Bank Fraud and Socio-Structural Patterns of Internal Control Measures in Nigeria

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Abstract: **- The objective of this study is to examine Bank fraud and internal control measures in Nigeria. Bank fraud refers to illegal financial acts perpetrated by both bank staff and outsiders, or bank staff in connivance with outsiders, and intended to deceive, mislead and steal company property - monetary or otherwise – to satisfy personal needs or desires. The study utilised secondary sources of data which contents were anaylsed. The work place deviance and fraud triangle theories were adopted to anchor the study. The results suggest that bank fraud is prevalent and widespread in Nigeria, and therefore, it requires effective and efficient programmes to bring it under control, so as to boost investors' confidence and protect customers or depositors interests.**

Keywords: **Bank, Deviance, Financial Crimes, Fraud, Internal control**

I. INTRODUCTION

Bank fraud is the major economic and financial crime committed in Nigeria after Advanced Fee Fraud and Public Sector corruption. The 2016 Annual Report of the Economic and Financial Crimes Commission (EFCC) indicated that Bank and Securities Fraud constituted 9.96% of all cases in 2016, 14.94% in 2015, 18.48% in 2014, and 15.32% in 2013. This brings the percentage total to 58.7%, more than half of fraud cases reported by the Commission in the year (EFCC, 2016).

The Nigeria Deposit Insurance Corporation (NDIC) annual report showed that the number of reported cases of attempted frauds and forgeries in the nation's banking industry witnessed a substantial increase to 26,182 cases in 2017, which was an increase of 56.30% over the 16,751 cases reported in 2016. The frauds and forgeries cases reported in 2017 also showed a 146.50% and 113.20% increase over reported cases in 2014 and 2015, respectively. In 2017, NDIC recorded 8,146 cases which was the highest attempt so far and that calls for regulatory concern especially as Deposit Money Banks (DMBs) continue to develop financial products in line with technological advancement and the prevailing harsh economic conditions. The report added that, this development could increase their spate of vulnerabilities, if they fail to implement the necessary controls. The report further revealed that expected losses from those attempted fraud cases in 2017 were compared with preceding years; the actual total amount lost in 2017 was well below the reported cases in 2014 - 2016 periods. The actual amount lost to fraud incidences in 2017 stood at ₦2.372 billion, but was lower by 1%, 25.20% and 61.70% compared to figures recorded in 2014, 2015 and 2016, respectively. The total cumulative number of fraud cases reported in each year showed 2017 (26,182); 2016 (16,751); 2015 (12,279), and 2014 (10,621), respectively (NDIC, 2017 Report)

Fraud is an illegal activity that eats at the very base of the economy of any nation, developing and developed. Besides being an economic malady, it is also a social, political and cultural embarrassment to that threatens the corporate existence of the society, in that it erodes trust among people, affects investors' confidence in the financial institutions, especially the banking sector. The prevalence of fraud and other corrupt practices in Nigeria is widespread criss-crossing all sectors of the economy. This has resulted in Nigeria being ranked by the Transparency International as 136th out of 174 countries on its corruption perspective index 2014, representing 27 percent (Udeh and Ugwu, 2018).

In the economic report for the first half of 2018 released by the Central Bank of Nigeria (CBN), it showed that despite efforts by the regulatory authorities to curb financial fraud and clean up the banking system, Nigerian banks recorded 20,768 cases costing them N19.77 billion in the first 6 months of 2018. The apex bank noted that the reported fraud and forgery incidences were perpetrated by both bank staff and non-bank culprits (Ojekunle, 2018). Business Insider SSA's analysis of the bank's financial statement for half-year 2018, showed that it recorded 44 ATM/Electronic fraud, 9 fraud cases were perpetrated by the bank's staff, 8 impersonation account, 45 stolen and forged instrument, 2 internet banking fraud while other fraudulent activities accounted for 43. The CBN also revealed that the aforementioned fraud cases involved armed robbery attacks, fraudulent ATM withdrawals, DRAFT 27 defalcation, illegal funds transfer, pilfering of cash, stealing, suppression and conversion of customers' deposits (Ojekunle, 2018). These are serious fraudulent acts that are domestic and international as well as internal and external to the organisation, which also pose serious threats to the banking sector and could be difficult to confront especially where effective and efficient control systems are lacking.

Objectives of the Study

The objective of the study is to examine bank fraud and internal control measures in Nigeria, but specially, it seeks to:

i. Identify the main types of fraud in the banking sector in Nigeria, and the categories of staff involved.
ii. Determine the causes of fraud in banks in Nigeria.
iii. Identify some internal control measures that can curb the spate of bank fraud in Nigeria.

