FRAUD PREVENTION AND CONTROL IN COMMERCIAL BANKS:

A CASE STUDY OF FIRST BANK NIGERIA PLC, ZARIA BRANCH

.

BY

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DEDICATION

This Thesis is Dedicated to my Family.

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Glory be to Allah the most Gracious, Most merciful, it is his will that this work is a success! In view of the assistance accorded me a number of persons were very helpful and of immense assistance both academically, socially and morally. For all of them I am indebted.

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DECLARATION

I declare that the work done in this M.B.A. Thesis is wholly my effort. No Thesis of this nature has been presented in any form anywhere for any other degree prior to our research. All materials used from other sources have been duly referenced.

ARABI AHMED EL-NAFATY

ABSTRACT

Much thought and research are increasingly being directed at the study of fraud prevention and control as the rate of its perpetration is on the increase. Fraud in commercial banks is as old as the industry itself. The research carried out delved into salient issues on types of fraud, causes of fraud and the effectiveness of fraud preventive measures.

The major causes of frauds in commercial banks include social and economic conditions, misplaced social values, insufficient internal control system and lack of corporate culture against fraud.

Preventive measures range from greater supervision of staff, proper training and rotation of staff, prompt prosecution of Fraudsters amongst others.

The study and the findings therein, have provided some useful recommendations which include; surveillance over long serving officers in entrusted positions by management, thorough effective checks and balance system, management information system and review procedures.

The incidence of fraud in commercial banks can only be minimized once there obtains a greater sense of discipline, accountability and patriotism within the wider Nigerian society.

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CHAPTER ONE

1.1 BACKGROUND OF THE STUDY

The issue of Bank frauds, forgeries, fiddles, thefts and defalcations have in recent times assumed unprecedented proportions and dimensions in our National psyche. The fear is now rife that the increasing wave of frauds in financial institutions in recent years, if not arrested might pose threats to the stability and survival of individual institutions and the performance of the industry as a whole. The level of fraud in present day Nigeria has assumed an epidemic dimension.

Fraud is defined as an international misrepresentation of financial information by one or more individuals amongst management, employees or third parties. It is deliberate cheating, trickiness, or deception intended to gain an undue advantage. For an action to constitute fraud therefore, there must be a dishonest intention and the action must be intended to benefit the perpetrator to the detriment of another person.

There are three major areas of fraud:

i. Misappropriation of money, goods or other resources belonging to the employers.
ii. Forging signature of important official and
iii. Falsification of records and accounts (without direct misappropriation of assets).

The first are criminal offences, punishable by terms of imprisonment or fine or both, while the third form is a civil offence punishable by award of damage.

Fraud and forgeries in the banks are not new, they are as old as the industry itself. However, like in the greater society they have become one of the most intractable problem of modern day banking. While the concern of the banking community is growing by the day and management vigilance is improving with the help of computerization amongst others, it is on record that millions of Naira are still being lost to fraud on a daily basis.

While some of the frauds are the handiwork of outsiders, others are perpetrated by the staff and sometimes management of the banks concerned. The most significant percentage of fraud is committed by fraudsters in collaboration with bank 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 fraud. The involvement of some bank executives in large scale fraud is now a source of serious concern in the industry.

For one thing, fraud results in huge financial losses to corporations and their customers. For another, the incidence of fraud could in extreme cases lead to the closure of many industries. The distressed banks in Nigerian are eminent due to the incidence of fraud and other insider credit abuses.

1.2 STATE OF THE PROBLEM

The problem of fraud is endemic and unavoidable in the banking industry due to certain reasons like, the nature of banking business which involves clients and staff, common social misconceptions e.g. that banks have limitless funds, wide spread application of automated systems which have no finger print or hand written evidence, wide network of branches some remotely located, poorly staffed, ill equipped and without adequate communication facilities.

The inadequate performance of the banking industry is due to an array of problems. Of these problems, the issue of fraud and its effect on banks is one of the most difficult to contend with. Other related problems are highlighted thus:

i. Poor recruitment system where related experience, relevant technical knowledge, competence, character and other good qualities are sacrificed at the alter of non performance related factor such as connection and nepotism.

ii. poor management which give rise to ineffective internal control system and indiscipline among staff thus create an environment for fraud to flourish.

iii. Social values in Nigeria which are obviously related to wealth accumulation, lead to widespread moral decadence e.g. cheating, abuse of office and perpetration of fraud.

iv. Failure of financial institutions in reporting fraud cases to the authorities in an attempt not to give unnecessary negative publicity to their institutions.

v. Negligence on the part of customers provide ample opportunities to dishonest bank staff to perpetrate fraud.

1.3 OBJECTIVE OF THE STUDY

Fraud in banks vary widely in nature, character and method of perpetration hence, making the classification of it a very difficult exercise. However, to attain the objectives of this research, information was obtained on the magnitude of fraud in the banking industry to know the reasons why bank personnel commit fraud to determine the causes of fraud and how the problem of fraud can be controlled in the banking industry.

Based on the above, the objectives of this research work is to amongst other things:

i. Ensure that records of all transactions by banks are complete accurate and properly authorized.

ii. Help in detecting errors of fraud when and where they occur.

iii. Prevent errors of fraud from occurring and re-occurring.

iv. Finally, suggest possible ways of eliminating loss resulting from fraud suffered by the bank and its customers thereby reducing the incidence of fraud in the banking industry.

1.4 SIGNIFICANCE OF THE STUDY

In Nigeria, bank fraud has assumed a frightening scale and sophistication, consequent upon the general economic depression of the last decade, and the continuing travails of the banking sector in the wake of government's frantic policy experimentation.

The study therefore attempts to achieve the following:-

i. To review existing literature by collecting and analysing data on fraud in banks.

ii. To identify the causes(s) of fraud in banks which may be institutional and societal i.e factors traceable to the internal and external environment of banks respectively.

iii. To identify the various means employed in defrauding banks

iv. To identify the various types of fraud perpetrated in banks.

v. To determine the effects, magnitude and frequency of fraud on the business of banking.

vi. To recommend measures for reducing the incidence of bank fraud and

vii. To identify the means through which the recommended measures can effectively be implemented.

1.5 SCOPE OF THE STUDY

The study covers commercial banks operating in Zaria and is strictly on fraud prevention and control in commercial banks. The commercial banks studied were randomly selected, but greater emphasis is placed on First of Nigeria Plc, Zaria branch. The information used for the analysis covered the three-year period between 1996 and 1998 respectively.

In order to attain the objectives of this research, the scope of the study is defined to embody all relevant aspects of fraud in banking operations. On a broad focus, the study covers the nature of fraud in commercial banks types and effect of fraud, the amount of loss to banks and to customers, persons involved in fraud the causes of fraud and the level of effectiveness of fraud prevention measures.

The study also focused on age of fraudsters, years of banking experience of fraudsters and the means of fraud prevention and control in commercial banks.

1.6 LIMITATION OF THE STUDY

The problems encountered vary in nature. However, lack of time, financial constraints and available data and literature on the subject of fraud as it affects First Bank of Nigeria Plc were some of the constraints experienced in the study.

Lastly there was an observed reticence by bankers on matters of fraud affecting their banks. Be that as it may, the data were collected and analyzed using the tools in latter chapter.

