FRAUD AND FORGERY IN THE NIGERIAN BANKING INDUSTRY

A CASE STUDY OF STAFF INVOLVEMENT

BY

OKWUTE EGBUNU PIUS

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SEPTEMBER 1995.

Declaration

I hereby declare that this write-up is original and a product of my research findings and that I am responsible for any error of commissions or omissions.

All textbooks and articles used have been acknowledged accordingly in the references.

Approval page / Certification

This project entitled "Fraud and Forgery in the Nigerian Banking Industry; A Case Study of Staff Involvement: by Okwute Egbunu Pius meets the regulation governing the degree of Masters in Business Administration of A.B.U; Zaria and is approved for its contribution to knowledge and Literary Presentation.

A. B. AKPAN — 4/12/97

Name and Signature of Supervisor — Date

Name and Signature of External Examiner — Date

Name and Signature of Head of Dept — 5/12/97 — Date

Name and Signature of the Dean — 6/1/98 — Date

Post-Graduate School

Dedication

To my Late mother and father whose first contribution in life was to make sure I go to school.

To my wife, Mrs Victoria Okwute, whose love grease my elbow in the course of writing this project.

To the entire member of Okwute family just in attempt to defend the family ego.

Acknowledgment

Special thanks to God the Almighty for a dream fulfilled.

I wish to acknowledge the immense contribution from lots of scholars whose work I referred to without their permission.

My special gratitude also goes to my project supervisor Mr. M.B. Akpan, his criticisms and suggestions were not only illuminating and inspiring but also proved to be very useful guides and nurturing. I therefore thank him for his effort to see the project through.

I am greatly indebted to my classmates in post graduate school; Mr. Ichado, Mallam Hassan Umaru Mohammed, Alhaji Sani , Mohammed Abdulahi and Miss Lydia Atabo for their moral and material support during our school days, my cousin Dr. Dennis Ajodo and the entire member of my family.

Also to participate in sharing my appreciation and gratitude includes the H.O.D. (Business Administration), Dean of Post Graduate School, MBA Co-ordinator; Mallam M. N. Maiturare and the rest of the staff of Business Administration Department Last but not the least is my wife Mrs Victoria Okwute who deserves the greatest honour and appreciation from me she demonstrated her love during the completion of this project.

Abstract

The objective of the research was to determine the rank and category of bank staff involved in frauds and forgeries, determine the positive reason(s) responsible for such involvement, examine the level/extent of involvement and finally proffer solutions and recommendations towards reducing the high incidence of fraud/forgery cases in the banking industry.

In the research both primary and secondary data were utilised likewise primary and secondary sources of gathering relevant information. A detail analysis of the data collected is carried. Based on two hypothesis analyzed and tested, the Null hypothesis was rejected in the first case and alternative hypothesis was accepted. But in second case, the Null hypothesis was accepted while the alternative hypothesis was rejected.

Lots of other factors responsible for frauds/forgeries in the banking industry were also from analysis obtained in the questionnaires, for example the issue of frustrations, poor incentives, leaving irresponsible life, delay in transfer and promotion etc; were among those factors.

Suggestions and recommendations for more effective and reliable measures to combat frauds and forgeries were put forward to the Bank Management to implement. Federal Government through Apex Bank was also advised not to relent effort in trying to bring sanity into banking industry.

Based on the findings, it was recommended that the authorised capital of the banks should be increased to prevent the entry of mushroom banks into the banking system. Banks internal audit and inspection departments should be strengthened to deal effectively with the menace, these departments should be manned by qualified and experienced staff. Also it may be necessary to train a special squad in the Federal Investigation and Intelligent Bureau (FIIB) of the Nigerian Police to deal with the frauds in the banking systems.

Additionally, a speedy implementation of Decree No. 18 of 1994 would go a long way in arresting the situation.

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CHAPTER I

1:1 INTRODUCTION

Banking malpractice, alternatively referred to as corruption and economic crimes constituted the genus of what is generally known as and commonly called "Elites" or "White collar" crimes. These crimes in our banking system is as old as the evolution of banks in the country.

Frauds and forgeries have become an endemic component of Nigeria's banking and financial system. The modus operand though discrete, are discernible and the magnitude only imaginable. All tiers of government (local, state and federal), individual and corporate bodies all victims but the level of damage done is usually both in extent and impact diffuse and remote.

Bankers are particularly concerned because frauds and forgeries perpetration are increasing at a geometric progression and the methods used continue to acquire greater sophistication day by day. More importantly the news of frauds and forgeries or attempted fraud dent the reputation of the banks concerned and reduce the level of confidence the public has in the entire banking system. This has made it to be a subject that is widely and frequently discussed by bankers, monetary authorities as well as the general public.

The issues of fraud and forgeries perpetration has given bank executives sleepless nights, because their occurrence are actively aided.by some officials. Hardly does a fraud/forgery succeeds without the assistance of an insider whenever it originate. As a result of this, bank executives are so much concerned with the management of human resources. With the sole aim of reducing frauds/forgeries or totally eliminating it.

The monetary authorities like Central Bank of Nigeria are equally concerned because it reduces the level of investments in the economic as foreigners loose confidence in the country's banking system. The general public are also concerned about their savings and investments in such banks because frauds/forgeries and mismanagement by executives have been the fundamental reason(s) that led to banks being distressed in the country.

It is therefore the aim of this write up to critically examine level/categories of staff involvement in cases of fraud and forgeries in the Nigerian banking sector. it will be a matter of concern to find out why many banks staff get themselves involved in frauds/forgeries. This will subsequently assist the authorities in finding a lasting solution to such cases. Some common areas where frauds/forgeries are perpetrated will also be addressed.

1.2 STATEMENT OF PROBLEM

This research work will mainly concerned with the rank and categories of staff involved in the cases of frauds and forgeries in the Nigerian Banking System and the likely reason(s) responsible for such involvements. It will also show the level/extent of such involvement in aiding the perpetration of frauds and forgeries in the banking industry.

1.3 OBJECTIVE OF THE STUDY

Generally the purpose of this research work is to study the incidence of frauds and forgeries in specifically the study will attempt to fulfil the following:-

a) Determine the rank and categories of bank staff involved in frauds and forgeries in the Nigerian banking industry.

b) Determine the possible reason(s) responsible for such involvements.

c) Examine the level/extent of involvement categories of staff.

d) Examine areas where frauds and forgeries are easily perpetrated.

e) Consider the amount of involvement in such cases of frauds and forgeries and finally;

f) Proffer solutions and recommendations towards reducing the high incidence of frauds/forgeries cases in the banking industry.

1.4 LIMITATION

The research questionnaires will be administered to only five banks Viz; Savannah Bank of Nigeria PLC, Bank of the North Limited, Afri Bank PLC, United Bank for Africa PLC, Union Bank of Nigeria PLC and three Merchant Banks Viz; NAL (Merchant Bankers)PLC, FBN Merchant Bank and Century Merchant Bank. Also Kawo Community Bank, People's Bank of Nigeria PLC as well as Nigerian Industrial Development Bank and Nigerian Bank for Commerce and Industries will be served with the Questionnaires for data collection.

1.5 DELIMITATION OF THE RESEARCH

(a) This research work is confined to only banking industry within the Nigerian economy.

(b) The questionnaires for data collection will be administered on banks based within Kaduna. But restrictions are not placed on the generation of the result to Kaduna alone.

(c) The Study will centred very much on the period between 1989 to 1994 with special attention to 1993 to 1994 for analytical purposes.

(d) The research is equally confined to established cases of Frauds and forgeries that are known by the monetary authorities that is CBN, NDIC and individual banks executives.

1.6 BACKGROUND AND JUSTIFICATION OF THE RESEARCH.

The increasing incidence of frauds and forgeries in the banking industry has no doubt led to a loss of confidence in the banks by customers. People no longer no where their treasures can be safe from moths and thieves because of 'greed' a human disease, the moral equivalent of the dreaded "AIDS" virus that has eaten through the conscience of the bankers.

The appalling prevalence of aggravated vices which threaten the Nigerian banking industry is an unhappy heritage of her economic system which pave way for research.

The justification of this research can not over emphasised due to the following reasons:-

(a)i Control being largely departmental, becomes somewhat lax, discriminatory and ineffectual and to the extent that every personnel both at lower and higher levels of the banking and financial sector indicate.

2) The frequency of frauds/forgeries in the banking system have reached an alarming proportion.

(b) Huge sums of money have been lost to these fraudsters, leading to many banks and other financial institutions to distress position and some total liquidation.

(c) Bank executives have been over burdened and having sleepless nights in tackling frauds/forgeries cases, while many have gone through undetected.

(d) It has been generally observed that rarely does a fraud/forgery goes through without the active participation/connivance of an insider (staff).

This research work is therefore very significant because it is aimed at addressing the frequency of staff involvement in fraud cases, ascertain the possible reason(s) for such actions, look into common areas where frauds/forgeries are perpetrated and proffer solution. It is also at this time when 419 cases are so rampant that people have started develop interest to carry out research work on this topic.

1:7 BASIC ASSUMPTIONS

(a) It is assumed that only information collected for this research work regards to the samples survey represents the true population from which the samples we gathered information collected from various sources are assumed to be authentic.

(b) It is also to be assumed that responses received from various banks represents the opinion held by all banks within the Nigerian Banking Industry.

CHAPTER II

Literature Review:

2.1 THE DEVELOPMENT OF BANKING BUSINESS

Banking is defined as a secured place or house of God where values are kept for safety.

There is no unanimity among economist about origin of the word "BANKING". They said that "BANKING" is derived from the Greek word "bancus" or "Banque" meaning a bench. The use of Lomberdy to display the coins of various countries of their merchants .

Some of the authorities are of the opinion that "BANK" is derived from a German word "BANG" which means a joint stock firm. German occupied major part of Italy and bank was Italianised into "BANK". We have no record to ascertain the validity about this opinion.

Banking is as primitive as human society. As soon as the importance of money as a medium of exchange was realised, the necessity of exchange of controlling or regulating agency was also felt.

It was Babylonians who developed Banking system in 2000 B.C. Temple of Babylon were used as bank because of the respect and confidence of the people of clergy.

King Hamam Urabi (1728 - 1686 BC) who found babylonian empire developed a code to rule his country procedures for banking operations by temples and landlords or land owners. The code contain aspects of loans, interests, pledgers, guarantors, natural accidents, theft etc. He got his code inscribed on 8ft tall block of Diorite. The code contains 150 paragraph and the block is still preserved in the parish museum. Later Samaritans, Babylonians, Assyrians Hittes standard the value of goods in metals, gold, silver, coppers and electrum.

It is believed King Gyges of Lydia in 678 BC casted electrum in Ingots identical shapes, uniform in weight with a triple sublan (head of a Fox) as an official guarantee for value.

In Greece, the temple of Ephesus and Delphi was biggest banks at the time where people deposited their money and valuables for safety and security. And this temple acted as first financial agencies in the countries.

Inspite of Aristotle Dictum (meaning charging of interest is unnatural and immoral growing necessities forced the people to accept principles of interest in lending and borrowing.

Roman did not organise a state of banking (to regulate and control banking system) but regulate the conduct of private banks in such a way that at most, confidence of the people was created in them.

With the fall of old civilisations, banking like other transactions suffered heavily. Again with the revival of civilizations in the middle of 12th century, trade and commerce started expanding which compelled the business community to borrow money from Hebrew Jews money lenders on a high rate of interest. Observing great demand, the money lenders started organising themselves and banks were coming up in the sea ports of Southern Europe, Venice and Genoa became more important market at the time and banking (early crude form) flourished there.

In 1401, a german Bank was formed, comprising the operation of discounting, deposit and transferring of money.

By the 16th century, more public banks were formed in Venice, Amsterdam, Hamburg and Vureunbury.

To streamline banking organisations and techniques, conferences were held in Vureunbury in 1548 - 1551. As a result of these conferences and control banking business, it was decided that banks should not be run by private individual only. In 1587, a state bank BANKO DIRIALTO was formed in Geneva and then bank of Amsterdam in 1609. This bank(Amsterdam) has a guarantee by the state and rendered valuable services till 1795 AD. In 1690, Bank of Hamurg came into existence. this bank serves the merchant and the countries till 1873 when it was merge with Reich Bank. they said that modern Banking originated in the 14th century in Barcelona. Despite its classical origin in Barcelona, banking in its modern form and structure started in Britain when many lomberdy merchants came to England in the 14th century and started in London in a place called Lomberdy Street now.