II. LITERATURE REVIEW

The Concept of Fraud

The concept of fraud is found in Greek mythology. Also, some forensic accounting experts believe fraud history can be traced as far back to ancient Egypt to those who took inventory of the pharaohs' valuable assets like grain and gold. Embezzlement and bribes were at least as much a concern in ancient times as today. And the penalties for wrongdoing were often much harsher. For example, in Mesopotamia and Egypt between 3300 B.C. and 3500 B.C., there is archaeological evidence that accountants, or scribes, visually recorded commercial monetary transactions using damp clay tablets or papyrus. To prove records had not been altered, the original document would be enfolded into a clay envelope. An evidence of tampering would result in an investigation, and any wrongdoing could ultimately result in a fine, or a much worse fate involving mutilation or death (Oyedokun, 2012; Zysman, 2004). Fraud as a concept has defied all attempts by scholars and policymakers to generate a universal definition. According to the Association of Certified Fraud Examiners [ACFE] (2010) fraud is "the use of one's profession for personal enrichment through the deliberate misapplication or misuse of the employing organization's resources or assets." Similarly, it can also be seen as an act of commission which is planned to cause the illegitimate gain to one person and unfair loss to the other either by the disguise of facts or otherwise (Fynefaceph & Oladutire, 2013). Fraud is perpetrated by organizations and individuals to avoid payment or loss of services; to obtain services, property, or money; to secure personal or business advantage (cited in Ssekamwa & Ssendagi, 2019).

Udeh and Ugwu (2018) citing Uwaze (2012), defined fraud as a predetermined as well as planned tricky process or device usually undertaken by a person or a group of persons with the sole aim of cheating another person or organisation to gain ill-gotten advantage which would not have accrued in the absence of such deceptive procedure; and alluding to the American Institute of Certified Public Accountants [AICPA] (2002) describes fraud as a broad legal concept and auditors do not make a legal determination of whether fraud has occurred. Rather, the auditor's interest relates to acts that result in a material misstatement of the financial statements. Thus, the primary factor that distinguishes fraud from error is whether the underlying action that resulted in a misstatement of the financial statement is intentional or unintentional. Others (Meigs, Larsan & Meigs, 1977; Adeniji, 2012; Fraud Awarness, n.d) described fraud as misrepresentation by a person of a material fact, known by that person to be untrue or made with reckless indifference as to whether the fact is true, with intention of deceiving the other party and the result that the other party is injured; as an intentional act by one or more individuals among management, employees, or third parties, which result in a misrepresentation of financial statement; as the use of deception, false suggestions, suppression of the truth, or other unfair means which is believed and relied upon to deprive another of property or money, resulting in a loss to the party that believed and relied upon such. This means generally that, fraud is an illegal act characterised by deceit, concealment or violation of trust committed by individuals and organisations to obtain money or service, avoid payment or loss of services or to secure personal or business advantage (Udeh & Ugwu, 2018).

Similarly, the International Professional Practitioners Framework (IPPF) defines fraud as any illegal act characterised by deceit, concealment or violation of trust. These are acts that not subject to any threat of violence or physical force, but perpetrated by individuals and organisations to obtain money, property or services with intent to avoid payment or loss of services or to become personal or business advantage (cited in Adebayo & Topson, 2014).

The Economic and Financial Crime Commission [EFCC] Act (2004) provides an inclusive and operational definition of fraud as an illegal act that violates existing legislation which includes any form of fraud such as narcotic drug, trafficking, money laundering, embezzlement, bribery, looting and any form of corrupt malpractices and child labour, illegal oil bunkering and illegal mining, tax evasion, foreign exchange malpractices including counterfeiting currency, theft of intellectual property and piracy, open market abuse, dumping of toxic wastes and prohibited good, etc, (Udeh & Ugwu, 2018).

Therefore, banking fraud is defined as the use of deliberate misrepresentation to fraudulently obtain assets, money, or other valuable property held or owned by a financial institution. In the perspective of the financial industry and specifically the banking sector, fraud remains a huge issue, especially these turbulent days, mainly driven by the crisis (Vousinas, 2016). Also, fraudulent behavior can severely damage a company's reputation, erode shareholder confidence and lead to the collapse of major corporations (O'Reilly-Allen & Zikmund, 2013). The negative economic impact of fraud is more severe in the financial industry than other sectors of the economy. In the banking sector, fraud may cause loss of reputation and lead to loss of potential customers (Vousinas, 2016). In the event of fraud, banks incur substantial operating costs by refunding customers' monetary losses (Gates & Jacob, 2009), while bank customers experience considerable time and emotional losses which damaged a bank-customer relationship because of shattered trust and confidence. This will, in turn, increased dissatisfaction because of a perceived service failure (Hoffmann & Birnbrich, 2012) and may ultimately lead to bank's poor performance and failure (cited in Ssekamwa & Ssendagi, 2019).