1.7 DEFINITION OF TERMS

FRAUD

The act of depriving a person dishonestly of something which is his or of something to which he is or would or might be entitled, but for the perpetration of fraud.

BANK

Refers to a person or company carrying on the business of receiving money and collection of drafts from customers, subject to their obligation of honouring cheques drawn upon them from time to time by the customers to the extent of the amount available in their current account.

SIZE

This is used to depict the amount involved in fraud and the number of people employed in the banks.

DISHONESTY

A person is said to do a thing "dishonestly" who does that thing with the intention of causing a wrongful gain to himself or another or of causing wrongful loss to any other person.

WRONGFUL GAIN

Is gain by unlawful means of property to which the person gaining is not legally entitled.

WRONGFUL LOSS

Is the loss by unlawful means of property to which the person losing it is legally entitled.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

Fraud in Banks have not only become incessant but have also been on the increase in recent years. Fraud in banks are not new, they are as old as the industry itself. However, like in the greater society, they have become one of the most intractable problems of modern day banking. While the concern of the banking community is growing by the day and management vigilance is improving with the help of computerization amongst other, it is on record that millions of naira are still being lost to fraud on a daily basis.

Recently, there has been a wave of advance fee fraud, from the small-time Crooks to the multi-million naira fraudsters. Common advance fee fraud causes a lot of damage to the business industry and the economy of nation/states. The rate and frequency at which it occurs have been a great concern to the management of all banks in Nigeria. It has been an obstacle hindering the rapid growth and development of commercial banks in Nigeria.

Fraud has been growing steadily in the banking industry and of recent, the rate has generated serious concern in the society as a whole. Our economy has witnessed a dangerous set back and particularly, many commercial banks have experienced compulsory liquidation because of fraud.

2.2 NATURE OF FRAUD IN COMMERCIAL BANKS

Fraud may take the following forms;

1. Manipulation, falsification, alteration of records or documents.
2. Over invoicing and award of fictitious controls
3. Recording of transactions without substance
4. Misapplication of accounting policies
5. Suppression or omission of the effects of transactions from records or documents.
6. Misappropriation of assets and interceptions e.g. disappearance of money in transit for instance, making improper disbursements and/or failing to make assets available.
7. Defalcation, shortages, embezzlement and collusion.

Fraud is often termed a "white collar crime" since it does not involve the threat of physical force or violence. It may be forgery, collusion, concealment etc. by such means as unrecorded transactions. Fraud is most likely to occur when the internal control system is poor and inadequate to safeguard assets or to ensure the reliability of financial records.

It should be noted that fraud is not equivalent to error, error refers to uninternational mistake(s) in financial information like arithmetical or clerical mistakes in the underlying records and accounting data. If however, on discovery, it is not corrected within a reasonable time, it may be termed fraud or irregularities depending on the materiality or magnitude of the mistake.

2.3 TYPES OF FRAUD IN COMMERCIAL BANKS

Due to the wide variation in nature character and method of perpetration, fraud may generally be classified in two ways:

i. perpetrators and

ii. Method Used

On the basis of perpetrators, there are three broad categories; internal, external and mixed. Internal perpetrators of fraud relate to those committed by members of staff (insiders) while external perpetrators are committed by persons not connected with the institutions. Mixed frauds involve outsiders colluding with self.

The most common form of classification employed by financial institutions is the basis of method used. Under this approach, the list of types of fraud method is usually inexhaustive as new methods are devised with time; fraudsters are forever devising new methods. the most important and common types may include:

I. ADVANCED FEE FRAUD ("419")

This may involve an agent approaching a bank with an offer to access large funds at below market interest rates often for long term. The purported source of such funds 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 agents collects the fee, he

disappears into thin air and the facility never comes through. Any bank desperate for funds especially the distressed banks and banks needing huge funds to bid for foreign exchange can easily fall victim to this type of fraud. When the deal falls and the fees paid in advance are lost, these victims are not likely to report the losses to the police or to the authorities.

II CHEQUE KITING

Kitting is defined by the US comptroller of the currency's policy guidelines for National Bank directors as "a method whereby a depositor utilizes the time required for cheques to clear to obtain an unauthorised loan without any interest charge". The goal of the cheque kiter may be to use these uncollected funds, interest free for a short time to overcome a temporary cash shortage or the withdraw the funds permanently for personal use. Competition among banks in the era of deregulation encourages banks to make funds available before actual collection of customer's cheques in order to attract customers, especially business accounts.

III. ACCOUNT-OPENING FRAUD

This involves the deposit and subsequent cashing or fraudulent cheques. It usually starts when a person not know to the bank, asks to open a transaction account such as current and savings account with false identification but unknown to the bank.

IV. MONEY TRANSFER FRAUD

Money transfer services are means of moving funds to or from a bank to a beneficiary account at any banking point worldwide in accordance with the instructions from the bank's customers. Some common means of money transfer are mail, telephone, over the counter, electronic precess and telex. Fraudulent money transfer may result from a request created solely for the purpose of committing a fraud or the alteration of a genuine funds transfer request. A genuine request can be altered by changing the beneficiary's name or account number or changing the amount of the transfer.

V. LOANS FRAUD

Loans and other forms of credit extensions to business and individual customers constitute traditional functions of financial institutions. In the process of credit extension, fraud may occur at any stage, from the first interaction between the customer and the bank to the final payment of the loan. Loan fraud occur when credit is extended to non-borrowing customers or to a borrowing customer who had exceeded his credit ceiling. The fraudulent aspect of this class is that there is an intent to conceal it from the head office (inspectorate) staff on routine check to deceive them with plausible but falsified statements, documents, etc. Advanced perpetrators of credit fraud go to the extent of applying credit facility approved for one customer to the credit of another who is often unrelated to the first

customer. This is to say a credit facility for approved for one customer to the credit of another who is often unrelated to the first customer. That is to say a credit facility for a customer 'A' yet to be drawn down is diverted for the use of customer 'B'.

VI. COUNTERFEIT SECURITIES

Like counterfeiting of money, counterfeiting of commercial financial instruments is one of the oldest forms of crime. Modern photographic and printing equipment has greatly added criminals in reproduction good quality forged instruments. The documents may be total counterfeits, or may be genuine documents that are copied, forged or altered as to amount, payout date, payee or terms of payment. A common fraud is to present the counterfeit items such as treasury notes, cashier's cheques, bankers acceptance, or certificates of deposit in counterfeit or altered form, may be presented at a bank for redemption. The presenter would draw out the proceeds and disappear before the financial instruments are found to be counterfeit.

VII. CHEQUE FRAUD

The use of cheques as a means of paying for financial obligations is an essential feature of modern economy. Cheques fraud is now common involving millions of Naira annually. Common types of cheques are personal, business, government, travellers's certified draft and counter

cheques, with each having its own characteristics and vulnerabilities or fraudulent use. The most common of cheque frauds involve cheques that are stolen, forged, counterfeited or altered.

VIII. MONEY LAUNDERING FRAUD

This is a means to conceal the existence, source or use of illegally obtained money by converting the cash into untraceable transactions in banks. The cash is disguised to make the income appear legitimate banks should be advised to avoid handling such funds.

IX. CLEARING FRAUD

Most clearing frauds hinge on suppression 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 be substituted to enable the fraudsters divert the fund to a wrong beneficiary.