These settlers who are very successful even the king has to depend upon them for a loan. These merchants were not only keeping valuables in state custody but were also changing money for merchants and travellers and also drawing loan to ready person.

The business of changing money were very lucrative and KING EDWARD established royal charger. the discovery of America brought Reich to England and merchants began to owe part of their Riches (money) in cash which they use as deposit for safe custody. These transactions received a business set back in 1940 when Charles I seized £130,000. This shows the confidence of the merchants in the royal exchange and royal mint. and consequently the business was completely taken over by goldsmith.
Goldsmith were having strong stafes for safe keeping introduced facilities of safe keeping and valuable and cash for their customer. goldsmith issue notes for cash and valuable with an undertaking to retain the same on demand.

Over a period of time, Goldsmith found that large source of money were kept in their safe custody over a long period and they started the use of cash to advance loans to other persons for a fixed period of time as a high rate of interest.

The Goldsmith also encourage their customers to deposit money by giving the interest on the money deposited with them. To some enterprise, Goldsmith issue cheque books to attract their customers and that was another step on evolution of banking. There was crisis in England in 1672 when Charles II borrowed from Goldsmith and refused to return the money back to the bank. A group of Goldsmiths formed a corporation in 1695 which was known as the Bank of England. This bank lent £1.2m at an interest rate of 8% to William III King of England. This lending was in exchange of some privileges. The most important privilege was to issue currency notes. By 1700, the bank of England was not only issuing notes but was also conducting account for their customers. Up to 1830 in England, the main profit of the bank was the right of circulation of the notes and for many years after that, the depositors were considered as very minor income. By the act of 1708, the privilege of issuing notes was withdrawn from stock company. This compelled the bank of England to develop acceptance of money or depositors repayable on demand and also to advance money to customer when they are in need.

The character of banking has kept on meandering through time and the working of the banks reflect the changing character of the credit mechanism which is itself the out come of the economic changes taking place in the economic system.

An approach to define what a bank is may appear ordinary but many have failed to define appropriately.

Holden, an American writer tried to consider the definition of a bank under three headings.

(a) some definition by text-book writers

(b) some statutory definition and

(c) the view expressed by the court.

According to him, Hart defines a bank as "a person or company carrying on business of receiving money and collecting drafts for customers subject to the obligation of honouring cheques drawn upon them from time to time by customers to the extent of amounts available on this current accounts". Likewise Halsbury's law of England defines a bank as "an individual partnership or corporation, whose sole or predominating business is banking, that is the receipt of money on current or deposit account and the payment of cheques drawn by and the collection of cheques paid-in by a customer"

Then by statutory he stated, there is no United Kingdom Act of parliament which sets out to define banking, section 2 of the bill of exchange Act, 1982, provides that, "in this Act, unless the context otherwise requires ..... "banker" includes a body of persons whether incorporated or not who carry on the business of banking". The curious "definition" has been subject of derisive comments for many years. This is a similar description of "Banker" in the stamp Act, 1891. Also the United Kingdom Banking Act, 1979 introduced the concept of recognised by the banks that is to say, banks recognised by the Bank of England.

Recognition is, however, solely for the purpose of this act. Nevertheless, if an institution has been recognised by the Bank of England and as a bank for the purpose of the banking act, 1979. It seems unlikely that the court will refuse to treat it as a "banker" for the purpose of the cheque Act, 1957. Also according to blunder, "there are a large number of

recognition of institutions as banks under legislation but none of them gives a general purpose definition of an institution as a bank; all of them being merely a recognition for specific purpose.

The Nigerian Act 1969, describes a bank on the other hand as "any person who carries on banking business and includes a commercial bank, an acceptance house and financial institution". The Banking Amendment Act No.3, 1970 further defines banking business as "the business of receiving money from outside sources as deposits, irrespective of the payment of interest, and the granting of money loans and acceptance of credits or the purchase and sale of securities for account of others or incurring of obligations to acquire claims in respect of loans prior to their maturity or assumption guarantees and other warrantee for others or the effecting of transfer and clearing and such transactions as minister may, on such recommendations of the Central Bank of Nigeria order published in the Federal Gazettes, designate as banking business". From the above, it is clear that bank is an institution with profit motive. Even the Central Bank which is vested with the authority of supervising and controlling the entire financial system of the nation, offers some services in her banking department that generates profit just like any other bank.

The above definitions of a bank have also shown that banks perform many functions in an economy and they are thus classified by the functions they perform.

2.2 HISTORY AND DEVELOPMENT OF BANKS IN NIGERIA

2.2.1 COMMERCIAL / MERCHANT BANKS

Commercial banking activities started in Nigeria in 1872, with the establishment of African Banking Corporation which was responsible for the distribution of Bank of England notes on behalf of British Treasury. The Bank of British West Africa (now Standard Bank) was set up in 1894 largely on the initiative of Snr. Alfred Jones of the Dempster and Company. This bank was the sole monopoly of the importation of British coins from the unit. This Bank of British West Africa was in fact the fore runner of West African currency which has till then, acted as principal importer of currency from the unit

because the agent of the currency board, the Colonial Bank was established in 1919 and gave birth to Barclays Dominion Colonial and overseas in 1925.

Till 1929, banking business was monopoly of foreign businessmen. The first indigenous bank in Nigeria, The National Bank of Nigeria opened in 1933. Other (indigenous) banks that were established before then, for example,the industrial and commercial banks and the Nigerian merchant banks failed as a result of lack of trained manpower, bad management and fraudulent practices. Between 1945 and early 1945, a number of new banks were established. Only two of these - African Continental Bank and Agbomagbe Bank (now WEMA Bank) manage to survive.

As a result of the increases tempo of economic activities associated with the past world war reconstruction, high export prices, the 1950s witnessed the emergence of what usually referred to as a "Banking doom" in Nigeria. All the banks failed with exception of the Merchant Bank which had its licence withdrawn in 1960 for the misuse of government funds.

Between 1960 and 1980, the country witnessed the establishment of more banks in collaboration with foreign banks, which were indigenous according to the antagonization decree of 1974. The number of indigenous banks increased dramatically between 1986 to 1992 as a result of the structural adjustment programme coupled with deregulation of the economy in 1992/93. As at 31st December, 1992, we have over 120 banks operating in the economy, 66 commercial banks and 54 merchant banks. The Commercial Banks rose to 2070 in 1991 to 2243 in 1992. As at December 31st, 1994 there were a net total of 2259 branches of commercial banks while merchant bank stood at 142. Comprising 65 commercial banks against 51 merchant bank in economy.

The increase was attributed to expansion of existing banks as opposed to the establishment of new commercial banks. The positive effect of the deregulation of the banking system on the economy and the intense competition for deposits mainly explained the expansion of branches by commercial banks.

Merchant bank by nature of their business are mostly found in urban and commercial centres. that mostly explain why they could not expand rapidly like the

commercial banks. As at 31st December 1992, Merchant banks in the economy increased to 54 and had a total of 121 branches. Only three out of the 54 merchant banks have up to six branches all over the country. It decrease to 51 in December 31st 1994 as a result of depression in the economy. A merchant bank can be described in a sense as wholesale trader who takes on deposits other persons money and invest the money for its livelihood. In addition to accepting money on deposit accounts, it also provide finance in the form of acceptance credit short term and medium loans documentary import and export credit and accounts as authorised dealer in foreign exchange.

2.2.2 CENTRAL BANK OF NIGERIA

The banking failures of 1950s led to the power of control of banking being vested in the financial secretary. This triggered off two opposing camps.

The nationalist who were of the view that a Central Bank was needed to perform this and other traditional Central Banking functions and the colonials who believed that it was premature to introduce Central Bank in a country where there was no financial system. To resolve this opposing views a total of three studies were commissioned:-

(i) J.L. Fishers reports 1953

(ii) IBRD mission report 1955

(iii) J.B. Layne's report 1957

Fishers based his study on orthodox banking principles and reported that it was not feasible to establish a Central Bank on the ground that the financial environments did not exist and that it would be impossible to find the local staff to man it. He also contended that the West African currency board was equal to the task of promoting savings and capital information.

As an alternative, Fisher recommended

(i) the information of a development corporation by the government.

(ii) the issue of treasury bills

(iii) establishment of an institution by government to lend to cooperative societies.

(iv) the use of post savings for development purposes. He also recommended a three programme leading to the development of a Central Bank.

Second report;

(i) transfer of the operation of WACB to Africa so that its management acquire necessary experience.

(ii) establishment of a Nigerian Currency Board and a separate Nigerian Currency to take over Nigeria's share of WACB assets.

(iii) establishment of a bank of issue as embryo of a future Central Bank. As was expected, Fisher's recommendations were supported in 1955 by the World Bank Mission. However, the IBRD mission recommended a state bank of Nigeria to take over the banking control functions of the financial secretary.

Contrary to the above two reports, that of J.B. Loynes in 1957 favoured the establishment of Central Bank in Nigeria and by 17th March, 1958 the CBN ordinance was promulgated and became fully operational on 1st July, 1959.

The main position of the Act so far as the Central Bank of Nigeria was concerned were;

(i) issuance of legal tender currency in Nigeria.

(ii) maintenance of external reserve in order to safeguard the internal value of the currency.

(iii) promotion of monetary stability and a sound financial structure.

(iv) Banker to other banks in Nigeria and abroad.

The Central Bank stands at the apex of the banking system of every country. It is the government representative in the banking sector and acts mainly as banker to the government. It has a very close associating with both the government and the banking

sector of the economy, advising the government on monetary policy and implementing the policies on behalf of the government.

2.2.3 DEVELOPMENT OF BANKS

In a broad term, every bank could be considered to be a development bank because all banks contributed to the economic development of the country. It was because of this overall objectives that Nigerian made their first efforts between 1928 - 1952 to establish banks owned by indigens, viz-a-viz, the lack of concern or interest shown in the matter by existing banks owned by expatriates. Most of such indigenous banks collapsed. Even when a few survived, it became clear that those early (commercial) banks could not provide long term finance needed outside pare trading activities. Consequently, the regional government of Nigeria established different regional development corporation which were expected to play this financial role. Unfortunately their development corporation easily became more tools in the hands of politicians and although they did make tremendous contributions as soon as after their creation, it was clear that there was still need for more commercial oriented financial institutions whose functions would be the provisions of medium and ling term funds to business establishments.

As Nigerian was achieving political independence from colonial rule - 1960, the colonial development corporation (later called Common Wealth Development Corporation(CDC)) formed three different organisations to perform this functions in Nigeria.

The companies were not called "Development Banks" per se. they were the Investment Company of Nigeria Limited (ICON) in Lagos; the Industrial and Agricultural Company Limited (INDAG) named Development Finance Company Limited (DFC) in Enugu and the Northern Nigeria Investment Limited (NNIL) in Kaduna. Companies were jointly owned between Common Wealth Development Corporation and the Central on the respective regional governments. The Development Finance Company Limited (DFC) was disbanded after the Nigeria civil was, the Investment Company of Nigeria Limited (ICON) metamorphorsised into the Nigerian Industrial Development Bank (NIDB) in 1964. The

Northern Nigeria Investment Limited (NNIL) is still in being presently as subsidiary of New Nigeria Development Company (NNDC) former Northern Nigeria Development Corporation (NNDC) also ceased to be called as more states were created out of the former Western Region. Parts of its assets were taken over by Odua Investment Company Limited, which is jointly owned by states created out of the former Western Region.

With the creation of new states, Development banks or Development finance or investment companies have been set up by those state governments and also the Federal Government to deliver credits direct to what is ordinary referred to as the Industrial Agro-Allied and other sub-sectors of the Nigerian economy. Those development Companies federally owned include among others are:-

(1) Nigerian Industrial Development Bank (NIDB)

(2) Nigerian Agricultural and Co-operative Bank (NACB)

(3) Federal Mortgage Bank (FMB)

(4) Federal Mortgage Finance Limited (FMF)

(5) Nigerian Bank for Finance and Industries (NBCI)

(6) Nigerian Export and Import Bank (NEXIM)

One very important feature which distinguish the earlier statutory development corporations and development investment or finance companies and banks is that the former placed greater emphasis on promotion of some projects and the setting up of wholly owned subsidiaries for that purpose.

The later acted more as banks by granting loans and other forms of financial support to clients.

2.2.4 COMMUNITY BANKS

Community banking introduced in 1990 is a new concept in the Nigerian financial system. The idea behind this programme is to encourage development in rural communities through modern financial institutions from within the rural communities rather than from outside. The community banks are supposed to be the tolls for the financial and economic emancipation of the communities.