The Concept of Internal Control

Internal Control can be defined as a system designed, introduced and maintained by the company's management and top-level executives, to provide a substantial degree of assurance in achieving business objective, while complying with the policies and laws, safeguarding the assets, maintaining efficiency and effectiveness in regular operations and reliability of financial statements. Internal control mechanism includes all the processes and methods designed to assist the company in achieving it set out objectives (https://businessjargons.com/internal-control.html)

Objectives of Internal Control

Internal control is designed to achieve the following objectives:

i. To ensure that the business transactions take place as per the general and specific authorisation of the management.
ii. To make sure that there is a sequential and systematic recording of every transaction, with the accurate amount in their respective account and in the accounting period in which they take place. It confirms that the financial statement fulfils the relevant statutory requirements.
iii. To provide security to the company's assets from unauthorised use. For this purpose, physical security systems are used to provide protection such as security guards, anti-theft devices, surveillance cameras, etc.
iv. To compare the assets in the record with that of the existing ones at regular intervals and report to those charged with governance (TCWG), in case any difference is found.
v. To evaluate the system of accounting for complete authorisation of the transactions.
vi. To review the working of the organization and the loopholes in the operations and take necessary steps for its correction.
vii. To ensure there is the optimum utilization of the firm's resources, i.e. men, material, machine and money.
viii. To find out whether the financial statements are in alignment with the accounting concepts and principles.
ix. An ideal internal control system of an organization is one that ensures best possible utilization of the resources, and that too for the intended use and helps to mitigate the risk involved in it concerning the wastage of organization's funds and other resources.

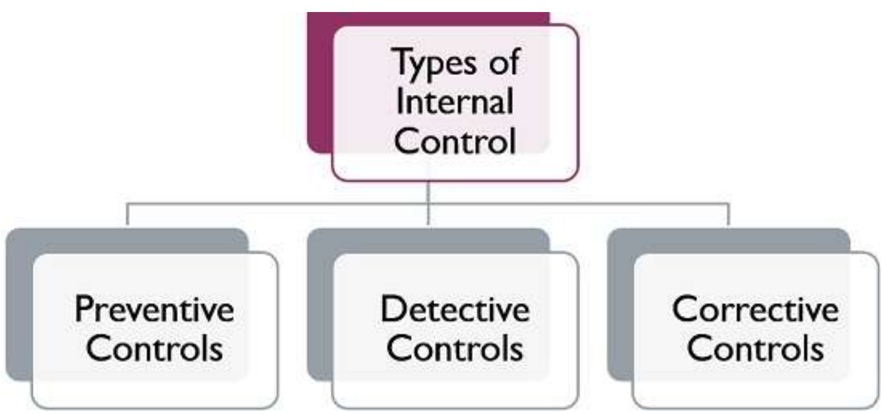


Figure 1: *Types of Internal Control*

Source: https://businessjargons.com/internal-control.html

Preventive Controls – set up in an organization to check irregularities.

Detective Controls – implemented to expose errors and irregularities, after they have occurred.

Corrective Controls – designed to take corrective action for removing errors and irregularities after they are detected (https://businessjargons.com/internal-control.html)

It is noted that the nature and requirement of the organization determines the type of internal control system or measure(s) implemented therein.

Types of Fraud in Nigerian Banking Sector

Broadly speaking, frauds are categorized into those committed by bank staff, those committed by bank customers and those committed through the collusion of bank staff and customers (John, 1997). Ogunleye (2004) identified Advance fee fraud ("419")/Confident Game as one of the major types of fraud in Nigerian financial institutions. According to him, this usually involves an agent approaching a bank, a company or an individual with an act of access large funds. The purported source of such funds is not disclosed as the way to have access to it is through the agent who must receive a fee or commission in advance. As soon as the agent collects the fee, he disappears, and the funds never get to the bank. This is popularly known as "419" in Nigeria - a euphemism for the section of our law covering such criminal activities. While according to Rider (1995), Cheque kiting is one of the major types of fraud in Nigerian financial institution, kitting is defined by the U.S. Controller of the Currency Policy Guideline for National bank Directors as "a method where depositor utilises the time required for cheques to clear to obtain an unauthorised loan without any interest charge". "Cheque kiting" involves the unauthorised use by depositors of uncollected funds in their accounts. The goals of the kilter may be to use the uncollected funds interest-free for a short time to overcome a temporary cash shortage or to withdraw the funds permanently for personal use (Dagaci, 2011).