Misrouting of clearing cheque can also assist fraudsters to complete a clearing fraud. That is to say 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 the impression that the paying bank had paid the instrument.

X. COMPUTER FRAUD

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

XI. TELEX FRAUD

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

Other types of fraud perpetrated in the banking industry include the suppression of cheque and cash lodgements, over invoicing of claims for services rendered to the bank, opening and operation of fictitious account together with the creation of false credit balances etc.

2.4 CAUSE OF FRAUD IN COMMERCIAL BANKS

There is a general consensus amongst criminologists that fraud is caused by three elements called "WOE"-Will, opportunity and Exit i.e. the will to commit the fraud by the individual, the opportunity to execute the fraud and the exist which is the escape from sanctions against successful or attempted fraud or deviant behaviour.

The causes of frauds are usually grouped into two classes. These are institutional factors and environmental/societal factors. The institutional factors are those traceable to the internal environment of the financial institution while the environmental/society factors are those which result from the influence of environmental/societal on the banking industry.

INSTITUTIONAL CAUSES OF FRAUDS:-Various authors and professionals in the industry seem to be unanimous in their identification of institutional causes of frauds. These are:

i. **VOLUME OF WORK:-** The amount of work done by officials could be so heavy that frauds could easily pass undetected by such officials.

ii. **NUMBER OF STAFF:-** Where an official supervises quite a large number of staff, there is a high likelihood that fraud could go undetected.

iii. **NATURE OF SERVICES:**-Frauds may be caused where documents of value and liquid assets are exposed to an undisciplined staff or unauthorized persons, for example customers.

iv. **BANKING EXPERIENCE OF STAFF:-** All things being equal, frauds in banks occur with higher frequency among staff with little experience and knowledge in financial practice. The more the experience and knowledge of a staff, the less the likelihood that

frauds would pass such staff undetected unless with the active support of that staff. Where professionally qualified financiers are involved in frauds, they are more likely to swindle larger sums of money than the less qualified staff.

v. **INADEQUATE STAFF TRAINING:-** This could affect the morally weak as well as the morally robust staff in various ways. Lack of knowledge of the ways of dealing with fraudulent practices in banks could affect an otherwise honest staff in apprehending and avoiding the tricks of bank fraudsters.

vi. **POOR MANAGEMENT:-** Banks with poor management record higher incidence of all sorts of frauds than those with effective management. Poor management gives rise to ineffective and poor control systems, undiscipline among staff and thus creates an environment for frauds to flourish.

vii. **STAFF NEGLIGENCE:-** In certain cases, staff negligence could give rise to the perpetration of fraud in banks. Negligence itself is a product of several factors, including poor supervision, lack of technical knowledge, apathy, pressure etc.

viii. **RECRUITMENT SYSTEM:-** Poor recruitment system, where cognate experience, relevant technical knowledge, competence, character and other sterling qualities are sacrificed at the alter of non-

performance-related factors such as connections and tribalism constitute important facilitators of fraud in banks.

ix. **POOR SECURITY ARRANGEMENT FOR DOCUMENTS:-** In Banks where security arrangement for valuable documents are weak, poor and vulnerable, it is easy for fraudsters to have their way without detection.

x. **USE OF SOPHISTICATED ACCOUNTING MACHINES (COMPUTERS):** Where sophisticated accounting machine are in use and are manned by inadequately equipped staff, errors could arise and lead to the production of unreliable records. In the hands of dishonest staff, sophisticated accounting machines could be employed to deliberately omit entries, substitute improper calculation and posting, manipulate documents, substitute fictitious documents and alter genuine ones. All of these are different ways of pertrating fraud.

xi. **FRUSTRATION:-** Management practices, when negative to the aspiration and developmental need of staff, could result in the generality of staff being frustrated. Frustration in turn breeds fraudulent practices in banks.

xii. **NEGLIGENCE BY CUSTOMERS:-** Traditionally, it is the negligence on the part of customers that provide ample opportunities to staff of banks to perpetrate fraud. Negligence by customers take

various forms, consisting of errors that might have been genuine but which are open to abuse, distortions, and defalcations by unscrupulous staff both within and outside the banks.

ENVIRONMENTAL/SOCIETAL CAUSES OF FRAUDS

These have been identifies as follows:

i. PERSONALITY PROFILE OF DRAMATIZE PERSONNEL

Most individuals with inordinate ambitions without qualms are proms to committing frauds. This kind of individual is bent on making money by hook or by crook. Such people dismiss morality as an unnecessary prerequisite for virtuous life. To them the end justifies the means; they are usually unscrupulous and opportunistic.

ii. SOCIETAL VALUE

The value system in any society is the set of rules that prescribes what is right or wrong within that society. Where the possession of wealth determines the reputation ascribed to a person, that society is bound to witness unnecessary competition for acquisition of wealth. This is no doubt will lead to some people using dubious means to get rich overnight. It can be argued that the main cause of frauds in banks in Nigeria is traceable to the general dishonesty in society where morality is thrown to the dogs. Misplacement of societal values, the unquestioning attitude of the society towards the sources of wealth, the rising societal expectations from bank

staff and the subsequent desire by such staff to live up to such expectations are also contributing factors to fraud in the country.

iii. SLOW AND TORTUOUS LEGAL PROCESS

Delays in prosecution of fraud cases have a way of frustrating the parties to the case. A frustrated party can abandon the case midway, leading to miscarriage of justice. The delay can be in form of;

(a) Late reporting of cases to the police;

(b) Lack of specialized manpower for the investigation of fraud

(c) Layer and prosecution witnesses absenting themselves from court;

(d) Undue delay in the investigation and charging of cases to court; and

(e) Frequent adjournment by the court which could frustrate the appellant and favour the defendant.

All these make fraudsters to have the feeling that they are above the law and as such can get away with any act of illegality.

iv. LACK OF EFFECTIVE PUNISHMENT

It is argued in some quarters that lack of effective deterrent such as heavy punishment could be a factor that contributes unabating perpetration of fraud in banks.

v. FEAR OF NEGATIVE PUBLICITY

Many banks fail to report fraud cases to the authorities. They believe that doing so will give unnecessary negative publicity to their institutions.

This attitude encourages individuals with inordinate ambition to defraud in banks. They reason correctly that the affected bank may not prosecute.

It is even sad to note that some staff whose appointments have been terminated or retired on ground of fraud in one bank still manage to secure opportunities in other banks.

2.5 EFFECTS OF FRAUD ON BANKS AND THE ECONOMY

Studies on banks fraud are normally prompted by the perceived effects of fraud on banks and the desire to fine the means of controlling such adverse effects. Attempts have therefore been made be many authors to identify the effect of fraud on banks and the economy.

Most authors on fraud if not all, agreed that fraud leads to loss of money which belong either to the banks or customers. The loss results in reduced levels of resource availability which could distort the operations of the banks and force them to close down if the frequency and size of perpetration is high.

other effects of fraud in banking include, the loss of confidence in banks by customer and therefore a set back for the efforts aimed at promoting the banking habit. Some staff in the industry have their appointment terminated or prematurely retired. This means that some experienced hands in the sector are lost due to their involvement in fraud.

In addition, the distraction of management's attention, increase in operation and prevention are other effects on fraud in banks.