The fundamental concept in community banking is that of a self sustaining financial institutions owned and managed by a community or a group of communities, for the purpose of providing credit, deposit, banking and other financial services within the area. The services of Community Banks are rendered largely on the basis of self recognition and credit worthiness of their customers. This controls within the near total reliance by the orthodox banks on viable and negotiable collateral as the basis for giving out credits.

The objectives for establishing Community among others include the following:-

(i) The promotion of rural development by providing financial and banking services (credit and deposit) and other facilities inadequately supported with such services.

(ii) The rapid enhancement of the development of productive activities in the rural areas and hence improvement of the economic status of both the rural people and the rural areas; and

(iii) The promotion of the emergency of an effective and integrated national financial system. that responds to the needs of the whole economy from the individual and grassroots community level through the Local Government Areas and states to the National level.

The first community Bank to be established in the country was Alheri Community Bank in Kaduna which was commissioned by the then President (General Ibrahim B. Babangida) on the 31st December, 1990. It was the only community Bank established in 1990, while 94 opened in 1991 with many in the following years. As at 31st December, 1992 we had 228 Community Banks in operations.

2.2.5 PEOPLE'S BANK OF NIGERIA

The People's Bank of Nigeria (PBN) which commenced business in 1989 and was accorded legal status by Decree No 22 of 1990 was designed to extend credit facilities to a

certain segment of the Nigerian economy. This segment is made up of the rural and urban low income traders, craftsmen and micro-enterprises that can not ordinarily meet the lending requirement of the orthodox banks. the bank grants credit facilities in the range of 50.00 to 10,000.00 no interest is charged on the loan but an administrative fee of 5% is paid on loan secured.

No collateral is required but to induce repayment, loans are usually generated on the basis of group membership of co-operative trade associations etc. A borrower is expected to be a member of a group at least 15 persons with two weeks moratorium, the repayment period is spread over one year. The loanee is eligible to apply for another loan immediately the last credit is liquidated.

The first branch of the People's Bank of Nigeria was commissioned by the then President (I. B. Babangida) on the 3rd of October, 1989 in Ajegunle, a low income suburb in Lagos State. Ever since the bank has continue to grow in size and strength. Information gathered as well as reactions from beneficiaries of the loan facilities no doubt show that the bank has made significant impact on the Nigerian Economy.

2.3 AN OVERVIEW OF FRAUDS AND FORGERIES IN NIGERIA BANKING INDUSTRY

Frauds and forgeries are of special concern to the monetary and supervisory authorities as these activities undermine the safety soundness and stability of the banking industry. Like in the greater society, frauds and forgeries have become one of the most intractable problem of modern day banking. While public concern is growing by the day, and management vigilance is improving with the help of computerisation, it is on record that millions of naira are lost to frauds and forgeries. while some of the frauds and forgeries are hand work of outsiders, most are perpetrated by the staff of the banks concerned. Still some significant percentage of frauds and forgeries. Justice Akinlola Aguda, in his "the criminal law and procedure of the Southern State of Nigeria" (1982) defines an intent to defraud as "an intent to deceive in such a manner as to expose any person to loss or the risk of loss". Since "Loss" for our purpose is measured in monetary terms, fraud

may be defined as intentional misrepresentation, concealment or omission of the truth for the purposes of deception or manipulation to the financial detriment of an individual organisation - "Fraud" then is comprised of two fundamental elements. the one is premeditated deceit. The other is peculation, a collective term for any combination of embezzlement, defalcation, or misappropriation of funds. Frauds differs from malpractice in many ways, for instance, malpractice not only criminal but more specifically the unethical in the general conduct of practitioner in a profession.

"Forgery is a preliminary offence because it is a prelude to the commission of other forms of frauds eg. Obtaining by means of false pretence. The necessary element needed to sustain forgery under the law is that a person knowingly makes a false document with the intention that it will be used or acted upon as genuine to the prejudice of any person. The debilitating effects of fraud on the banking sector and the economy can never be understood. G.O. Nwankwo rightly pointed out that "fraud is number one enemy of business world. No company is immune to it..... It is an expanding industry". The offence is committed by falsification destruction, mutilation, or alteration of documents in respect of accounts. Wole Adewumi (1989) also observed that "fraud can be described as a conscious pre-meditated action of a person or group of persons with the intention of alterating the truth and or fact for selfish personal monetary gain. It involves the use of deceit and tricks and sometime highly intelligent cunning and know-how. It usually takes the form of forgery, falsification of documents and authorising signatures and outright theft". Although the existence of frauds in our banks is not uncommon or unexpected phenomenon, it is worrying because "of all the various problems confronting the Nigerian banking industry today that frauds is easily the most untractable".

The banking industry worries more about frauds because of the rather obvious damaging consequences of the acts on the health and for the existence of the institution. Frauds in banks nearly always lead to loss of monies that ordinarily belong to someone other than the banks. This loss result in some cases reduces the level of resources available for use in the operation of the banks. In every bad cases where frauds occur with crippling frequency and in wholesale sizes, that banks may be forced to close down as a

result. When the bank loses money and it is wound-up, the customers lose their monies. This leads to loss of confidence in the banks and reduce patronage. In our kind of financial environment, where banking habit is being encouraged and developed, this could result in a major set back for the effort.

Frequent occurrence of frauds ultimately distracts the attention of the management and leads to increased running cost. time and energies that would have been spent improving customer services would be expended on preventing frauds. Monies that would also have gone into services improvement activities would be expended in setting fraud control procedures and system. There are no acceptable statistics of the losses sustained by banks as a result of frauds within the Nigerian banking system. The Nigerian Deposit Insurance Company (NDIC) has strive to provide figures which though subject to verification, are at best conservative. This is principally because the figures are based on reported incidents of attempted and successful frauds. Not all banks were reporting and even then, there is the likelihood of some banks under-reporting in order to avoid the attendant publicity and loss of public confidence. No mention of bank executives involved in frauds and forgeries viz-a-viz figure lost. See attached table I^B & II^B as per NDIC report.

Table I^B & II^B indicates return on both commercial and merchant banks on frauds and forgeries. the reports rendered to NDIC was used to determine the amount involved, the actual/expected loss and number of banks rendering the returns. it is gratifying to note that more commercial banks and merchant banks now are complying with the statutory obligation of rendering returns of frauds and forgeries. The consistent rise in percentage of actual/expected loss in frauds/forgeries in both commercial and merchant banks is partly explained by an increase in returns and partly by the level of sophistication with which the perpetrators go about their nefarious activities. No doubt if this level of loss sustained with consistency, it will lead to the collapse of the banking industry. in 1994, four banks were officially liquidated by the deregulatory authorities. In fact that more banks have commenced operation is another indicator that the level of frauds may continue to rise. It

should be borne in mind that while monetary losses are important, the cost of frauds in the industry cannot be measured in monetary terms alone. Banks spend money in the training of staff. when some are involved in frauds, and are subsequently dismissed, it means loss of skilled manpower and deterioration of banking services.

Table III shows members of staff involved in frauds and forgeries between 1989 - 1994 as per NDUC report, stating clearly the rank and number. One can hardly believe that even security guards and stewards are involved in frauds/forgeries activities.

According to NDIC report (1992) "one pertinent and sad observation is that rather than frauds/forgeries in banks to r educe, the problem seems to be escalating. It is disturbing that frauds and forgeries have become an endemic feature of the institution concerned. It depletes shareholders funds and constitutes a loss to bank customers thereby further eroding public confidence in the banking system.

Gross and Hempel have identified five types of frauds perpetrated in banks. these include:-

(a) Borrowing from the till. This usually starts with borrowing a few naira which are returned. Overtime, the sum involved increase and the willingness and ability to repay declines.

(b) Forgeries of customers signature to withdraw from his/her account.

(c) Transfer from customer account to collaborator's account.

(d) Granting of loans without adequate information and security from the borrower.

The most common methods of fraud these days can be categorised under the following headings:

(1) Cheque letting

(2) Advance fee fraud (419)

(3) Accounting opening fraud

(4) Money transfer fraud

(5) Loans fraud

(6) Counterfeit securities

(7) Cheque fraud

(8) Clearing fraud

(9) Money laundering fraud

(10) Computer fraud

(11) Telex fraud.

Arising from the on-going failings of a number of Nigerian banks, one could herewith summarised the salient factors that generate insolvencies or near failing in the industry. the Major causes of frauds/forgeries within the Nigerian Banking industry could be attributed to the followings:-

(a) Social and economic conditions

(b) Misplaced social values and politics

(c) Insufficient internal control system

(d) Lack of corporate culture.

Perhaps the greatness indictment of banks based on the effect of fraudulent activities within the industry is made by Professor Oluwole Akande. He wrote "There are some of us who are prepared to assert that Nigerian present economic predicament came about as a result of malpractice in the banking and financial sectors".

The banks are in the front line in the fight against financial fraud. Moreover, they stand at a place in chain where all the fraudsters end up sooner or later. Obviously a bank is essential for any commercial fraud. We must encourage the Central Bank in the major trading countries to increase their interest in the supervision of commercial and merchant. cooperation in the fight against frauds and forgeries is growing. The best weapon is information, better collection, exchange and use of intelligence is equally significant. Prevention from in-house remedies, such as greater supervision, the inscription of the information travelling between computers to prevent computer frauds, to tighter control on financial markets. And of course the exchange of information about new developments.

2.4 GENERAL NATURE OF FRAUD AND FORGERIES

Banks frauds and forgeries take different forms as the perpetrators become more sophisticated in their methods. Most frauds and forgeries take the following features:-

1) Internal Frauds

An internal fraud is one which is planned and executed totally by a member of staff. An example is a chasier receives deposit over the counter from a customer but instead of recording the transactions in his/her book destroys the voucher and converts the money for his personal use.

2) External Frauds

These are frauds and forgeries which are planned and executed totally by non-staff without any assistance from or connivance of a bank staff, for example, a case where fraudster stole the memorandum and article of association of a company. they removed substituted pages where the names of the subscribers were listed and succeeded in opening an account in a bank. They subsequently paid in cheques stolen from the company and withdraw the funds after maturity.

3) Externally Assisted Internal Frauds:

This is a situation where a non-bank staff connived with a bank staff to defraud the bank. For example, a staff taking advantage of his inexperience supervisor by paying a returned cheque into a different customers account. Upon return of the cheque, it was debited the owner, where as the funds were credited a different account. The fund is withdrawn by the customer and shared with the staff.

4) Internally Assisted Internal Fraud

This is a situation whereby a staff deliberately assisted an outsider to defraud a bank, for instance well known staff and agent of a company presented a cheque requisition. After requisition slip was given due approval, the company staff stated that

they required two cheques books. He was allowed to alter the cheque requisition slip and append his signature although he is never a signatory to the account. A leaf was used from one of the cheque books to withdraw funds from the account. The company staff absconded.

The most common frauds and forgeries perpetrated in our banks are in some of the following areas:-

(1) **Account opening fraud.**

(a) Current account

(i) forgery of signatures, improper authorization by initialising officers and fraudulent confirmation of cheques.

(ii) Representation of already paid cheques through insiders assistance, suppression of cheques, fraudulent printing of cheque books, forged cheques paid across the counter and improper keeping of cheque books thereby giving room for foul use.

(iii) Fraudulent operation of frozen accounts, crediting of accounts with fictitious tellers and spurious cheques paid in by a customer and tampering with dormant accounts.

(b) Savings account.

(i) Withdrawal from customers account though forged vouchers and fraudulent withdrawals from dormant savings accounts.

(ii) Falsification of passbooks.

(iii) Partial posting of deposits with view to defraud.

(c) Inflating interest credited to ledgers and withdrawing difference fraudulently.

(2) **Money transfer fraud.**

Fraudulent money transfer may result from a request solely for the purpose of committing fraud or alteration of a genuine fund transfer request. A genuine request can be altered by changing the beneficiary's name or account number or changing the amount of the transfer. The fraud typically involves a non-repetitive, three person transaction. The perpetrator will obtain the particulars of the accounts (especially in active large balance accounts) and names of bank personnel. this information is then used to altered legitimate money transfer or initiate a fraudulent transfer in favour of a third party, usually an accomplice.

(3) ***Loans and Advance Fraud.***

(a) Manipulation of loan accounts, for example reducing of the balance to avoid instalmental payments

(b) Unauthorising lending.

(c) Kiting (granting of immediate credit to cheques)

(d) In some cases, drafts and certifies cheques sold against insufficient funds may be concealed in suspense account instead of debiting the account of purchaser. Other categories of loan fraud include

(e) Deceptive customer in false financial statement pretence of credit worthiness and false guarantees.