According to Adewumi (1996), clearing fraud depends on suppression of payment instrument so that at the expiration of the clearing period, the collecting bank will give value as though the paying had honoured the instrument as good for payment. Clearing cheques can also be substituted to enable the fraudster divert the fund to a wrong beneficiary. Rider (1996) argued that mis-routing of clearing cheques can also assist fraudsters to complete a clearing fraud. For example, a local clearing item can be routed to an up-country branch. In the process of re-routing instrument to the proper bank, the delay entailed will give the collecting bank the impression that the paying bank had honoured the instrument. It will be recalled that the banking licenses of two banks (Broad Bank and Republic Bank) were suspended in 1994 as a result of clearing fraud. While Broad Bank was able to survive the episode, that action culminated in the revocation of the banking license of Republic Bank Ltd. Also, abuse of the clearing system was contributory to the failure of Pinnacle Commercial Bank (Dagaci, 2011).

Walker (1998) reveals that foreign exchange fraud is one of the major types of fraud in Nigerian financial institutions. He said some insured banks were found guilty of fraudulent dealings in foreign exchange transactions. The offences include round tripping (i.e. re-routing foreign exchange from official sources to the black market) and dealing in free funds (banks independently sourced foreign exchange sold without documentation or disclosure). In some cases customers' accounts were used without the knowledge or consent of such customers. As a result of the malpractices, some banks found guilty of the offence were penalised. The sanctions for the offences included the suspension of the bank's authorised dealership licenses. The banks were made to refund the underserved income made from the round tripping and/or free funds transactions (Salay 2001). According to Nwaze (2006), it is important to note that some of our banks have become ingenious in perpetrating foreign exchange scam. The latest discovery in this regard is the procurement of fraudulent judgment debts which enabled them to obtain foreign exchange at the official rate and the fund later repatriated and sold at the black market.

Citing a few scholars (Shehu, 2006; Baxter, 1997, Bortner, 1996; Osimiri, 1997, John, 1997) Dagaci averred that another type of fraud which is prevalent in Nigeria is computer/internet fraud. He posited that the rapid development in information technology and globalization has serious impact on banking practice world-wide. These developments are expected to continue to drive the way banking businesses are conducted in the country, as more banks automate their bank office and clients services desks. Also, with the advent of the internet, e-commerce, e-banking etc, it is no longer news that somebody could stay in the comfort of his home and move funds around the globe. Virtually all the banks in Nigeria now offer on line services for their clients. While this is convenient, it equally carries with it risk of fraud as there seemed to be no longer discernable boundary, nor perimeter along which to erect the defences to keep corporate data within and inaccessible to computer hackers outside. He posited further that while computer frauds, more especially those perpetrated by hackers are yet to be reported to the Regulatory Authorities in Nigeria, reports from on-site examination of banks have continued to draw attention to the poor attitude some banks paid to the issue of computer security. The need for both logical access and physical access control in information technology operations are regularly emphasised in examination report issued by CBN and NDIC. Self dealing refers to a situation where insiders (bank staff/directors) put their own self-interest above those of the bank. These may manifest in any of the following ways: where an insider uses his or her authority to grant loans to oneself, or a related business, at preferential terms or using lower credit standards, with the interest of making profit in that business, where directors and principal shareholders become dependent on fees and income from providing outside dealings with the bank to such an extent that their interest comes ahead of the banks; putting friends and relatives on the bank's payroll, and directing the bank's business to friends and relative. Others are unwarranted fringe benefits to insiders, payment for personal trips overseas, and interest waivers on his/her loans or low interest rate on loans, and conversion of bank's money into personal use. This may take the form of using bank's money to register a company and the profit there from going to the private accounts of directors or officers concerned and granting of unjustifiable interest waivers on non-performing facilities in cases where insiders are interested (Dagaci, 2011).