The effect of fraud in not restricted to the banks alone, it also affects the economy as a whole, this is seen in the situation whereby funds deposited by corporate bodies and individual which could have been used to enhance greater productivity, stability and expansion of business etc. Are lost due to the incidence of fraud, the resultant effect lies in the fact that funds needed to facilitate exchange and growth in day to day transactions which ensures growth of enterprises becomes difficult as the ability to obtain and spend such funds is restricted by the perpetration of fraud. This results to underdevelopment in the economy.

2.5 PREVENTION AND CONTROL OF FRAUD IN COMMERCIAL BANKS

In order to minimise or possibly eliminate the incidence of frauds within a bank, the following preventive and control measures should be put in place. They include:

1. STRICT ADHERENCE TO OPERATIONAL MANUAL

The operational guidelines should be religiously adhered to when a transaction is being undertaken. All the various steps specified in the manual should be systematically followed from the beginning to the end of each transactions as applicable. This manual which should serve as an aid

memoire, should be the companion of all staff and must not be ignored especially when handling complex transactions. The manual must be readily available to all staff and must state in unambiguous terms various steps to be undertaken at all levels of each transaction.

2. EFFECTIVE INTERNAL CONTROL

All staff must ensure that all internal control measures put in place are observed. Such measures as verification of customer's signature by two independent authorized officials, dual control over cash and other bank assets, regular snap checks, close supervision of subordinates etc. Should be observe at all times.

3. TRAINING

There should e adequate training and re-training for both management and other staff. Staff should be given sufficient technical and theoretical training about the various tasks to be performed. On the job training, staff training school, outside courses, workshops, film shows etc. Should be encouraged at all levels. In computerized banks, both management and other staff should be given adequate training on computer operations.

4. GOOD MANAGEMENT

The management should demonstrate good leadership qualities and should also have firm grip of the job and effective control over the entire staff. The management should also possess high level of technical and

theoretical competence, sound judgement, and exercise adequate supervision over all aspect of bank operations. There should be proper planning and co-ordination and the management should demonstrate exemplary leadership and transparent honesty.

5. GOOD PERSONNEL POLICIES

Both the recruitment and selection policies should emphasize merit and be detailed enough to detect bad eggs right from the onset and dispense with them immediately. There must be appropriate career development plan for each staff while compensation i.e. salaries, wages and staff welfare generally should be adequate to meet at least the physiological and social needs of the employee. There should be frequent interaction between management and other staff to harmonize areas of conflicts between individuals and the organizational goals.

6. JOB ROTATION

Banks management must ensure that staff are frequently rotated every six months of one year. There should be no room for indispensability syndrome and no staff must be allowed to stay too long on a particular job no matter how proficient the staff may be. This would forestall both boredom and familiarity which could led to fraud.

7. JOB SEGREGATION

There must be adequate segregation of duties for each type of transaction and between different type of transactions. For instance, the

duties of a cashier, referencing, position of vouchers, daily audit of vouchers and reconciliation should be done by independent persons. Segregation of duties should be maintained during staff absence through holiday, illness or vacancies.

Systems programming, application programming and computer operations must be segregated.

8. DISCIPLINE

Discipline at all levels must be enforced by branch management. Traces of indiscipline such as lateness to work, absenteeism, insubordination, use of abusive language, failure to carry out reasonable instruction from a superior, truancy, drunkenness during office hours etc. Must be discouraged with severe sanctions meted to offenders.

9. REWARD/PROTECTION

Bank management must adequately compensate and protect any member of staff who either gives information on persons intending to defraud bank or who assisted in frustration and attempt to commit fraud.

10. PROPER ACCOUNT OPENING PROCEDURE

Bank management must ensure that the business and residential addresses of all prospective customers are verified before their accounts are finally opened. Also undoubted references preferable two per customer must be obtained. In case of corporate Affairs Commission to ascertain their

genuiness and/or legality. The specimen signatures of the prospective customer on the ledger card and passport photographs must be authenticated by authorized officials. All these measures takes together will put a bank in a vintage position to detect early signs of fraud.

FRAUD PREVENTION BY CUSTOMERS

Experience has shown that a majority of the frauds perpetrated in the banks were carried out on customer' accounts which may be either current accounts of deposit accounts. This imposes a lot of responsibility on the customer since his/her banker expects him/her to exercise reasonable and adequate care in the conduct of his/her account failing which he/she would be liable for contributory negligence whenever a fraud is successfully perpetrated on the account.

Contributory negligence on the part of the customer includes:

i. Failure to warn the bank against forgery

ii. Writing cheque in such a manner as to facilitate fraudulent alteration

iii. Where the customer signs blank cheque

iv. Filling in the body of the cheque carelessly

v. Failure to report loss of cheque book or savings passbook to the bank.

Customers would be contributing tremendously towards fraud prevention on their accounts, if the following recommended measures which are necessary but not necessary sufficient are adhered to strictly.

1. ADEQUATE CUSTODY OF CHEQUE BOOK AND SAVING PASSBOOK

Customer must maintain tight and unbroken custody of their cheque book and savings passbooks at all times. When they are not in use, they must be sourly locked up and must not be made accessible to unscrupulous third parties. Even when they are being used, close surveillance must be maintained over them to ensure that they are not fraudulently tampered with. Any missing cheque book or savings passbook must be reported immediately to the bank.

2. GOOD CONDUCT OF BANKING TRANSACTIONS

Customers should conduct all their banking transactions in such a way as to leave no room for fraudulent alteration. When writing cheque or savings withdrawal forms and when filling deposit slips, no generous space should be left to facilitate fraudulent alteration. The characters of the writing of the amount in both words and figures should be in such a way as not to be easily amenable to fraudulent alteration.

3. PROPER CONTROL OF CUSTOMERS SIGNATURE

As much as possible, customers should avoid signing cheque in bank. Where cheque are signed in blank, they must be kept in the custody of someone whose character is undoubted in every respect. Customers must avoid leaving their specimen signatures careless where they could be picked up and used to perpetrate fraud.

4. INDIVIDUAL KNOWLEDGE OF HIS/HER REPRESENTATIVE

Customers should have thorough knowledge of their agents and/or representative who transact business on their behalf with their bankers. These agents/representative must be people of undoubted character and customer must monitor their lifestyles and activities closely. Experience has shoes that most frauds on customers' accounts were perpetrated by the gents/representatives alone or in collaboration with some dishonest bank workers.

5. FREQUENT RECONCILIATION OF ACCOUNT

Depending on the level of transactions, customers should reconcile their accounts with bank statements say fortnightly or monthly. Any unresolved differences should be immediately investigated until resolved.

FRAUD PREVENTION WITHIN A BRANCH

In order to minimize or possibly eliminate the incidence of frauds within a branch of a bank, the following precautionary and preventive

measures must be put in place. These measures may not necessarily be sufficient depending on the situation and branch management could use their initiatives and knowledge of the local environment as appropriate to augment these recommended measures.

1. STRICT ADHERENCE TO OPERATIONAL MANUAL

The operational guidelines should be religiously adhered to when a transaction is being undertaken. All the various steps specified in the manual should be systematically followed from the beginning to the end of each transaction as applicable. This manual which should serve as an aid memoire should be the companion of all staff and must not be ignored especially when handling complex transactions. The manual must be readily available to all staff and must state in unambiguous terms various steps to be taken at all levels of each transaction.