(f) False collateral non-emistant, over-valued, multiple pledge, stolen, counterfeit.

(g) Corrupt bank officers - improper loans to insiders, friends/relatives, improper loans benefiting hidden financial interest officers, kick-backs to bank officers, embezzlement of loan proceeds or loan payments.

(h) Improper use of loan proceeds other than state business use, criminal enterprises, money laundering loan frauds.

(4) ***Foreign Operation Fraud.***

(a) Forging of foreign undomicile drafts with spurious accompanying documents.

(b) Fraudulent processing of B.T.A. applications with forged documents, and stealing of Travellers cheques.

(5) **Telex Fraud.**

That is transmission of telex message and test codes. Transfer of funds from one location to another can be effected through the telex. The message, though often coded, can be altered to enable the diversion of funds to an account not originally intended.

(6) **Cash Fraud**

(a) Concealing of cash (by cashiers) and related vouchers, falsification of petty cash vouchers, and outright theft.

(b) Aiding and abetting of robbery by bank staff.

(c) Colluding with doublers.

(7) **Advance Fee Fraud ("419")**

This may involve an agent approaching a bank, a company or an individual with an offer to access large funds at below market interest rates, often for long term. The purported source of such fund is not specifically identified as the only 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 loan never comes through. Any bank desperate for funds, especially the distressed banks and banks needing huge fund to bid for foreign exchange, can easily fall victim to this type of fraud.

(8) **Computer Fraud.**

Computer fraud can remain undecteted for a long time. Computer fraud can take the form of corruption of the programme or application packages and even breaking into the system via remote sensor. diskettes can also be tampered with to gain access to unauthorised areas or even give credit to an account for which the funds were not originally intended.

(9) **Counterfeit Securities Fraud.**

Like counterfeit of money, counterfeiting of commercial financial instruments is one of the oldest forms of crime. Modern photographic and printing equipment had greatly aided criminal in reproducing good quality forged instruments. The documents may be total counterfeit or may be genuine documents, that are copies or forged or altered as to amount, pay-out date, payee or terms of payment. A common method is to present the counterfeit stocks or bonds as collateral of a loans. Other counterfeit items such as treasury notes, chasiers cheques, bankers acceptance, or certificates of deposits in counterfeit or altered form, may be presented to a bank for a redemption. the presenter would draw out the proceeds and disappear before the financial instruments are found to be counterfeit.

(10) **Others**

(a) using bankers letter heads with forged signatories to authorise payments for supplies.

(b) use of computer operators pass-words.

(c) fraudulent transfer of share certificate.

(d) swapping of fake cheques with genuine ones vice versa.

(e) fraudulent manipulation of CBN clearing cheques.

Clearing fraud has been observed that the most favoured types of frauds and forgeries committed in the banks these days by fraudsters. Most clearing frauds hinge on supervision of an instrument so that at the expiration of the clearing period applicable to the instrument the collecting bank will give value as though the paying bank had confirmed the instrument good for payment. clearing cheques can also substituted to enable the fraudster divert the funds to a wrong beneficiary.

Mis-routing of clearing cheques can also assist fraudsters to complete a clearing fraud. In other words, a local clearing item can be routed to an up-country branch. In the process of re-routing the instrument to the proper branch, the delay entailed will give the collecting bank impression that the paying bank had paid the instrument.

The system being used by the fraudsters in perpetrating clearing frauds and forgeries are endless. However, some of these include;

- printing of cheque books identical in all respect with cheque books of the bank and the customer they intend to defraud.
- substitution of Central Bank clearing presentation forms before going to the clearing house.
- swapping of fake cheques with genuine ones or genuine ones with the fake cheques.
- replacement of one fake cheque with two or three cheques with the total amount of the two or three cheques being equal to the amount on the one cheque that was replaced.
- presenting up-country cheques as local ones, wherein value will be given to cheques in four days, whereas the cheque will be returned after 21 working days.
- drawing cheques for substantial amount against dormant account or account with low level of activities in a bank clearing area. On presentation of such a cheque at CBN clearing house, the banks account will be credited while the other bank debited. The cheque will eventually returned unpaid,

- suppression of cheques and kiting. It is worth nothing that millions of naira has being lost through this system, whereas many bank managers or officers have either been dismissed, terminated or faced various disciplinary actions in their banks.

2.5 REPORTED CASE OF FRAUDS AND FORGERIES BY INSURED BANK

Like in the greater society, frauds and forgeries have become on of he most untractable problems of modern banking. While public concern is growing by the day, and management vigilance is improving with help of computerisation, it is on record that millions of naira are lost in frauds and forgeries. While some frauds and forgeries are the hand work of outsiders, most are perpetrated by the staff of the banks concerned. still some significant percentage of frauds and forgeries are done in collaboration with out-sider by the staff. As a result of this very serious economic crime, some staff in the industry have either been dismissed or have their appointment terminated or prematurely retired.

This means that some experienced hands in the sector are lost due to their involvement in frauds and forgeries. Below, we present reported cases of frauds and forgeries in the banking industry especially between the period of1989 to 1994.

Accurate data for 1995 and 1996 cannot be reached yet but there is indication that the number of has been on the increase. However, the number of staff dismissed and retired following their involvement in this crime is also highlighted, based on the report submitted to Nigerian Deposit Insurance Corporation.

CASES IN COMMERCIAL BANKS

Table II shows the statistics on the level and magnitude of reported fraud and forgery cases in commercial banks during 1994 alongside the statistics for 1993.

It is evident from the table that the number of banks with frauds and forgery cases rose from 33 in the first quarter of 1994 to 45 in the last quarter as compared to 28 cases in the first quarter of 1993 and 29 cases in the last quarter of that year. the amount

involved also rose significantly from 426.3m in the first quarter of 1994 to 1,445.03 million in the last quarter as compared with 149.03m in the first quarter of 1993 and 576.51 million in the last quarter of that year. In aggregate terms, the amount involved was 1,377.15 million in 1993 and compared with 2,655.71 million in 1994. also the aggregate Actual/Expected loss in 1993 and 1994 were 241.0 million and 883.55 million respectively.

CASES IN MERCHANT BANKS

Frauds and forgery cases appeared to be considerably lower in merchant banks than in commercial banks. this was to be expected because of the retail nature of commercial banks functions. Table II presents the data for merchant banks.

The table shows that the number of banks with cases of frauds and forgeries on a quarterly basis ranged between 2 and 6 in 1993 and 2 and 9 in 1994. In aggregate terms, the amount involved in 1993 was 41.2 million while the Actual/Expected loss was put at 5.37 million. Comparatively, the figures for 1994 were by far larger. The amount involved was 743.68 million and the actual/expected loss was 67.1 million which indicate that there was high incidence of fraud and forgery cases in the industry in 1994.

Generally compared to previous years (ie. between 1989 - 1993) a large percentage of the amount involved in frauds and forgeries in 1994 was accounted for by ten banks out of which nine were commercial banks and only one was merchant bank. The high number of commercial banks involved in frauds and forgeries over the years reflect the preponderance of commercial banking activities in the country. Table II^B presents details of the amount involved in frauds and forgeries for the ten banks with the highest number of fraud cases during 1994.

There was an increase of about 72 percentage between 1994 and 1993 in the total amount involved in frauds and forgeries in the ten banks with the highest frauds cases. In 1994, the total amount involved for the ten banks with the highest fraud cases was 2,303.54 million compared with 1,341.42 million in 1993. In the same manner, the total amount involved for all the reporting banks stood at 3,399.39 million in 1994 compared

with 1,419.03 million in 1993 which represented an increase of about 140 percent. However, the share of ten banks with the highest fraud cases in the total amount involved decreased from 94.5 percent in 1993 to 67.76 percent in 1994. The decrease suggest that fraud cases in banks were spreading and no more concentrated in a few banks.

TERMINATED, DISMISSED AND RETIRED STAFF ON ACCOUNT OF FRAUDS AND FORGERIES

The categories of staff, namely, supervisors/managers, officers/accountants and clerk/chasiers were prominent amongst those involved in frauds and forgeries. In table III, we present number of staff who were dismissed, retired or had their appointments terminated on account of frauds and forgeries related cases in their banks.

In 1994 alone, about 737 staff lost their jobs for their involvement of fraud related crimes in various banks as compared with 516 in 1993. The 1994 figure represented an increase of about43 percent over that of 1993. The core operational staff constituted about 78 percent of those who lost their jobs of the core staff, Supervisors/Managers constituted about 28.6 percent, Officers/Accountants/Executives Assistants constituted 19.5 percent, Clerks and Chasiers 29.9 percent while other categories of staff accounted for the remaining 22 percent. From 1991 to 1994, a total of 2,203 staff of banks lost their jobs due to their involvement in frauds and forgeries. .

Since 1989 when the first annual report was published, it has been observed with regret the increasing incidence of fraud and forgery cases in Nigerian banking system. The trend continued unabated in 1994. Frauds and forgeries as well as the increasing distress in the banking sector have eroded public confidence in the system. In 1994, a total of 2,655.71 million was involved in frauds and forgeries in commercial banks alone. The 1994 figure represented about 94 percent increase over that of 1993. The amount involved in frauds and forgeries also increase in merchant banks from 41.92 million in 1993 to 743.68 million in 1994. The amount involved in frauds and forgeries in both category of banks in 1994 was 3,399.39 million. the actual/expected loss in 1994 alone was 950.56 million as compared with 246.37 million in 1993.

1994 figure represented about 94 percent increase over that of 1993. The amount involved in frauds and forgeries also increase in merchant banks from 41.92 million in 1993 to 743.68 million in 1994. The amount involved in frauds and forgeries in both category of banks in 1994 was 3,399.39 million. the actual/expected loss in 1994 alone was 950.56 million as compared with 246.37 million in 1993.

The promulgation of failed bank (recovery of debts and malpractices) Decree, 1994 has opened up another category of staff ranked "Executive Directors" amongst other staffs involved in frauds and forgeries. Though the Decree came into full force starting from 1995 (outside the scope of this project). It has started yielding positive result evidenced by arrests, detention, prosecution and sentencing to various terms of imprisonment staff mostly executive directors of failed banks. For instance, the Newswatch Magazine of March 11, 1996 titled EXECU-THIEVES" quoted NDIC as saying 15 billion was the amount lost to fraudsters in both commercial and merchant banks. The figure were far ahead from those recorded from previous years. About 181 bank executives were detained for their various roles in huge financial losses to their banks.

It must then be concluded that measures taken by the banks to forestall frauds and forgeries seem to be inadequate.

2.6 CONTROL MEASURES OF FRAUDS AND FORGERIES

In realisation of the dangerous effect of increasing wave of frauds in banks, Banks's management have instituted different internal control systems and policies aimed at ensuring the incidence of fraud is brought to the bearest minimum. Though these systems and policies differ from one bank to the other, the following can be regarded as a general control policies will ensure the prevention of in banks;

A. CURRENT ACCOUNTS

i. Opening of New Accounts

The manager or a designated senior officer should be interested in knowing why the customer has come to their bank from other bank. Proper references must be obtained before cheque books are issued to the customer and all postings to new accounts should be carefully scrutinised and no withdrawal should be allowed without prior verification of the lodgements. Company and other accounts must be seen to be properly opened in line with bank policies. The source of heavy cheque lodgement into a new account or a dormant account should be ascertained before acceptance of such cheque and the paying bank of such cheque should be put on notice.

ii. Statement of Accounts

Statement of account must be dully authenticated by a senior officer. The address must not be ambiguous and their despatch must be controlled. Balances brought forward must be initiated by a senior officer evidencing corrections in mechanised/computerised branches.

iii. Stopped Cheques

Details of stopped cheques must be entered in such a way that those who are likely to them are well informed. This can be achieved by circulating the "Stop Notice" to all staff concerned including cashier were appropriate. .

At quarterly intervals, ensure that all items in the Register/display card are revised against records. Delete stale items. In computerised banks ensure that the relevant software take care of this and in addition occasionally physically review the source documents against the computer display/print out. Please note that long outstanding stops in respect of signed but undated cheques must remain indefinitely.

iv. Payment Procedures.

The use of counter cheques should be discouraged and banks should avoid honouring cheques which are not taken from book supplied to the customer. Identity cards issued by unknown company should not be accepted as only form of identifying a

payee of large sum. Banks should discourage customers from withdrawing large amount in cash where a draft or other means of settlement can suffice. Use of Regiscope/Photoscope camera to photograph persons drawing large amount should be encouraged. Cashiers should be instructed never to pay to or receive from staff in respect of customers transactions.