Concerning the categories of staff involved in bank fraud and forgeries, the NDIC reported that on the aggregate, out of the total number of fraud cases which stood at 26,182 in 2017, 320 were staff-related, representing 1.22% of the entire frauds cases. According the NDIC, the number of fraud cases perpetrated by staff in 2017 increased by 38.5% from 231 cases reported in 2016, but declined by 31.2% and 24.7% from 425 and 465 cases recorded in 2014 and 2015, respectively. It pointed out that the cadre of bank staff who engaged in fraudulent practices were temporary staff, representing the largest proportion, which comprised 132 out of 320 staff involved. Also, Officers and Executive Assistants as well as Managers accounted for 25.0% and 21.3% of the total fraud cases during the year. Other perpetrators include, Messengers, Drivers, Cleaners, and Security Guards who constituted 4.1% of the total fraud cases. Consequently, there was the need for the overhaul of the entire internal control processes by DMBs Management with the view to identifying potential weaknesses by adopting adequate checks and balances to protect the banking institution (NDIC, 2017).

Environmental/Social Causes of Frauds in Nigerian Banking Sector

Dagaci (2011) has cited several scholars on the causes of frauds in the Nigerian Banking sector, and aligning with them, averred that environmental and social factors were contributory to the prevalence of fraud and fraud related malpractices in the country's financial institutions.

One of the causes of financial crimes under the general heading above is the perverted social values (Lawrence, 2001). According to him, the value system in any society is the set rules that prescribe what is right or wrong. In a society where the possession of wealth determines a person's esteem, there is bound to be competition for the acquisition of wealth. This no doubt will lead to some people using dubious means to get rich over night. Lawrence therefore maintained that the misplacement of social values, the unquestioning attitude of the society towards unusual or sudden wealth is contributory factor to financial crimes in the country. Shehu (2006) stressed the contribution of non-enforcement of Dud-Cheques Act as the major cause of financial crime in Nigeria. According to him the lukewarm attitude to the enforcement of the Dud Cheques Act has really contributed to the prevalence of fraud in the banking industry. Thus, fraudsters are not subjected to the process of the law. Financial crimes also have sway in the Nigerian society today because of slow and tortuous judicial process (Eigen, 2000). This is because delays in the prosecution of fraud cases have a way of frustrating the victims of fraud. A frustrated party can abandon the case midway, leading to miscarriage of justice. The delays according to Eigen can be in the form of:

- Unwillingness of bank management to provide adequate information.
- Lack of specialized manpower for the investigation of banking fraud.
- Lawyers and prosecution witness absenting themselves from court.
- Undue delay in investigation and charging of cases to court, and
- Long and frequent adjournment of court cases.

There is the social vain and feeling among Nigerians, that they are above the law and as such can get away with any act of illegality. Fear of negative publicity by the banks has also contributed to the rising wave of financial crimes in Nigeria. In this regard, many banks fail to report fraud cases to the appropriate authorities as they believe that doing so will give them unnecessary negative publicity (a reputation risk). This attitude encourages individuals with inordinate ambitions to defraud the banks. The reason, and often correctly, is that the banks may not be keen on prosecution. Even when they report fraud cases, they are more interested in the recovery of their funds than pushing for conviction of fraudsters (Dagaci, 2011).

Individual Factors of Committing Fraud

The following individual factors of committing fraud are as cited and discussed in Dagaci (2011).

Personality Disorder

This is a factor that deals with an aspect of human behaviour. Some people are endowed with an abnormal acquisition tendency and avarice attitude which according to Abereoran, (1996), weakens their ability to resist temptation to defraud at the least available opportunity. In whatever position of authority a person with this type of trait finds himself, he is most likely to muddle up things to his own advantage. Unfortunately, a person of this nature has no limit to his acquisition instinct as he goes on until nemesis catches with him.

Frustration

This is a psychological state of mind can have a devastating effect on human moral and hence his performance. Iduze (1996) stated that management practices when it is negatively inclined to other aspiration and development need of staff, could degenerate in the generality of staff being frustrated. At this state of affairs where the staff welfare is impinged upon the staff members tend to shift their loyalty away from their employer in favour of their personal ambition. This in turn led to indiscipline, low performance, dishonesty, and of course fraudulent practices. All these are usually borne out of the notion that motivation not derivable through a legitimate means can be otherwise attained.

Lust for Affluence

Sometimes people tend to over-estimate themselves and the innate tendency to live up to the standard of such a wrong image leads to fraud Olufidipe (1994) asserted. He went further to say that it is not uncommon to see a bank clerk being referred to by a praise singer, friend and colleague as a bank manager. In an attempt to complement this cajolery remark such person will want to reward the praise singer, cater for the needs of friends and relations to prove his worth as a bank manager which, of course he is not by making philanthropic contributions. Having got himself enmeshed in this act, he then strives towards maintaining the "status quo" which will only thrive on fraudulent activities.