2. EFFECTIVE INTERNAL CONTROL

All staff must ensure that all internal control measures put in place are observed. Such measures as verification of customers' signature by two independent authorised officials, dual control over cash and other banks assets, regular snap checks, close supervision of subordinates etc. should be observed at all times.

3. PERIODIC AND REGULAR AUDIT

The audit function which should serve as an effective means of checks and balances within the branch must be regular say every six months to one year. The inspectors/auditors must be experienced bankers versed in book-keeping, routine and banking operations generally. To guarantee their independence, they should not be staff of the branch being see themselves as watch-dogs over the bank's assets and must not compromise in the discharge of their responsibilities without caring whose OX is gored or whose privilege and sacred cow is touched.

4. TRAINING

There should be adequate training and re-training for both management and other staff. Staff should be given sufficient technical and theoretical training about the various tasks to be performed. On the job training, staff training, school, outside courses, workshops, seminars, firm shows, etc. should be encouraged at all levels. In computerized banks, both management and other staff should be given adequate training on computer operations.

5. GOOD MANAGEMENT

The management should demonstrate good leadership qualities and should not have firm grip of the job and effective control over the entire staff. The management should also passes high level of technical and

theoretical competence, sound judgement, and exercise adequate supervision overall aspects of branch operations. There should be proper planning and co-ordination and the management should demonstrate exemplary leadership and transparent honesty.

6. GOOD PERSONNEL POLICIES

Both the recruitment and selection policies should emphasize merit and be detailed enough to detect bad eggs right from the on-set and dispense with them immediately. There must be appropriate career development plan for each staff while compensation i.e. salaries, wages and staff welfare generally should be adequate to meet at least the physiological and social needs of the employee. There should be frequent interaction between management and other staff to harmonize areas of conflicts between management and other staff to harmonize areas of conflicts between individuals and the organisational goals.

FRAUD PREVENTION BETWEEN TWO BRANCHES OF THE SAME BANK

Frauds which occur between two branches of the same bank are usually perpetrated either by the operators alone or the operators in collusion with a third party who may be either a customer or non-customer. Usually, these frauds are for very huge figures and such spurious instruments like cheque, mail transfers, telegraphic transfers, electronic

transfer and forged signatures are employed. However, inter-branch frauds can be drastically minimized or possibly eliminate if the following measures which are necessary are observed.

i. CONTROL OF INWARD/OUTWARD MAILS

There must be strict control over all inward and outward mails. The mailing clerk should be of undoubted character and his duties must be under strict supervision by a supervisor official. Before outward mails are despatched, they must of necessity be thoroughly scrutinized by a senior preferably the branch Accountant who must also witness the sealing of all the envelopes. The envelopes should be bagged in a locked box or bagged under the supervision of the same senior official and mailing clerk or despatch rider must not have assess to the keys.

Similarly, all inward mails should be received in a locked box or bag which must be opened in the presence of the official who will also witness the opening of each envelope. All inward mails received over the counter must be thoroughly scrutinized to ascertain their genuineness before adoption. All other inward mails received through invisible and unidentifiable means must not be adopted until undoubted confirmation is sought from the originating sources.

2. CONFIRMATION OF INTER BRANCH INSTRUMENTS

Confirmation of inter branch instruments such as drafts, mails, transfers, telegraphic transfers, electronic transfers etc. especially those for unusually high amounts must be obtained from the originating branch before adoption. This will enable the paying branch detect any instrument that is spurious.

3. CONTROL OF INTER BRANCH CODES AND OTHER INSTRUMENTS

Dual control must be maintained at all times over all inter branch instruments such as authenticating keys, codes, authorized signature books, certified cheques, drafts, mails transfers, telegraphic transfers, electronic transfers etc. This would forestall possible manipulation by one individual staff by forging the second signature.

4. VERIFICATION OF SIGNATURES ON INTER BRANCH INSTRUMENTS

Signature on all inter-branch instruments must be independently verified by two responsible officials before adoption. If there is any doubt on the genuineness and regularity of any of the signatures, prior confirmation must be sought from the originating branch before adopting the transaction.

FRAUD PREVENTION BETWEEN TWO DIFFERENT BANKS

According to the Central Bank of Nigeria clearing rule, presenting banks are responsible for ensuring that all documents presented through the clearing are prima facies in order. This implies that a collecting/presenting bank will be held liable if it collects negligently. It is therefore incumbent upon banks participating in the Central Bank of Nigeria clearing House to ensure that all inter-bank instruments such as cheques, drafts, bankers payments etc. presented through the clearing house and prima facie genuine in all conceivable respects.

In order to forestall frauds involving two different banks, the following measures should be taken into consideration.

1. CONFIRMATION OF INTER-BANK INSTRUMENTS

Apart from inter-bank instruments drawn in favour of blue chip customers of undoubted character and means, the presenting/collecting banks should obtain confirmation from the drawee/payee banks in respect of all inter-bank instruments of large amounts being presented through clearing before values are given irrespective of whether the clearing period has elapsed or not. The letter of confirmation from the drawee/payee bank must be signed by two authorized signatories and signatures must be independently verified by the collecting bank before adoption.

2. CONTROL OVER INTER-BANK INSTRUMENTS

Strict control must be exercised over the working stock of all inter bank instruments. Only the official(s) who is/are directly charge should have access to the instruments. Their usage must be well monitored and recorded while the stock not for immediate usage must be kept in the strongroom under due control by the responsible officials at all times.

3. INDIVIDUAL KNOWLEDGE OF THE DESPATCH RIDER

At least the branch manager and accountant should have good knowledge of the despatch rider who carries caution letters and other inter-banks instruments to other banks. Experience has shown that despatch riders are usually behind must inter-bank frauds. The modus operandi is to obtain spurious acknowledgement of the stamp and/or forged signatures. If there is any iota of doubt about the character of a despatch rider, he should be re-assigned immediately.

4. MONITORING OF CLEARING PROCEEDS:-

When the amount of the clearing instrument is unusually large and the beneficiary/customer is impatient in drawing upon the proceeds of the collection, the collecting bank should carry out discreet re-confirmation of the genuineness of the transaction/instrument from the drawee/payee bank. This confirmation must be done by the branch Manager or Accountant personally either by telephone call or a visit to the paying/drawee bank.

5. REGISTER OF DISMISSED BANK STAFF

A register of dismissed staff on the ground of dishonesty and fraudulent practices should be maintained and circulated to all banks for blacklisting. The register should also be circulated to the Central Bank of Nigeria, Nigeria Deposit Insurance Corporation and the chattered Institute of Bankers of Nigeria.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

Research is the most important tool for advancing knowledge. Usually, the struggle to have the necessities of life leads to human inquisitiveness which on the other hand leads to experimentation and research to obtain data. This information is evaluated and analysed to obtain the basis for an alternative course of action that will sufficiently satisfy such needs.

Thus, research is a problem induced activity. According to Osuala (1993), research is defined as "The process of arriving at dependable solutions to problems through the planned and systematic collection, analysis and interpretation of data". The selection of a primary method of investigation of a given problem is a key consideration of any researcher. "The methods used is the conceptual framework on which the whole research is based"/ Obioma (1988). The method chosen will depend on the level of the research, the aim and the resources available to the researcher. This chapter plays an important part in the study.