As part of control measures to curb fraud incidence through the clearing, the committee of chief inspectors had decided that banks which accept spurious instruments into their customers account will henceforth to be held responsible for any loss that may be sustained as a result of their action.

It was also decided that when an account is witnessing an unusually large deposit of cheques, the collecting bank should alert the paying bank. Paragraph 10 of Lagos clearing house rules of January 1987 clearly address this problem.

B. SAVINGS ACCOUNT

i. Operation of the Account

- Ensure that all withdrawals are authorised according to the mandate.
- Ensure proper call-over and examination of vouchers.
- Call-over must be carried out by official independent of the department involved in the processing of the vouchers.
- Not later than the morning after the day of posting, the call-over officials must examine all the vouchers and investigate any unusual features.

ii. Certification of the Accounts.

- Towards the end of the month or twice monthly, draW UP A roster of officials who will be responsible for balancing the ledger sections or have a team of auditors to certify the various sections.

- ensure that the same officials are not paired together in successive certification and that neither of them are involved with the same section of ledgers in succession.
- computerisation now in vogue, the functions of certification should now be the audit department.

iii. Interest/payments

- ensure that calculations and payment of interest is supervised. Large amount should be double checked by an auditor to ensure accuracy even in computer environment.

C. UNBALANCED POSITION OF BOOKS OF ACCOUNTS

Experience has shown that unbalanced books provide fertile grounds for frauds, hence at times books are intentionally "jammed" by unscrupulous staff.
bankers should therefore, be restless if their books are not balanced. The situation should in fact be viewed as a danger signal. Efforts should therefore be made to balance the books regularly and promptly. In computerised environment, items in out-of-balance account/error lodged should be under the watchful eyes of the branch manager/accountant. entries in and out of these accounts must be dully authorised.

D. UNRECONCILED ACCOUNTS

The need for effective reconciliation of books of accounts in your institution cannot be over emphasised. There is the need to equip your reconciliation section with highly experienced and knowledgeable staff. Under no circumstance should the section be regarded as for discredited officers. Starting fraud have within the past few years been perpetrated through unreconciled:-

- Central Bank Clearing Account
- Local Bank Clearing Account

- Head office / Inter-branch Account
- Correspondent Account.

E. SUSPENSE ACCOUNT

Various suspense accounts arises in banks both on the Assets and Liabilities sides. The outstanding items on the accounts must be monitored by a very senior staff authorization of entries into the accounts should also be restricted to specific officers other those monitoring the accounts.

Long outstanding items should be continuously traced until they are reversed. (Transfer from Hold Over Accounts to Suspense Accounts then to Ban Accounts, Unpresented drafts etc.).

F. PAYMENT OF DRAFTS, MAIL TRANSFER ETC.

In recent times frauds syndicates have with the collaboration of some staff beaten various control devices established by banks and succeeded in swindling millions of naira through drafts, mail transfer, cable transfers etc. In most of the cases investigated, it was observed that the frauds could have been exposed if the staff involved had complied fully with the banks policies and procedures and taken additionally care in the discharge of their duties. It is recommended in the light of recent development, to verify all payment instruments for big amounts with issuing branch/bank before payment. This on the message or instrument agrees even when the embezzlement appears genuine.

G. CLEARING OF CHEQUES

- scrutinised outward clearing
- ensure that this is done before despatch daily
- watch out for any large / unusual cheques
- watch out for indications of cross firing or kite flying and when noticed, alert the paying banker immediately.

- ensure double custody of cheques at all times (swapping of cheques between banks and Central Bank).

H. VOUCHERS

All processed vouchers must be given adequate resisting/double-custody. special attention should be paid for office account suspense vouchers. Profit and loss vouchers, paid drafts and fixed deposits receipts. Microfilm / microfilch system should be used as applicable.

I. CONTROL OF COST

Ensure that purchases are made within approval limits and that prices being paid are reasonable. Discourage settlement of large purchases by cash. Ensure strict compliance with laid down purchase procedure and that all purchases are within approved budget.

J. CONTROL OVER COMPUTER REPORTS

- ensure access to the computer room is restricted to authorised persons. Establish movement register.
- check and ensure that the required reported are produced as indicated on the daily report check list.
- when certain reports are not received, ensure that extra care is taken in handling the previous days vouchers with a view making up an update position of accounts that will have operations during the day.
- ensure that last report is kept under surveillance of a senior officer.
- ensure pass word for computer operators are kept in strict confidence and are deleted when there is movement of staff.

K. EMPLOYMENT INCENTIVES AND REWARDS

K. EMPLOYMENT INCENTIVES AND REWARDS

It has been proved that reasonable incentives to staff has helped to reduce the incidence of involvement in fraud. Reward for performance of fraud", should also form part of bank policy to encourage staff and customers who help to frustrate fraud.

L. RECRUITMENT AND TRAINING OF STAFF

Banks management must ensures a sound employment policy to ensure that the right calibre of staff are employed into the banking industry. It is also necessary that very good references on staff are obtained from both their last school and other responsible citizens whose reputations are not in doubt. Personnel department of banks must not fail to make use of the recent circulation among banks of the list of staff who have either been dismissed or terminated on grounds of frauds so as to avoid employing people who were either dismissed or terminated for being involved in fraudulent practices in other banks.

Staff must be properly trained on their various assigned duties to enable them appreciate their responsibilities in detection and preventing frauds. No staff should be placed on cash or other specific duties unless he has been properly trained to appreciate the demands of his job. Banks should avoid using new clerks as either cashier or reference clerk. Staff should be made aware that they should not counter-sign any instrument simply because it has been previously signed by another staff regardless of grade.

M. OTHER CONTROL MEASURES

These should include:-

- Government enforcement of provision of the Banking Decrees as they relate to the issuance of dud cheques.
- Used of closed circuit television, surveillance camera in offices should be encouraged.
- establishment of a proper and speedy procedure of meeting out disciplinary measures against those staff involved in frauds as a deterrent to others should be in place.

- proper custody of bank's records and all security documents (there should always be under the control of very responsible and reliable officer) should be maintained.
- reactivation of dormant savings and current accounts must be properly authorised.
- life style of staff should be monitored by the management of the bank. (eg. when it comes to the notice of management that a clerk drives a posh car they should investigate how the clerk comes to own a car).
- acute shortage of staff in any unit should be discouraged, as this can result into pressure of work on the available few hands and therefore lack of proper supervision and resultant compromise of control procedure.

LEGAL AND INSTITUTIONAL FRAME WORK FOR COMBATING BANKING MALPRACTICES

- speedy enforcement and monitoring of bank employees etc. (declaration of asset act).
- failed banks (Recovery of debts and financial malpracises) Decree; 1994
- administrative institutional regulation, ie. key organs of state and CBN that play vital administrative detective and investigative as well as adjudicating roles in the quest for eradication of banking frauds and diverse malpractices.
- functional institutional regulation that is, the quest for eradicating banking malpractices reflect itself in rules that stem from certain functions of the CBN. Being the banker to other banks, the CBN decides on what amount of overdraft it can allow each bank in a given situation. The banker's committee also serves as a forum for meeting other banks and advising them as how to avoid pitfalls and improving efficiency without having to result to malpractices in case of temporary difficulties. The Apex bank also use its supervision of the cheques clearing houses to monitor the activities of the banks without intension to ensure compliance with regulation.

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CHAPTER III

RESEARCH METHODOLOGY

3.1 **Definition of research methodology:**

Research design or methodology is defined as the master plan, structure and strategies of investigation conceived so as to obtain answer to research questions and to control variables. It also include how the research objectives will be achieved and how the problems encounter will be tackled. These could be achieved through the various types of research available to the researcher namely:-

(a) Historical research

(b) Experimental Research

(c) Quesi - Experimental Research

(d) Description of Survey Research

(e) Product Development Research

(f) Correlation Research

(g) Evaluation / Analytical Research

3.2 **Research Method Selected/Sources of Data**

This research work is basically a descriptive/survey type of a research and partially analytical because data obtained will have to be analyzed before conclusion could be researched. Descriptive research is defined as that research which is used to find the meaning and obtained an understanding of present condition, beliefs, attitudes and so forth. sometimes case study, sample survey and correctional types are classified under descriptive research. The tools available for the data collection under descriptive research are either standardised instruments, such instruments are either questionnaires, utilization of interview, participative or non-participative observations and simulations. But for the purpose of this research, the questionnaires and observations will be used to collect data relevant for analysis. the data to

be obtained are therefore primary data from the questionnaires to be administered and secondasry data from various publications especially the Nigerian Deposit Insurance Corporation (NDIC) annual publication between 1989 - 1992 and 1993 - 1994.

3.3 Hypothesis

H_O Large number of staff involved in cases of frauds/forgeries in the banking industry is a result of bad incentives offered by banks.

H_I Large number of staff involved in cases of frauds/forgeries in the banking industry is NOT as a result of bad incentives offered by the banks.

H_O Large number of junior staff (clerical/non-clerical) are more involved than middle/senior staff in cases of frauds and forgeries in the Nigerian banking system.

H_I large number of junior staff (clerical/non-clerical) are NOT more involved than the middle/senior in cases of frauds/forgeries in the Nigerian banking system.

3.4 Procedures for Data collection

Data required for this research work will consist of both secondary and primary data. The secondary data will be obtained from earlier publications specially that of the Nigerian Deposit Insurance Corporation (NDIC) annual report between 1989 - 1992, 1993 and 1994 and other CBN publications.

As for the primary data, a questionnaire has been designed for administration to various banks, tailored specifically towards obtaining the necessary information for analysis. Each bank will be sent 30 questionnaires and the proportion of 15 to 15 between senior and junior staff will be required to complete the forms. this will give equal and good representation of all categories of staff members.

Apart from administering the questionnaires, personal observation of the research will be used, being an auditor with a reputable organisation and over 10 years of experience in the banking industry, and has worked in various capacities, both at branch and control offices.

3.5 Instruments for Data Collection

The questionnaires has being designed in a such a way that relevant questions have been provided tailored towards obtaining the required information. This includes personal data of the person completing the questionnaires, age, sex, marital status, present/sections worked, assignment, date last promoted, renumerations, job satisfaction and relationship with subordinates. These questions when answered correctly will serve as an indicator why so may staff members get involved in frauds/forgeries and also whether junior or senior staff are more involved in such cases.

3.6 Population Sampling

The population to be examined in this research work are staff of banks in the Nigerian banking industry with specific reference to those working in different banks with Kaduna metropolis is for the simple fact that most banks have branch located here in Kaduna.

Five commercial banks namely; Savannah Bank of Nigeria Plc; Bank of the North Limited, Afribank Plc; United Bank for Africa Plc; and Union Bank of Nigeria Plc; and three merchant banks - NAL Merchant Bankers Plc; ICON Merchant Bank Plc; and Merchant Bank Corporation of Nigeria Limited have been chosen at random to represent the whole population to be examined. One community Bank (Kawo Community Bank), One People's Bank of Nigeria Limited, Nigerian Agricultural and.Co-operative Bank will also be examined. These financial institutions have been chosen for questionnaire administration.

Old generation banks, having a wide spread of branches through the country. Data collected from them could serve as an opinion of other staff members within the industry. the merchant banks, they are solid banks with branches located in Kaduna with head office in Lagos. the Community Banks are quite new arrivals in the system, while People;s Banks has spread to almost all local governments in the federation.

3.7 Hypothesis Testing

Hypothesis is basically the research questions. The researcher therefore seeks for confirmation or rejection of the research questions through various statistical methods, for example the chi-square the regression (simple) and multiple analysis correlation analysis etc. But for the purpose of this study, the chi-square (X^2) method of hypothesis testing will be used. From the data collected, the observed frequencies and there expected frequencies are calculated through the use of a simple formula ie.

R X C OVER T

(R = Row Total)

(C = Column Total)

(T = Grand Total)

after obtaining these values a degree of freedom is assured to determine the value of chi-square (X_2) by the use of the table already provided for that purpose. The decision rule under this method states that " Accept the NULL HYPOTHESIS (H^O) if calculating chi-square (X_2) value is less than table chi-square (X_2) value". otherwise "Reject the NULL HYPOTHESIS and the alternative hypothesis (H^I) stands accepted or vice-versa.

CHAPTER IV
DATA COLLECTION, ANALYSIS AND INTERPRETATION

4.1 Introduction

Most of the materials used in this project are collected through the administering of questionnaires and personal observations. the questionnaires were administered in different banks, commercial, merchant, development, community and people's banks based in Kaduna.

