that it is a research in which the investigator does not have direct control over the independent variables. The data were processed using multiple regression technique with the aid of the statistical package for social sciences (spss) version 17.0. The model is stated thus: $Y = a_{o} + a_{1}noc + a_{2}ta + a_{3}si + u$, where a1, a2 and a3 are the regression coefficients and Y = total expected loss, noc = number of fraud cases, tai= total amount of fraud involved and si = staff involved` and U is the error term. The total expected loss is the dependent variable while the number of fraud cases, total amount of fraud and number of staff involved in fraud, are independent variables.

Data Presentation

The table 1 below, shows the fraud statistics for the various years.

Table 1, shows a number of fraud cases, total amount involved, staff involved and total expected loss

Year	No of Fraud Cases	Total Amount of Fraud N m	No. of Staff Involved	Total Expected Loss Nm
2006	1,193	4,832,000	331	2,769,000
2007	1,553	10,005,000	273	2,871,000
2008	2,007	53,523,000	313	17,543,000
2009	1,764	4,266,000	656	7,549,000
2010	1,532	21,291,000	357	11,679,000
2011	2,352	28,40s1,000	498	4,071,000
2012	3,380	17,765,000	531	4,517,000
2013	3,756	21,795,000	682	5,757,000
2014	10,621	25,608,000	465	6,192,000
2015	12,279	18,021,000	425	3,173,000
2016	16,751	8,683,000	231	2,396,000
2017	26,182	12,010,000	320	2,370,000

Source: NDIC Annual Reports for the years, 2006 to 2017.

Results:

Table 2, shows the model summary

Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.947[a]	.897	.858	1717819.376

Table 3, shows the ANOVA

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.046E14	3	6.819E13	23.110	.000[a]
	Residual	2.361E13	8	2.951E12		
	Total	2.282E14	11			

a. Predictors: (Constant), si, antifraud, noc

b. Dependent Variable: tel

Table 4, Shows the Coefficients

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3388533.054	2038532.010		1.662	.135
	Antifraud	.283	.038	.938	7.415	.000
	Noc	-69.617	73.713	-.121	-.944	.373
	Si	-8695.081	3806.979	-.279	-2.284	.052

a. Dependent Variable: tel

Source: Author's computation, 2019

DISCUSSION

Table 2, presents the model summary. R column represents the multiple correlation coefficients, which measured the quality of the prediction of total expected loss (TEL) which is 94.7%, R^2 is the coefficient of determination which is the proportion of the variable in the total expected loss that can be explained by the independent variables. From this it can be been that 89.7% of the independent variables explain the variability in the total expected loss

Statistical Significance

The F-ratio in the ANOVA table, tests whether the overall regression model is a good fit for the data. Table 3**,** shows that the independent variables statistically and significantly, predicts the dependent variable, given the result of F (3, 8) = 23.110, P <0.005

From Table 4, the three hypotheses are tested.

Decision rule:

If the P- value is $\leq$0.005 (α), it is statistically significant, if otherwise it is not.

Decision

From Table 4, there is negative insignificant relationship between the number of fraud cases and the total expected loss. For every increase in number of fraud case, there is a decrease of 0.12 % in total expected loss, since the P-value of 0.373≥0.005 (α level) it is not statistically significant implying the null hypothesis is accepted. Also, from Table 4, there is positive significant relationship between the amount of fraud and total expected loss. For every percentage increase in amount of fraud, there is a corresponding increase of 93.8% of the total expected loss, since the P-value of 0.000≤0.005 (α level) it is statistically significant implying the null hypothesis is rejected.

Furthermore, from Table 4, there is negative insignificant relationship between the number of staff involved in fraud and the total expected loss. For every increase in the number of staff involved in fraud, there is a decrease of 0.30% in the total expected loss, since the P- value of 0.052≥0.005 (α level) it is not statistically significant implying the null hypothesis is accepted.

CONCLUSION AND RECOMMENDATIONS

From the statistical analysis, the paper therefore, concludes that the number of fraud cases has no significant effect on total expected loss, the total amount involved in fraud has significant effect on total expected loss; and the number staff involved in fraud has no significant effect on total expected loss. The study therefore, recommends that:

(1)There is the need for strong mechanism of early detection and the minimization of the temptation by an enhanced internal control measures.

(2)Although the number of staff is not significant, there is the need to keep watch over the lifestyle of staff to track excesses that might suggest living above income. The number of fraud cases has been on the increase, the chances must be reduced drastically to forestall the chances of losses emanating from it.

(3) Punitive measures of restitution of amount defrauded by erring staff and prosecution of suspected fraudsters and speedy adjudication process to deter prospective fraudsters.

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