Family Responsibility

The family setting in West African sub-region is prejudiced, as its milieu does not help matter either. The expectation of the extended family in West Africa leaves the family support to the one who strives most to succeed in life. This makes the official who wants to satisfy his family and society, prone to dipping his hands into public coffers (Dodo, 1988). Furthermore the belief within African context of children being gift from God and hence no need for family planning to limit the number of children per family has until of recent constituted an impediment in the finances of many families. Most efforts made at getting out of the wood lead many to fraudulent activities.

Lack of Leadership Examples

In most establishments the causal of fraudulent activity is not far from the rottenness of its leadership. This accounts for many investigations of fraud cases ending up in shamble (Adeoti, 1996). In a situation where the management members who are supposed to give a lead in accountability and probity are found to be immensely guilty of financial recklessness, it is doubtful if not impossible, for such management to be able to curb the excesses of their subordinates. Any management that fails to accord due importance to the fundament values of trust, respect, dignity, integrity and accountability is likely to lose the grip of the erring staff members and hence fraudulent activities will thrive. In the words of Famodimu, (1986), managers should be disciplined in order to maintain a reasonable standard of discipline among the staff members

Employees Unfaithfulness (infidelity)

Staff disloyalty can manifest in a variety of ways. These ranges from suppression of cash-taking, forgery of documents for claims most especially receipts and casual advances without proper authorization to embezzlement and outright theft of cash (Ovuakporie, 1994). These may start with very small amount but, with time and without detection it can graduate to astonishing proportion. Suffice to say that this problem normally thrive well in an organization where the senior staff members have equally gotten their hand soiled and hence, cannot be taken as a good example.

Genetic

This according to Asukwo (1998) has to do with heredity, a situation whereby fraudulent characteristics are passed on from parents to their offspring. In his words "a case in point is a Kleptomaniac who has a pathological desire to steal for the sake of stealing". This is to show that fraudulent trials could exist from one generation to the other.

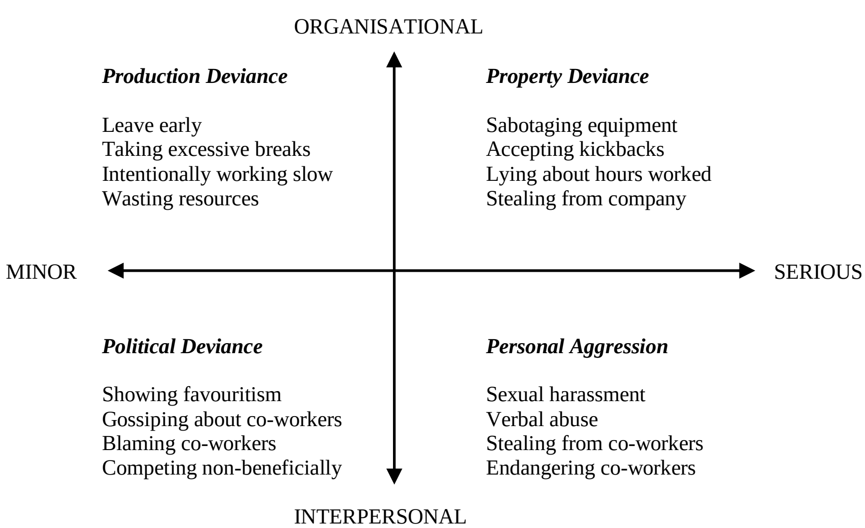
III. THEORETICAL FRAMEWORK

There are several theories that attempt to explain bank fraud within the financial institutions, and they include fraud triangle theory, fraud diamond theory, and theory of work place deviance, among others. The current study discusses two, but adopts the Fraud Triangle theory as anchor.

Theory of Work Place Deviance

Work Place theory was first adduced by Comer (1985) when he viewed fraud as deviant behaviour in which employees steal primarily owing to the conditions of the work place, and management responsiveness to the employee's affairs. Work place deviance comprises intentional acts and counterproductive behavious capable of disrupting organizational norms and endangering the wellbeing of its members and also includes organizationally undesirable actions directed at fellow employees, superiors, and the entire organization (Samuillah, 2019).

Figure 1: Typology of Deviant Work Place Behavioiur



Source: Robinson and Bennett (1995)

Figure 1 shows typology of deviant work place behaviour common to organizations and individuals and could be serious or minor depending on the management responsiveness to employees' needs and available control measures.