The usefulness of my statistical analysis depends on the adequacy and correctness of the information obtained. It is noted that once the information and the data are flawed, perhaps through bias or ambiguities other or types of errors, the fanciest and the most sophisticated tools may

not be adequate to compensate for deficiencies. The sources of the information and the data with the method of their collection must be correct, entitled to acceptance and of established credibility.

3.2 METHOD OF DATA COLLECTION

A combination of qualitative and quantitative research methods used in obtaining information from the banks selected for the study.

It is intended that the information gathered in the course of this work will enable the researcher to describe the procedures, systems and practices that exist in First Bank of Nigeria Plc, Zaria as a basis for comparison with generally accepted practices and make recommendations for improvement.

Basically, the sources of data collected exist in any research methodology namely the primary and secondary sources.

3.2.1 PRIMARY SOURCE OF DATA

For the purpose of this work, the researcher had collected data through the use of questionnaire, structured interview and observation.

A questionnaire is a data collecting instrument comprising of questions designed for respondents to answer. There are two types of questionnaires, the structured and the open ended questionnaire. In the structure questionnaire a respondent answers a question by simply

choosing what he regards as the appropriate answer from options provided. The open-ended questionnaire provides a space for the respondents to write their answers. With structure questionnaire, responses are quantified easily, but when it comes to obtaining information which a research may not even expect from respondents, the open ended questions are better.

For this write-up, a combination of both types (i.e. structured and open-ended questions) in a single questionnaire was adopted to provide better results.

Telephone or personal interviews; As a research method, the interview is a conversation carried out with the definite aim of obtaining certain information through the responses of the interview to a planned sequence of questions. Where personal contact cannot be made, the telephone may be used to ask the questions. This method was used by the researcher to obtain additional information.

Observation: This method entails observing what is actually happening and recording it. The method allowed the researcher to know the in-depth detail of the things involved in carrying out a study of this nature.

3.2.2 SECONDARY SOURCES OF DATA

McGowan, (1979) defined secondary data as "information collected by other agencies but with utility for the researcher in this studies."

Secondary data provides a starting point for every research project. In this research, secondary data consist of information from books and other relevant publications.

The following form the secondary data for this research work. They include:

i. Textbooks by various authors on fraud in banks.

ii. Seminar papers on bank fraud, organized by the institute of Chartered Accountants of Nigeria and Chartered Institute of Bankers in Nigeria (ICAN and CIBN)

iii. Annual reports of Nigerian Deposit Insurance Corporation (NDIC).

iv. Daily Newspapers, periodic journals and magazines on fraud.

v. Annual report of First Bank of Nigeria Plc.

3.3 METHOD OF DATA ANALYSIS

For the purpose of analyzing data collected for this research, the researcher had used descriptive methods.

The primary and secondary data collected are analyzed in statistical tables and interpreted descriptively. Comprehensive inferences and conclusions are drawn from each table, the details of which will be presented in chapter four.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

This chapter deals with the history and structure of First Banks of Nigeria Plc. The bank's organizational structure shall be diagrammatically illustrated. The chapter also focuses on the presentation of primary and secondary data, analysis of survey results emanating from the opinion survey questionnaires on sampled bank's staff and the interpretation of results.

All data gathered for the purpose of this research findings are presented in statistical stables, analyzed, tested and interpret descriptively.

4.1 HISTORY AND STRUCTURE OF FIRST BANK NIGERIA PLC

First Bank of Nigeria, for over a century, has distinguished itself as a leading banking institution and a major contributor to the economic advancement and development of Nigeria.

Founded in 1894 by a shipping magnate from Liverpool, Sir Alfred Jones, the Bank commenced as a small bank in the office of Elder Dempster and company in Lagos.

It was incorporated as a Limited Liability Company in London on March 31, 1894, with Head Office in Liverpool and started business under the corporate name of the Bank for British West African (BBWA) with a

paid up capital of 12,000 pound sterling, it commenced business upon absorbing its predecessor, The African Banking Corporation, which was established earlier in 1892. This signaled the origin of the pre-eminent position which the Bank was to establish in the banking industry in West Africa. In the early years of operations, the Bank recorded an impressive growth and worked closely with the colonial government in performing the traditional functions of a Central Bank, such as issue of specie in the West African Sub-region.

To justify its West African coverage, a branch was opened in Accra, Gold Cost (now Ghana) in 1896 and another in Freetown, Sierra Leone in 1898, which marked the genesis of the bank's international banking operations. The second branch of the bank was opened in the old Calabar in 1900 and two years later, the services of the Bank were extended to Northern Nigeria. With a branch network of 301 in 1997 spread throughout the Federation, including the London branch, the Bank maintains the largest network of branches in the industry.

To satisfy the needs of its customers, First Bank as presently configured has diversified into a whole range of banking activities and services including commercial, merchant and international banking.

Over the years, the bank has experienced phenomenal growth. With a share capital of ₦55.6 million in 1980, the bank's share capital grew to

₦520.308 million by March, 1998. The Bank's total asset base was ₦95.22 billion while its deposit base stood at ₦66.20 billion as at March, 1998.

At the inception of the Bank's operation in 1894, it had a staff of six, comprising three Europeans and three Africans. Today, the Bank is fully Nigerian is in response to the aspirations and yearnings of the Nigerian people and government, as well as the bank's determination to identify with the aspirations of the country in its march towards national development.

To reposition the Bank and to take advantage of opportunities in the changing environment, the Bank undertook several restructuring exercises. First, it changed its name from Bank of British West Africa to Bank of West Africa in 1957. Secondly, the Bank was incorporated locally in 1969 as the standard bank of Nigeria Limited and in line with the Companies Decree of 1968. Thereafter, active participation of Nigerians in the management of the Bank became a matter of corporate policy. First Bank of Nigeria Plc got listed on the Nigerian Stock Exchange in March, 1971 and has won the Nigerian Stock Exchange Presidents' Award seven times, as the bank with the best financial report in the banking sector.

Changes in the name of the Bank also occurred in 1979 and 1991 to First Bank of Nigeria Limited and First Bank of Nigeria Plc respectively, In 1985, the Bank introduced a decentralized structure with 5 regional administrations. This was fine tuned in 1992 to enhance the Bank's