The findings in this project are limited by the conversations of number of respondents. many of them could not willingly supply the required information because they feared it might go contrary to their oaths of office.

Questionnaires were administered on both junior and senior staff members. Thirty (30) questionnaires were sent to about ten (10) banks. quite alot responded favourablly, while some did not bother to respond at all. However, enough questionnaires were returned and out of which 160 have picked for analysis, eighty each completed by both junior and senior staff. A good proportion was used to allow for adequate representation of the commercial, merchant, development banks and other (community/People's banks). therefore, the analysis of data presented in this chapter is purely based on the response and findings from such respondents.

4.2 DATA ANALYSIS

The importance of data analysis cannot be over emphasised. Data becomes useful only after proper analysis. Data analysis involves the conversion of a series of recorded observations, informations obtained through interviews/discussions or other forms of data into descriptive statements or inference about relationships. In analysis, data is reduced to intelligible and interpretable form so that the relationship of research problems can be studied.

In this study, data collected is computerised on percentage (%) basis for easy comprehension. The chi-square (X^2) distribution method is used here. although several

questions were asked in the questionnaires, only those related to each hypothesis will be highlighted in each case.

In an effort to identify the causes of frauds/forgeries in the Nigerian Banking system, the data collected and analyzed have been classified under the following areas:-

1). Whether junior staff are more involved in cases of frauds and forgeries in the Nigerian banking system.

2). Whether the involvement of bank staff in cases of frauds and forgeries in the Nigerian banking system is as a result of bad incentives offered by their organisation.

Since there are no existing data in order to determine the above cases, we have to rely on the responses collected from the various respondents. In the end questions eleven (11) and twelve (12) have been selected for hypothesis testing. Data (figures) in the tables serves as the observed frequencies and are also used for the chi-square (X^2) distribution test.

4.3 **Data Interpretation**

The results from data analysis are interpreted. the interpretation states of analysis makes inference pertinent to the research relationship studied and draws conclusions about the relations. It is generally accepted that a research study attempts to either test hypothesis or answer questions. the statements or the problem therefore indicates precise terms which questions are to be investigated when hypothesis are to be tested. Both questions and hypothesis are indispensable tools in educational research.

4.4.0 **Analysis of Hypothesis One (1):**

Why Large Number of Staff Are Involved in Frauds and Forgeries

4.4.1 **Null Hypothesis (H_O):**

Large number of staff involved in cases of frauds/forgeries in the Nigerian banking industry is as a result of bad incentives offered by banks.

4.4.2 **Alternative Hypothesis (h_1):**

Large number of staff involved in the cases of frauds and forgeries in the Nigerian Banking industry is not as a result of bad incentives offered by the banks. This hypothesis intends to find out the reason(s) why a large number of staff are involved in frauds/forgeries in the Nigerian banking industry . In an attempt to test the hypothesis which consist of a set of assumptions accepted provisionally as a basis of investigation, the below is set out.

Degree of Response	Responses		Total	
	Junior Staff	Senior Staff		
YES	19	16	35	
NO	35	29	64	
To some extent	18	25	43	
Not to some extent	8	10	18	
Total	80	80	160	

Since the above data (figures in the table) represent the observed frequencies (*fo*), the expected frequency (*fe*) for each cell is calculated by using the formula;

fe = {R X C} over T R = Row Total

C = Column total

T = Grand Total

Cells: fe:

(1,1) =

{35 x 80} over 160 = {2800 over 160} = 17.5

(1,2) =

{35 x 80 } over 160 = {2800 over 160} = 17.5

(2,1) =

{64 x 80} over 160 = {5120 over 160 } = 32

(2,2) =

{64 x 80} over 160 = {5120 over 160} = 32

(3,1) =

{43 x 80} over 160 = {3440 over 160} = 21.5

(3,2) =

{43 x 80} over 160 = {3440 over 160} = 21.5

(4,1) =

{18 x 80} over 160 = {1440 over 160} = 9

(4,2) =

{18 x 80} over 160 = {1440 over 160} = 9

Since the observed and expected frequencies have been obtained, the X^2 is therefore calculated by using the formula

X^2 = {fo - fe} over fe

where

fo = observed frequencies and

fe = expected frequencies.

FO:	Fe	Fe: - fe	$(FO - fe)^2$	$\frac{(Fo - fe)^2}{fe}$
19	17.5	15	2.25	0.13
16	17.5	-15	2.25	0.13
35	32	3	9.0	0.28
29	32	-3	9.0	0.28
18	21.5	-3.5	12.25	0.60
25	21.5	3.5	12.25	0.60
8	9	1	1.10	0.11
10	9	-1	1.10	0.11
X^2	= 2.24			

Calculated value of $X^2 = 2.24$. to find the table value of

X^2 = Degree of freedom (df) = (c-1) (R-1) where C = column total and R = row total (2-1) (4-1) = 1 x 3 = 3

Specified level of significance is 5% = 0.05; table value of

$X^2 = 7.82$.

Decision rule

The rule states the following:-

Accept the null hypothesis (H_O) if calculated chi-square (X^2) value is less than chi-square (X^2) value otherwise, "Reject the null hypotheses and accept the alternative hypothesis" when we reject the null hypothesis (H_O) the alternative hypothesis (H_I) stands accepted and vice versa.

Interpretation.

In the analysis above since the calculated X^2 value of 2.24 is less than the table X^2 value of 7.82, we shall then accept the null hypothesis (H_O) that a large number of staff involved in bank frauds and forgeries are not as a result of poor incentives offered by the banks.

From the above, it is apparent that large number of staff involved in cases of frauds/forgeries in the Nigerian banking industry is as a result of poor incentives offered by the banks. Impliedly, if the benefits are enhanced and other factors remains same less staff will be involved in cases of bank frauds/forgeries.

4.4.2 ANALYSIS OF HYPOTHESIS (II)

Junior staff are more involved in cases of frauds and forgeries than senior staff.

Null Hypothesis (H_O)

Large number of junior staff (non-clerical) clerical are more involved in cases of frauds and forgeries in the Nigerian banking system.

Alternative Hypothesis (H_I)

Large number of junior staff (clerical/non-clerical) are NOT more involved in cases of frauds/forgeries than junior staff in the Nigerian Banking system.

In an attempt to test the hypothesis which consists of set of assumptions accepted provisionally as a basis of investigation, the table below is set out.

Table 4.4.2. shows the observed frequency in respect of the category of staff involvement in cases of frauds/forgeries in the Nigerian banking system.

DEGREE OF RESPONSES			
	Junior Staff	**Senior Staff**	
Yes	27	28	55
No	28	21	49
To some extent	19	23	42
Not too sure	6	8	14
	80	80	160

The above represents the observed frequency (*fo*) the expected frequency (*fe*) for each cell is calculated by using the formula:

Fe = {RxC} over T

where R = Row Total

C = Column Total

T = Grand Total

Cells

(1,1) =

{55 x 80} over 160 = {4400 over 160} = 27.5

(1,2) =

{55x80} over 160 = {4400 over 160} = 27.5

(2,1) =

{49 x 80} over 160 = 3920 over 160 = 24.5

(2,2) =

{49 x 80} over 160 = {3920 over 160} = 24.5

(3,1) =

{42 x 80} over 160 = {3360 over 160} = 21

(3,2) =

{42 x 80} over 160 = {3360 over 160} = 21

(4,1) =

{14 x 80} over 160 = 1120 over 160 = 7

(4,2) =

{14 x 80} over 160 = {1120 over 160} = 7

Since the observed and expected frequencies have been obtained the X^2 is therefore calculated by using the formula

$X^2 = \frac{fo - fe}{fe}$

fo:	*fe:*	*fo - fe*	$(fo - fe)^2$	$\frac{(fo - fe)^2}{fe}$
27	27.5	-5	0.25	.01
28	27.5	5	0.25	.01
28	24.5	3.5	12.25	0.50
21	24.5		-3.5	0.50
19	21		-2	0.19
23	21		2	0.19
6	7		-1	0.14
8	7		1	0.14
X^2				1.68

Calculated value of $X^2 = 1.68$. To find the table value of

X^2 = degree of freedom (df) = (c-1) (r-1) where c = column total and r = Row Total = (2-1) (4-1) = 1 x 3 = 3.

specific level of significance is (58%) = 0.05 and the table value of X^2 under 0.95 (1-0.5 = 0.95) under degree of freedom three (3) we have X = 7.82.

Interpretation

In the above analysis, since the calculated X^2 value of 1.68 is less than the table X^2 value 7.82, we shall then accept the NULL hypothesis (H_O) which states that large number of junior staff are more involved in cases of frauds/forgeries in the Nigerian banking system than senior staff. The alternative null hypothesis (H_I) which states large number of junior staff are NOT more involved in cases of frauds/forgeries in the Nigerian banking system than senior staff should be rejected because the value of X^2 falls within the accepted region.

It is apparent from the above analysis that large number of staff involved in frauds and forgeries on junior staff rather than senior staff

ANALYSIS OF OTHER FINDINGS

After due confirmation of the two hypothesis proposed above, it is necessary to look into other factors that are likely to affect involvement of staff in frauds/forgeries cases in the Nigerian banking system.

From questionnaires sent out to various banks and the responses received, there are clear indication that other factors contribute a lot in the cases of frauds/forgeries in banks. Out of the one hundred and sixty (160) questionnaires analyzed, 77.5% were completed by male employees while the 22.5% by female staff. Out of 77.5% male, about 42% were completed by senior officers while 34% were junior staff while 15% of female that completed the questionnaires were junior, 8% were senior staff.

Although there is no available data, there is very likelihood that more male staff are involved in frauds/forgeries cases than female staff. Based on the number proportion of male/female staff that completed the questionnaires.

Age of staff working in the banks might have being a contributing factor towards junior staff getting more involved in cases of frauds/forgeries. Out of those whom their ages fall between 20-30 years, 70% were junior staff, while only 30% are senior staff. those whom their age falls between 30-40 years, only 39% were junior staff while 61% senior staff and for those above 40 years, only 25% were junior staff and 75% senior staff. There is clear indication that the age bracket of junior staff falls between 20-40 years. At this age especially between 20-30 years, most people are not married and do not have much responsibilities,

hence they can decide to be reckless. They are also easily influenced by peer groups hance the tendencies to commit frauds/forgeries are higher than the elderly ones who have much more responsibilities and families to protect.

Married status is another area that needs to be critically oddness. Out of those married that completed the questionnaires (89 people) 45% were junior staff. From those single, 19 out of 29 were junior staff representing 66% while only 34 were senior staff. Only 2 were married and divorced. It is therefore normal for those married to behave more responsible and avoid or shun fraudulent tendencies than those not married. This may lead to another factor to enhance our hypothesis, more junior staff get involved in frauds and forgeries than senior staff.

Dependence is another area of concerned. 50 staff out of 160 have dependants ranging between 1-4, representing 41% out of this 50% represent junior staff. 25% of those who completed the questionnaires have dependants between 4-6, while 20% have dependants between 7-9 and only 5% have above nine dependants. It is interesting to note that 14%have one no dependants at all. From the total population about 50% have dependants ranging between 4 and above. This may be considered on the high side. this has assisted in reaching conclusion to our hypothesis which states that the large number of staff involvement in cases of frauds and forgeries were as a result of poor incentives offered by the banks.

Although various quantities of the questionnaires were sent to various banks, 60% were completed by those from commercial banks. Merchant banks completed 25%, Development banks 10% and Community /People's banks 5%.

The designation of those who completed the questionnaires transcend from non-clerical to managers. On three (3) from non-clerical accounting ie. for 2% while clerical (32) which is 27% and supervisors (25) representing 21% while senior staff is 50%. It is worth noting that equal proportions of junior/senior have been used for this research ie. 50% each. Out of the 67% of the population having at least three years experience 34% are junior staff, while 33% are senior staff.

It is very necessary to rotated staff around to allow them gain experience and avoid being a super clerk/officer on a single duty. Also rotation of staff around assist in controlling

fraudulent tendencies. Being too long on a single job makes one too clever and the temptation to commit frauds and cover it is very high. There is every likelihood also that being too new on a job can allow for fraud to go through undetected.

From our population, forty-five (45) or 37.5% have spent less than one year in their present section. Fifty-two or 43% are between on to three years (1-3) while fourteen (14) or 12% have spent between three to five (3-5) years. About 20% of the total population have spent three years or above in one single section. If one is not a specialist e.g. lawyer, it is necessary he/she is rotated for the reason stated above.