Theory of Fraud Triangle

Theory of fraud triangle espoused by Cressey (1971) posits that fraud is likely to occur given a combination of three factors, namely- Pressure or motivation, as concerns the needs or desires of individuals that need to be met; which Adeniji explained could be divided into financial pressure, vices, work-related pressure and other pressures; second, Opportunity as pertains to conducive environment to commit fraud, conceal the fraud or avoid being punished, and third, Rationalization which entails giving unnecessary explanation(s) to justify one's involvement in fraud. There exists pressure, motivation or compulsion on the fraudster who identifies opportunity which he utilizes and tries to justify his actions by unnecessary rationalization (cited in Ude & Ugwu, 2018).

It has been argued that the nature of banking business where the object of trade is money itself makes it special as much effort is made on fraud prevention. This is because fraud in banks affects the transactions directly, has psychological effects on the depositors as regards safety of their deposits, a fact that has been alluded to in the work place deviance theory. Thus, as observed by Okoye, good corporate governance becomes the key to lock the elements in fraud diamond such that they might be like a thought inside the box (Ude & Ugwu, 2018).

IV. METHODOLOGY

This is a qualitative study which employed secondary sources of data to investigate the phenomenon of bank fraud and control measures in Nigeria. The secondary sources were obtained from online journal articles, agency reports and thesis, and then content analysed based on the study's objectives.

Bank Fraud and Socio-Institutional Internal Control in Nigeria

Dagaci (2011) observed that frauds in banks vary widely in nature, character and method of perpetration. There are three broad categories of bank fraud perpetrators: internal, external and mixed. Internal perpetrators of frauds are members of staff while external perpetrators are persons not connected with the bank. Mixed involvement involves outsiders colluding with bank staff. It is useful for bank management to identify the category under which various frauds in their bank fall. A clear knowledge of this will help in the determination of the best solution. He observed that the bulk of bank frauds are being perpetrated in the commercial banks probably because of their large branch network and the low quality of employees when compared with the merchant banking subsector. Bank staff involved in frauds were either terminated, dismissed or retired (Sayes, 1979). A total of 517 bank staff were dismissed, retired or had their appointments terminated because of their involvement in frauds and forgeries during 1993 as against 436 in 1992. In 1991, 514 members of staff of the affected banks were involved in fraudulent activities. The amount involved per staff during the 3-years period (1991-1993) are ₦0.8 million, ₦0.9 million and ₦2.7 million respectively. After the implementation of the liberalization of the financial sector which was part of the Structural Adjustment Programme (SAP) introduced in 1986, the banking industry in Nigeria witnessed a tremendous growth. This was manifested in the number of banks and bank branches, their total deposits, total loans and advances, total assets and total capital and reserves during that period.

The issue of malpractices is of special concern not only to the shareholders and depositors of banks but also the regulatory and supervisory authorities whose responsibility it is to ensure the safety and soundness of individual banks and the banking system as a whole. Accordingly, section 39 and 40 of the NDIC Decree No. 22 of 1988 mandates insured banks in Nigeria to render to the Corporation, returns on frauds and forgeries or outright theft occurring in their organizations and reports on any staff dismissed, terminated or advised to retire on the grounds of frauds. The question of course, is how many banks appreciate the importance of this statutory requirement both for themselves and the industry as a whole? How encouraging are banks' response in this regard? How many banks appreciate the extent to which malpractices affect the safety of and confidence reposed in their institutions? Records have shown that only very few banks render returns on frauds and forgeries even when such cases exist at the time of rendering their statutory returns to the regulatory authorities (Dagaci, 2011).

However, some scholars are of the view that fraud is neither an accounting problem nor an internal control problem, rather it is a human problem that requires an understanding of the human elements involved in fraud and other financial corrupt practices (Andi, 2012, cited in Ude & Ugwu, 2018). In this vein, the human element of fraudulent financial practices was somewhat explained by the concept of fraud triangle or fraud diamond. Expanding the argument, Ude & Ugwu (2018), re-emphasised the general consensus among criminologists that fraud is caused by three elements called "WOE", Will, Opportunity and Exit, meaning fraud occurs when this three elements converge. Therefore, fraud will occur only if the following are available to the perpetrators, that is, the will to commit the fraud, the occasion to commit the fraud and a way out or escape route from appropriate sanctions or institutional mechanisms against fraud (Akinyomi, 2014). As an additional element to the fraud triangle, is the individual's capabilities which enable him/her to easily commit the fraud or crime. This being the case, what then is the use of having internal control mechanism in place to curb financial fraud in the Bank?