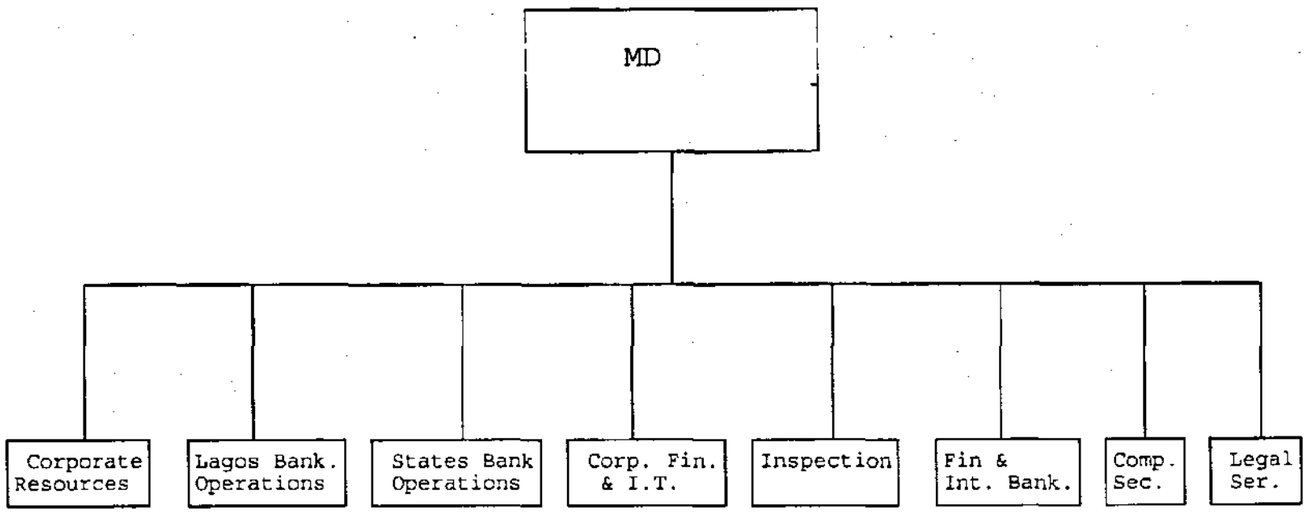
operational efficiency. In 1996, the bank introduced the First Bank of Nigerian Century II Project to revolutionize its operations in line with the dynamics of the market.

As a measure of the confidence the public has in the bank, its offer for sale of over 120 million shares in 1994 was fully subscribed and that for 200 million shares in 1997 was over subscribed by 14.74%. The Bank has 242,128 individuals and institutional shareholders in all parts of the country. Its leadership position in the private sector derives from its consistent record as a successful financial institution.

The Bank has continued to remain the leader in financing long-term development of the economy, which was first demonstrated in 1947 when such a long-term loan was advanced to the colonial government. To demonstrate its commitment to its customers and the development of the Nigerian economy, the bank has since diversified its loan and credit facilities to various sectors of the economy.

The Bank's rural banking record is incomparable to any other

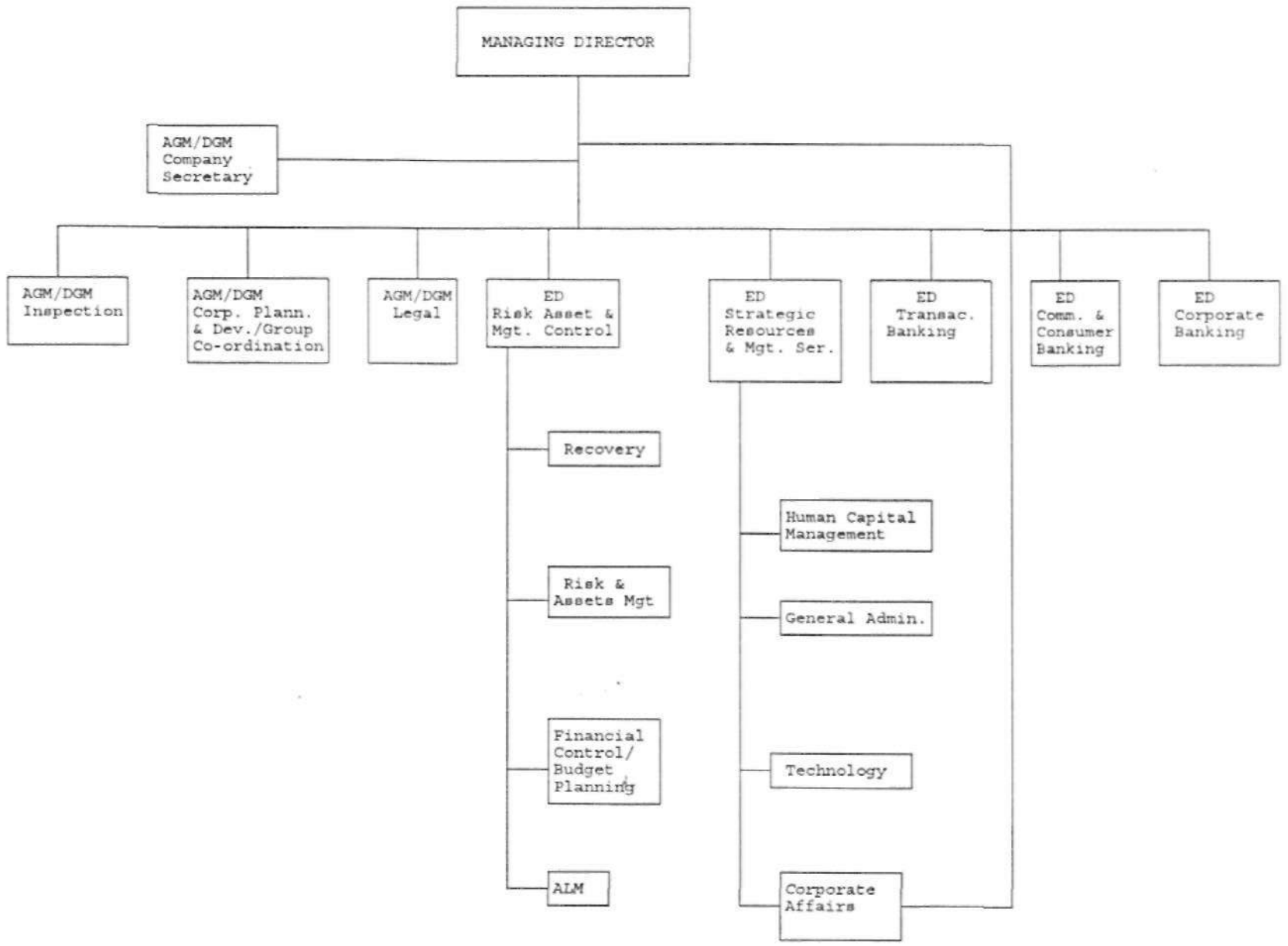
FIRST BANK OF NIGERIA PLC ORGANISATIONAL STRUCTURE (EXISTING)