Staff transfer is very crucial to banks. Transfer could be effected for several reasons eg. transfer of experienced hands to areas where required, due to promotion and also when frauds could be reduced. While staff are transferred to new environment it takes time to such a one to get acquainted with the environment before he starts thinking of committing fraud or aiding outsider towards perpetration of fraudulent activities. From our total population, seventy-two (72) or 60% have stayed between one to three years (1-3) in the same branch. Twenty-four or 20% have stayed between three to five years (3 - 5) while 20% have stayed over 5 years. About 40% of the population have spent three years or above in the same branch but out of this 40%, 26% are junior staff. It is a clear indication that junior staff are not prone to transfers. That might be one of the likely reasons why they are involved in cases of frauds and forgeries.

The promotion is always perceived as a compensation for efforts put-on the job. Where this is not forth coming, it leads to frustration and reduced productivity and low staff morale. It is therefore necessary to carry out the exercise when it is least expected to serve as a motivating factor to staff members.

From our population (160), only 19% were promoted to their present grade in less than one year, while 38% have promotion within the last three years. 10% were promoted in the last five years and only 2% have stayed over years. those who have been promoted accounted 31%. Out of the 31% who have never been promoted, 70 are junior staff while only 30% are senior staff. This could be one of the reasons while we have more junior staff committing frauds than senior staff due largely to frustration for lack of promotion.

From our findings, many staff members are never happy or comfortable with the job/renumeration offered by their various banks while 45% responded positively 55% have a negative response, indicating that they need an enhanced renumeration to make them comfortable. The tendency to commit frauds/forgeries is quite higher when staff members feel they are not paid enough or payment not commensurated with the job. Quite high percentage (89%) stated that they have a cordial working relationship with either supervisor/subordinates or colleagues in the work place. Nobody indicated that either his

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

Summary

Frauds and forgeries have become a canker worm in the Nigerian banking system increasing by the day at various degrees of sophistication. Huge sums of money ranging into millions have been lost to fraudsters. Worst enough is the rate staff involvement in the cases of frauds/forgeries. Hardly does a fraud/forgery succeeds without the active connivance of an insider.

Managements of various banking institutions have watched helplessly in most instances the havoc being reeked by these fraudsters; because of the degree of sophisticated methods involved. Such fraudsters are always a step ahead of most management control measures put in place to check cases of frauds and forgeries. This write-up has therefore given an overview of the extent of staff involvement in cases of frauds and forgeries and the likely reason(s) why?

This research work is divided into five sections. Chapter one - treated statement of the problem, purposes/objectives of the study, limitation and delimitations of the research, background/justification of the research and basic assumptions. Chapter two deal with literature review on cases of frauds/forgeries. Chapter three treated research methodology, which includes research methods/sources of data, hypothesis formulation, procedure for data collection, instruments for data collection, population/sample and hypothesis testing. Chapter four treated summary, conclusion and recommendation.

5.2 CONCLUSION

In conclusion, experience has shown that even in the most regulated home, accident can still occur. If the Bank of England with all the securities built around it can be robbed, if frauds can emanate from our own Central Bank of Nigeria, it is doubtful if we can win the war against fraudsters. successful control measures built into the banking system have not only

been beaten by fraudsters, they are ironically the sources of delays and frustrations being experience by customers.

From the analysis and interpretation of data presented in Chapter IV, certain conclusions could be arrived at. These conclusion include:-

(a) The large number of staff members involved in cases of frauds/forgeries are as a result of poor incentives offered by the banks.

(b) That most junior staff are involved in cases of frauds/forgeries than senior staff.

(c) The age/marital status of staff have been direct bearing on their involvement in cases of frauds/forgeries .

(d) That lack of or delayed promotion unnecessarily is a source of frustration of staff members which eventually ended in perpetrating frauds.

(e) That quite a large number of staff members are never contented with renumerations offered by the banks, the end result of which is fraud involvement.

If the war against frauds/forgeries is to be won, the management of various banking institutions have to revisit the packages they offered to their employees and tighten control measures toward frustrating the efforts of fraudsters.

5:3 RECOMMENDATIONS

After a careful analysis of the result of the findings, the following recommendations are made to assist towards controlling the frequent cases of frauds/forgeries in the banking system.

(i) An increase in Authorised Capital of Banks. An important motivation for the regulation of the setting up of new banks, is to prevent the entry into the banking system of institutions of dubious reputations or insufficient and inadequate capital base. It is therefore recommended that the Share Capital of banks be increased in order to forestall the re-emergence of "mushroom banks" whose future often result in all round miseries and hardship. When the capital requirement of setting up a new bank is raised to say one hundred million naira, for commercial banks and merchant banks alike, only genuine investors can be expected to enter the field of banking.

(b) Present existing management control system must be supplemented by buying modern security control equipment which include:

(i) fraud prevention and detection equipment

(ii) MICR - character reading machine

(iii) Use of regiscope camera to photograph persons making large cash withdrawals

(c) Enhancement of the salaries/fringe benefits of staff members to serve as a motivating factor and ultimately checking the rampant cases of staff involvement in frauds/forgeries.

(d) Bank frauds cases presently being handled in ordinary courts should be dealt with in special courts such as Federal Revenue Courts, Tribunal, National Banking Court and National Banking Crimes commission. Inspection department in our banks should be allowed, like the preventive section of Customer and Excise department, to prosecute bank-fraud cases in courts on matter of facts in order to avoid undue delays.

(e) A register of dismissal bank staff on the ground of dishonesty and fraudulent practices should not only be maintained at the Central Bank, but should also be circulated to all the banks for black listing.

(f) Banks should also share among themselves, information on how debtors and each bank should maintain a black book for this purpose.

(g) Management should adequately compensate and protect any member of its staff who gives information on persons intending to defraud the bank.

(h) As a service institution, the most valuable assets of a bank is its staff. The effective of all the devices for prevention and detection of fraud.

(i) Acute shortage of staff in any unit should be discouraged as this can result in a pressure of work on available few hands and therefore lack of proper supervision and resultant compromise of control procedures.

(j) Others include increasing Authorised Capital of Banks, Amendment of the Land Use Act when use as security for bank advances (ie. perfecting title to property pledge

with banks when used as security or collateral for loans and advances) and establishment of a National Banking Court.

It is anticipated that these recommendations if adequately implemented would reduce the cases of frauds and forgeries in the Nigerian Banking System.

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Business Times	-	Fraud Malpractices in The Banks Industry (II)

Recently the Central Bank of Nigeria made an example of two merchant banks (Capital Merchant Bank and Financial Merchant Bank) by revoking their licences and suspending those of Republic Bank Limited and Broad Bank of Nigeria Limited. The Management of five commercial banks were taken over were:- African Continental Merchant Bank, Pan African Bank, New Nigerian Bank and Cooperative and Commerce Bank.

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TABLE I **RETURNS OF COMMERCIAL BANKS ON FRAUDS AND FORGERIES**

QUARTER				AMOUNT INVOLVED (M)	ACTUAL EXPECTED LOSS (M)	PROPORTION ACTUAL/EXPE-CTED LOSS TO AMOUNT INVOLVED (%)
1st	1994	47	33	426.3	66.82	15.7
	1993	48	28	149.03	50.35	33.8
2nd	1994	46	36	227.51	27.41	12.0
	1993	47	27	315.48	52.50	16.6
3rd	1994	56	38	556.60	48.84	8.8
	1993	48	24	336.13	45.83	13.6
4th	1994	49	45	1445.30	740.48	51.2
	1993	56	29	576.51	92.32	16.0
Total	1994	-	-	2655.71	883.55	33.3
	1993	-	-	1377.15	241.00	17.5

Source 1993 - 1994 NDIC Annual Report

TABLE II **RETURNS OF MERCHANT BANKS ON FRAUDS AND FORGERIES**

QUAR-TER	YEAR	NO OF BANKS RENDERING RETURNS	NO OF BANKS WITH FRAUD CASES	AMOUNT INVOLVED (M)	ACTUAL EXPECTED LOSS (M)	PROPORTI ON ACTUAL/EX PECTED LOSS TO AMOUNT INVOLVED (%)
1st	1994	43	4	49.32	31.16	63.2
	1993	45	3	0.54	0.38	70.4
2nd	1994	29	2	0.48	0.00	0.00
	1993	44	2	3.3	1.22	37.0

3rd	1994	24	3	29.42	23.40	79.5
	1993	42	3	6.83	1.33	19.5
4th	1994	36	9	664.46	12.54	1.9
	1993	43	6	31.25	2.44	7.8
Total	1994	-	-	743.68	67.1	9.0
	1993	-	-	41.92	5.37	12.8

Source 1993 - 1994 NDIC Annual Report

TABLE IIB **TEN BANKS WITH FRAUD CASES.**

GROUP	199 2		1993		1994	
	AMOUNT INVOLVED IN (M)	**% SHARE**	**AMOUNT INVOLVED IN (M)**	**% SHARE**	**AMOUNT INVOLVED IN (M)**	**% SHARE**
TOTAL FOR 10 BANKS	346.77 411.75	84.22 100.00	1341.42 1419.03	94.53 100.00	2303.54 3399.39	67.76 100.00

Source NDIC 1994 Annual Report.

TABLE 1B **RETURN OF COMMERCIAL BANKS FRAUDULENTS AND FORGERIES: (1989 - 1994)**

YEARS	NO. of Banks RENDERING RETURNS		NO. of BANKS WITH FRAUDULENT CASES		AMOUNT INVOLVED (₦M)		ACTUAL EXPECTED LOSS (M) ₦		PROPORTION OF ACTUAL EXPECTED LOSS TO AMOUNT (%)	
	COMM. BANK	MERCHANT BANK	COMM. BANK	MERCHANT BANK	COMM. BANK	MERCHANT BANK	COMM. BANK ₦	MERCHANT BANK ₦	COMM. BANK ₦	MERCHANT BANK
1989	107	41	62	6	98.2	6.7	15.3	NIL	15.6	NIL
1990	148	95	91	10	788.8	15.4	22.4	0.33	2.8	2.1
1991	155	143	79	17	360.2	28.3	25.5	1.2	7.1	4.2
1992	204	177	89	19	352	59.80	64.8	8.3	18.4	13.9
1993	199	174	108	14	1377.15	41.92	241.00	67.1	17.5	9.0
1994	198	132	152	18	265-5.71	473.68	883.55	5.37	33.3	12.8

Source: NDIC Annual Report 1989 - 1994

TABLE III RANK OF STAFF INVOLVED IN FRAUDS AND FORGERIES

		1989		1990		1991		1992		1993		1994	
S/N	RANK	NUM-BER	%	NUM-BER	%	NUM BER	%	NUM-BER	%	NUM-BER	%	NUM BER	%
1	SUPERVISORS & MANAGERS	37	11.8	37	13.7	66	12.8	132	30.3	127	24.6	211	28.6
2	OFFICE ACCOUNTANTS EXECUTIVE ASSIST-ANTS	19	6.1	45	10.8	60	11.7	66	15.1	56	10.9	144	19.5
3	CLERKS & CASHIERS	120	38.3	207	49.6	236	45.9	156	35.8	192	37.2	220	29.9
4	TYPIST TECHNICIANS & STENOGRAPHERS	8	2.6	8	11.9	47	9.1	9	2.1	34	6.6	24	3.3
5	MESSENGERS, DRIVERS, CLEANERS, SECURITY GUARDS AND STEWARDS	57	18.2	68	16.3	51	9.9	54	12.4	61	11.8	108	14.7
6	TEMPORARY STAFF	5	1.6	2	0.5	24	4.7	-	-	6	1.2	2	0.3
7	UNCATEGORISED STAFF	67	21.4	30	7.2	30	5.8	19	4.4	40	7.8	28	3.7
8	TOTAL	313	100	417	100	514	100	436	100	516	100	737	100

Source: 1989 - 1994 NDIC Annual Report

SCHOOL OF POST GRADUATE STUDIES

AHMADU BELLO UNIVERSITY, ZARIA.

RESEARCH QUESTIONNAIRE

Dear Sir/Madam,

The attached questionnaires is designed for a research on the topic "Frauds and forgeries in the Nigerian Banking Industry" (a case study of staff involvement), by the undersigned in partial fulfilment for an award of a Masters in Business Administration Degree as required by the University.

This is simply an academic exercise and all responses will be treated in a strict confidence. Grateful if all questions will be answered frankly.

Thanking you in anticipation of your cooperation.

OKWUTE, E.P.