Holistic Bank Fraud Control Measures

Banks being institutions where the object of trade is money requires good management, internal control, updated equipment, adequate remuneration and high security. Good management is essential; good and bad conducts within a corporate organisation is infectious. This implies that bad attitude (like fraud) as well as good conducts by supervisors and top management in corporate organisations could be easily emulated (Udeh & Ugwu, 2018).

Olaoye, Dada and Adebayo, 2014) stated that the Federal Government of Nigeria took some practical steps to arrest the continuous and widespread cases of fraud in Nigeria and to protect customers interest and their deposits, when the Central Bank of Nigeria (CBN), in 2004/2005 formulated a policy which aimed to reduce the number of Nigerian banks from seventy-three to twenty-five, by liquidating fourty and revoking licenses of seven. Also, in a bid to curb the increasing spate of fraud in financial institution globally, the AICPA, in collaboration with a consortium of professional associations issued Management Antifraud Programmes and Controls, Guidance to Help Prevent and Detect Fraud. These control measures, among others include:

i. Reconcile accounts – reconcile bank accounts as well as fundraising assets such as raffle tickets and cash receipts.
ii. A person who doesn't authorize transactions or have custody of the assets should perform the reconciliations.
iii. Perform ratio analysis – compare number of donors with contributions, compare number of employees with payroll expense.
iv. Review all general ledger adjustments.
v. Institute job rotation and mandatory vacations.
vi. Conduct surprise audits. The organization should consider using the following non-financial controls, among others:
vii. Pre-screen potential employees.
viii. Communicate often with current employees so you will know when they are feeling pressured.
ix. Communicate the consequences of committing fraud.
x. Set a good example by following the rules.
xi. Provide a hotline.
xii. Conduct anti-fraud training for managers and employees.
xiii. Implement an anti-fraud policy.

Additionally, measures which ensure timely prevention and control of bank frauds have been categorized by (Shongotola, 1994, cited in Olaoye et al., 2014). These are:

i. Personnel controls – involving recruitment and proper disengagement procedures, posting and placement, job rotations.
ii. Administrative controls – segregation of duties, security devices, such as Regiscope Cameras, passwords, etc, and franking.
iii. Accounting controls – data validation, prompt posting of transactions, balancing of accounts, reconciliation and proper identification of authorisation and approvals.
iv. Financial controls – cash limits, signing power and specialized stationer.
v. Inventory controls – physical checks and counts and bin card, stock receipt notes, stock issued voucher, etc.
vi. Process controls – input/output validation and programme controls.

It is noted that besides the application of the above control measures in every aspect of bank operations as fraud antidotes or prevention techniques, special attention is given to the accounting controls to ensure their proper application to the system's efficiency and effectiveness against bank frauds. Hence, Shongotola, surmised: *... 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 frau occurrence or non-detection would be quite remote (*Olaoye et al., *2014).*

As noted earlier, the human element, the individual's propensity to commit criminal act of fraud is key to any control mechanisms put in place by both private and government agencies since fraud could be committed by bank staff as well as outsiders. The theory of work place deviance Comer (1985), attests to this fact. However, as the fraud triangle theory (Cressey,1971) also postulates the likelihood that the offender would be caught or discovered, does act as inhibition, hence, the importance of internal control measure to the bank.

V. CONCLUSION

The current study examined bank fraud and internal control measures that are expected to reduce the incidences of illegal and fraudulent practices within the banking sector in Nigeria. Findings from the literature review and the data analysis revealed that fraud is endemic and it is perpetrated by both bank staff and their outsider collaborators with intent to deprive customers of their deposits. Bank fraud occur as a result of a combination of will, opportunity and escape route, and it is caused by several of many factors such as greed, frustration, family responsibility, poor leadership, among others; and that weak internal control is major contributing factor for fraud to be committed, as well as poor supervision and improper documentation process. It also found that even though internal control measures are needed to serve as deterrence to the perpetrators of bank fraud, the individual's personal disposition or capabilities play salient role in the commission of fraud and related offences, and aided by the WOE factor of fraud. Fraud remains a major threat that hinders the growth and development of the Nigerian banking industry and a concern to the government as it scares away both prospective and established investors in the nation's economy. Against this backdrop, the study recommends that, attention should be paid to policies that will reduce financial frauds at all levels of banking business, and the management should do whatever possible to monitor and control the variables and factors capable of encouraging financial frauds in the banking system.

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