RESEARCH QUESTIONNAIRE

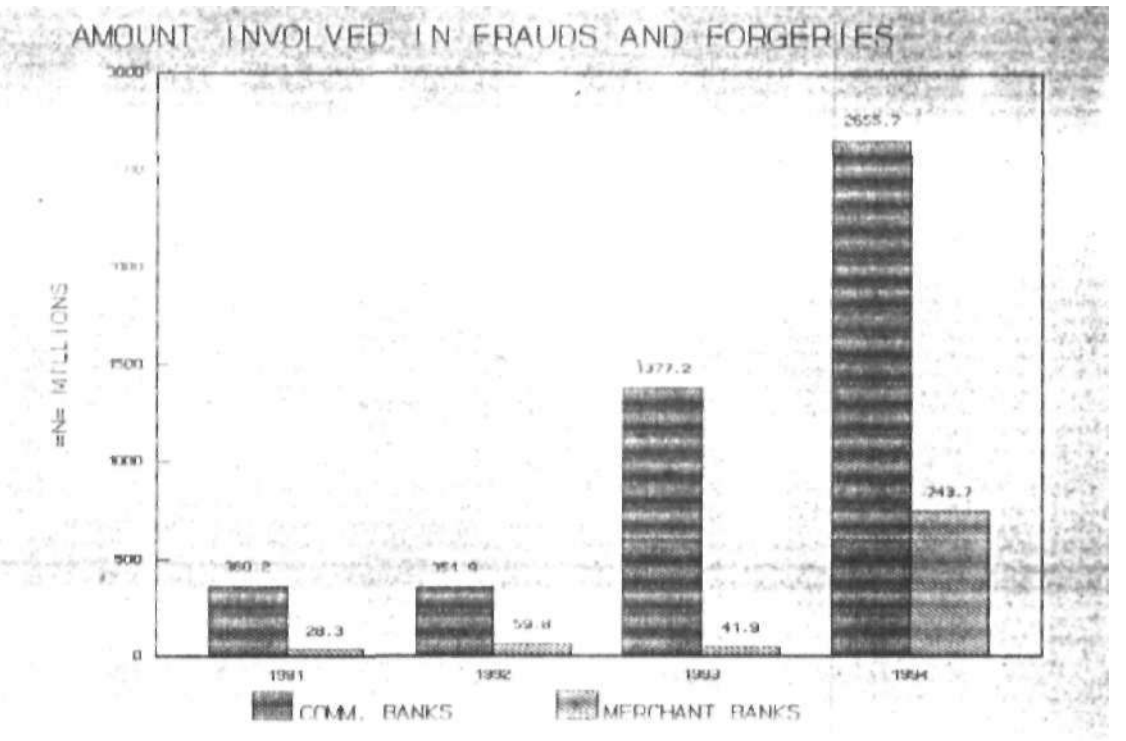
Kindly answer all questions as frankly as possible.

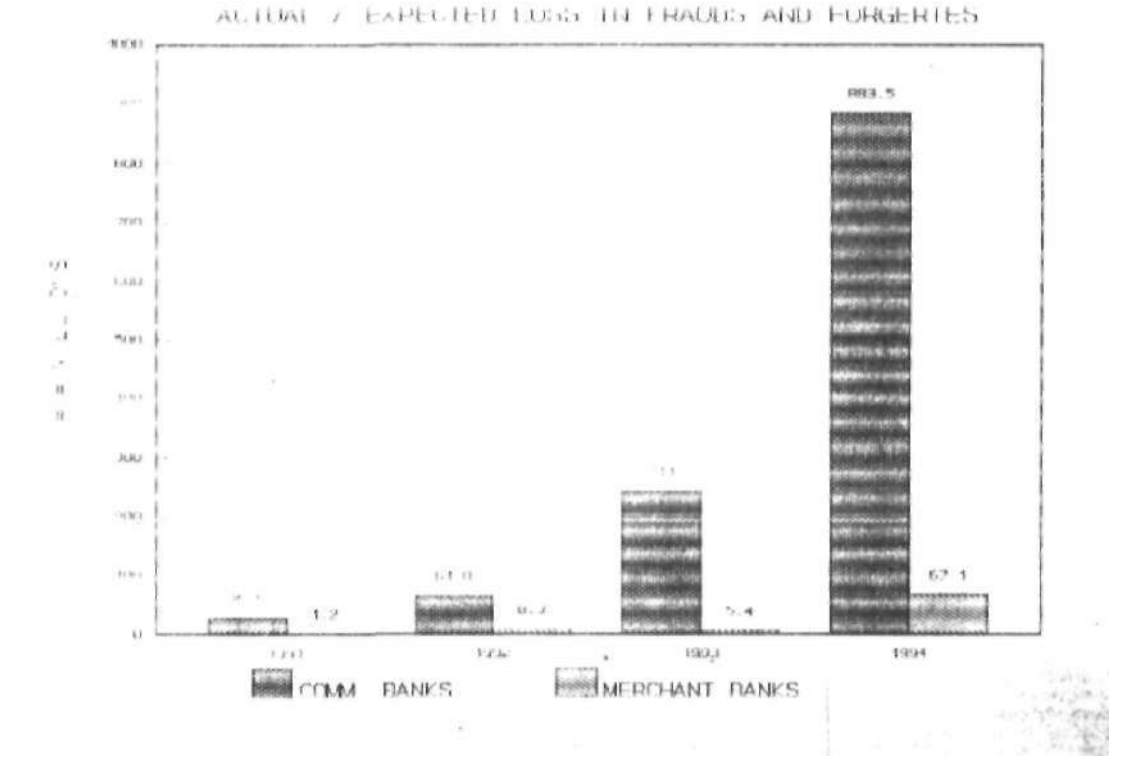
Instructions: Mark where applicable in the boxes provided against each question.

1.	SEX	MALE	☐
		FEMALE	☐
2.	AGE	Less than 20 years	☐
3.		Between 20 - 30 years	☐
		Between 30 - 40 years	☐
4.	Number of Dependants	Between 1 - 3	☐
		Between 4 - 6	☐
		Between 7 - 9	☐
		Above 9	☐
		None	☐
5.	Type/Nature of the Bank	Commercial Bank	☐
		Merchaht Bank	☐
		Development Bank	☐
		Others	☐
6.	Present Designation	Non-Clerical	☐
		Clerical	☐
		Supervisor/Executive	☐
		Assist. Officer/Manager	☐
7.	How long have you been with the Bank	Less than 1 year	☐
		Between 1 - 3 years	☐
		Between 3 - 5 years	☐
		Above 5 years	☐
8.	How long have you been working in your present section	Less than 1 year	☐
		Between 1 - 3 years	☐
		Between 3 - 5 years	☐
		Above 5 years	☐
9.	How long have you been in present branch	Between 1 - 3 years	☐
		Between 3 - 5 years	☐
		Above 5 years	☐

10.	When last were you promoted to your present job	Less than 1 year Between 1 - 3 years Between 3 - 5 years Above 5 years	☐ ☐ ☐ ☐
11.	Is your remuneration commensurate with effort put on the job	Yes No To some extent Not too sure	☐ ☐ ☐ ☐
12.	Is total remuneration comparable to what is obtained by your colleagues in similar organisations	Yes No To some extent Not too sure	☐ ☐ ☐ ☐
13.	Are you comfortable with your present job/remuneration	Yes No To some extent Not too sure	☐ ☐ ☐ ☐
14.	How cordial is your relationship with you subordinate/boss colleagues	Cordial Not Cordial To some extent Not too sure	☐ ☐ ☐ ☐

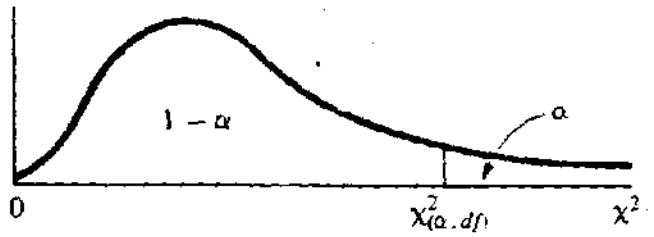
Thank you for participating towards the successful of this research work.


AMOUNT INVOLVED IN FRAUDS AND FORGERIES
₦N= MILLIONS
2655.7
1377.2
360.2
28.3
351.6
59.8
41.9
243.7
1991
1992
1993
1994
COMM. BANKS
MERCHANT BANKS


ACTUAL / EXPECTED LOSS IN FRAUDS AND FORGERIES
883.5
67.1
1.2
1994
COMM. BANKS
MERCHANT BANKS

CRITICAL VALUES OF χ^2

For a particular number of degrees of freedom, entry represents the critical value of χ^2 corresponding to a specified percentile or lower tail area $(1 - \alpha)$



Degrees of Freedom	Lower Tail Areas (Percentiles)											
	.005	.01	.025	.05	.10	.25	.75	.90	.95	.975	.99	.995
1	-	-	0.001	0.004	0.016	0.102	1.323	2.706	3.841	5.024	6.635	7.879
2	0.010	0.020	0.051	0.103	0.211	0.575	2.773	4.605	5.991	7.378	9.210	10.597
3	0.072	0.115	0.216	0.352	0.584	1.213	4.108	6.251	7.815	9.348	11.345	12.838
4	0.207	0.297	0.484	0.711	1.064	1.923	5.385	7.779	9.488	11.143	13.277	14.860
5	0.412	0.554	0.831	1.145	1.610	2.675	6.626	9.236	11.071	12.833	15.086	16.750
6	0.676	0.872	1.237	1.635	2.204	3.455	7.841	10.645	12.592	14.449	16.812	18.548
7	0.989	1.239	1.690	2.167	2.833	4.255	9.037	12.017	14.067	16.013	18.475	20.278
8	1.344	1.646	2.180	2.733	3.490	5.071	10.219	13.362	15.507	17.535	20.090	21.955
9	1.735	2.088	2.700	3.325	4.168	5.899	11.389	14.684	16.919	19.023	21.666	23.589
10	2.156	2.558	3.247	3.940	4.865	6.737	12.549	15.987	18.307	20.483	23.209	25.188
11	2.603	3.053	3.816	4.575	5.578	7.584	13.701	17.275	19.675	21.920	24.725	26.757
12	3.074	3.571	4.404	5.226	6.304	8.438	14.845	18.549	21.026	23.337	26.217	28.299
13	3.565	4.107	5.009	5.892	7.042	9.299	15.984	19.812	22.362	24.736	27.688	29.819
14	4.075	4.660	5.629	6.571	7.790	10.165	17.117	21.064	23.685	26.119	29.141	31.319
15	4.601	5.229	6.262	7.261	8.547	11.037	18.245	22.307	24.996	27.488	30.578	32.801
16	5.142	5.812	6.908	7.962	9.312	11.912	19.369	23.542	26.296	28.845	32.000	34.267
17	5.697	6.408	7.564	8.672	10.085	12.792	20.489	24.769	27.587	30.191	33.409	35.718
18	6.265	7.015	8.231	9.390	10.865	13.675	21.605	25.989	28.869	31.526	34.805	37.156
19	6.844	7.633	8.907	10.117	11.651	14.562	22.718	27.204	30.144	32.852	36.191	38.582
20	7.434	8.260	9.591	10.851	12.443	15.452	23.828	28.412	31.410	34.170	37.566	39.997
21	8.034	8.897	10.283	11.591	13.240	16.344	24.935	29.615	32.671	35.479	38.932	41.401
22	8.643	9.542	10.982	12.338	14.042	17.240	26.039	30.813	33.924	36.781	40.289	42.796
23	9.260	10.196	11.689	13.091	14.848	18.137	27.141	32.007	35.172	38.076	41.638	44.181
24	9.886	10.856	12.401	13.848	15.659	19.037	28.241	33.196	36.415	39.364	42.980	45.559
25	10.520	11.524	13.120	14.611	16.473	19.939	29.339	34.382	37.652	40.646	44.314	46.928
26	11.160	12.198	13.844	15.379	17.292	20.843	30.435	35.563	38.885	41.923	45.642	48.290
27	11.808	12.879	14.573	16.151	18.114	21.749	31.528	36.741	40.113	43.194	46.963	49.645
28	12.461	13.565	15.308	16.928	18.939	22.657	32.620	37.916	41.337	44.461	48.278	50.993
29	13.121	14.257	16.047	17.708	19.768	23.567	33.711	39.087	42.557	45.722	49.588	52.336
30	13.787	14.954	16.791	18.493	20.599	24.478	34.800	40.256	43.773			
31	14.458	15.655	17.539									