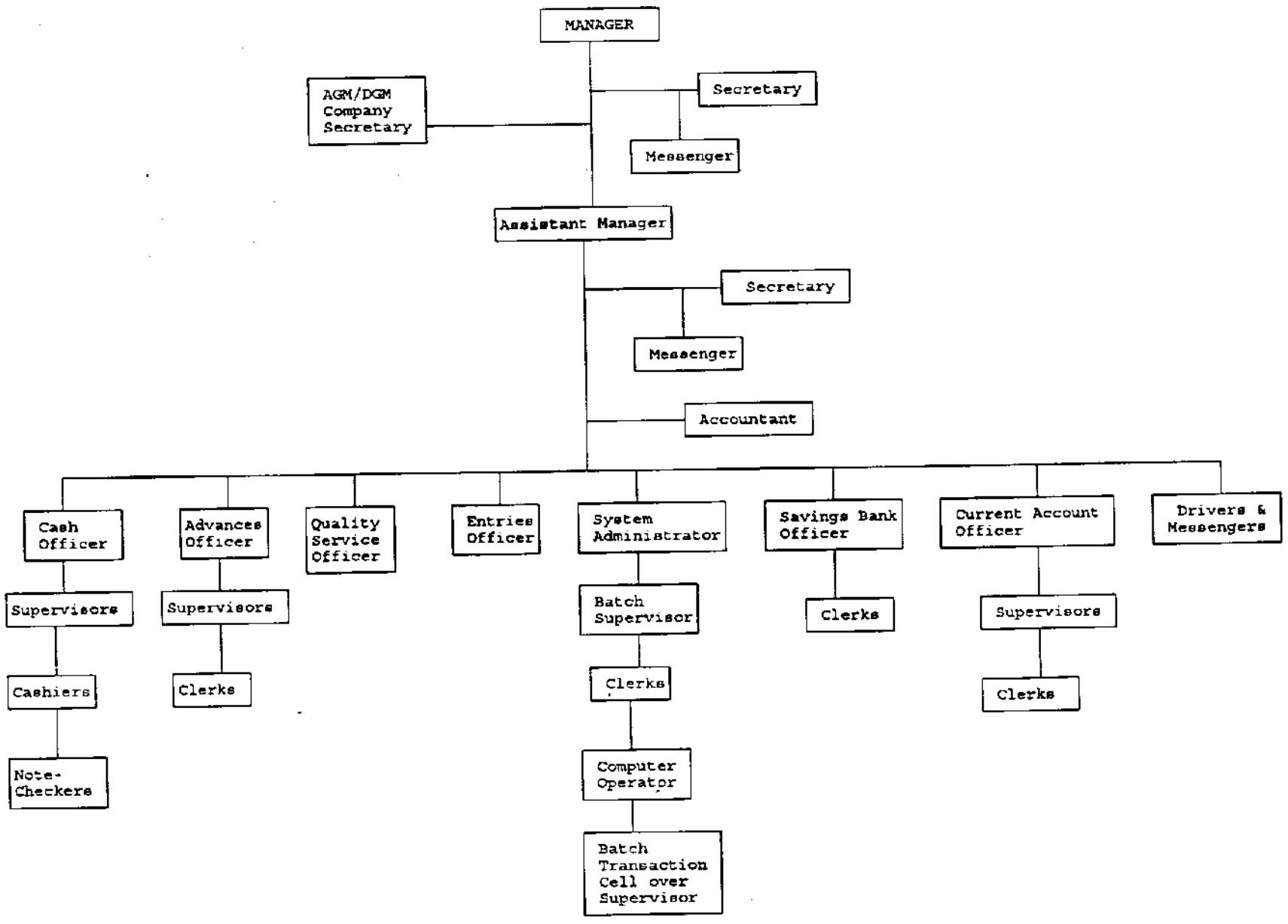
Personal-	Banking Credit admin	*	Central
Staff -	Special banking services	*	East
Medical	- Credit controls	*	North
Training & Dev.	Credit recovery	*	West
Resources -	Advances	*	Regional Operation
Mgmt. Services	Marina branch operations		
Premises	- Lagos Banking		
	Lagos Mainland branches		
	Lagos Island branches		

-	Corporate Finance	*	Finance and Planning
-	Corporate Finance	-	Financial Control
-	Treasury	-	Corporate development
-	Information Systems	-	International Banking
-	Computer Operations	-	International
-	Organization and methods		London branch
			Federal Capital Territory

FIRST BANK OF NIGERIA PLC ORGANISATIONAL STRUCTURE (NEW STRUCTURE)



ORGANIZATIONAL STRUCTURE OF FBN **PLC ZARIA** BRANCH



as it stands unbeatable while its agricultural credit facilities through community farming loan scheme afford peasant farmers easy access to bank credit.

The bank has improved tremendously judging from a number of parameters including number of branches, growth in deposit base, asset size, staff strength and size of loans and advances. It is worthy of note also that its track record of profitability and reliability in sound banking has continually placed the Bank in its leadership position. As a confirmation of its mission statement "remaining true to its name at all times", the Bank has re-established itself as it forges ahead in its second century of qualitative banking to the nation.

4.3 PRESENTATION OF PRIMARY DATA

The presentation of the primary data is based purely on sampled opinions of respondents on the major causes of fraud, its types, positions of persons involved, the number of cases reported by the bank between the period 1996-1998 and the effectiveness of preventive and control measures. These opinions were sampled from the staff of First Bank of Nigeria Plc, Zaria branch.

Table 4.6 Causes of Fraud in Commercial Banks

Causes	Number of Response	Percentage
Poor Management	12	15
Inadequate Control	8	10
Under Staffing	4	5
Poor Conditions of Service	25	31
Staff Negligence (No proper reference in a/c opening)	14	18
General Lust for wealth	17	21
Total	80	100

Source: Researchers field study through questionnaires and interviews

From the above table, poor conditions of service, general lust for wealth, staff negligence and poor management have been identified as the major causes of fraud in commercial banks. The analysis of responses received showed that poor conditions of service represent thirty-one percent of responses received while general lust for wealth, staff negligence and poor management represent twenty-one percent (21%), eighteen percent (18%) and fifteen percent (15%) respectively.

Table 4.7 Frequency of Fraud Types in Commercial Banks

Types of Fraud	Number of Responses	Percentage
Cashiering Fraud	15	19
Falsification of Account (current/savings/deposits)	3	4
Forged cheques and signatures	10	13
Illegal printing of bank documents	8	10
Computer Fraud	20	25
Clearing Fraud	9	11
Opening and operating fraudulent loan a/cs	7	9
Robberies	1	1
Over Invoicing	6	8
Total	80	100

Source: Researchers Field Study

Taking a critical look at the sampled opinions in the above table, (25%) twenty five percent of the respondents identified computer fraud as the most frequent of fraud types in commercial banks. Others include cashiering fraud, forged cheques and signatures, clearing fraud and illegal printing of bank documents which were appraised by (19%) nineteen percent, (13%) thirteen percent, (11%) eleven percent and (10%) ten percent of respondents respectively. The least appraised frequency of fraud types were identified as robberies and the falsification of accounts (current/saving/deposits) and were appraised by one percent (1%) and four percent (4%) of respondents respectively.

Table 4.8 Positions of Persons Involved

Types of Fraud	Number of Responses	Percentage (%)
Senior	20	25
Junior Staff	60	75
Total	80	100

Source: Researchers Field Study

The above table shows that both Senior and Junior members of staff are involved in fraud perpetration (25%) Twenty-five percent of respondents identified that Senior Staff are involved in the incidence of fraud while 75% of sampled respondents identified junior staff in the perpetration of fraud. Though the percentage of senior staff as compared to that of the junior staff in fraud perpetration is low the amount usually involved is larger than that perpetrated by junior staff.

Table 4.9 Number of Fraud Cases as reported by the Bank branch for the period 1996-1998

Types of Fraud	Number of Cases	(₦) Amount Involved
1996	-	-
1997	1	400,000
1998	-	-
Total		400,000

Source: Researchers Field Study

First Bank of Nigeria Plc Zaria Branch has one of the largest records of fraud cases. The percentage of fraud in the bank branch is put at 10%. The table shows that the branch has only recorded one case of fraud in the last three years and this was as a result of an oversight mistake in figures which the offender took advantage of the amount involves was put at ₦400,000 (Four hundred thousand naira only).

Table 4.10 Effectiveness of Preventive and Control Measures

Table 4.8 Positions of Persons Involved

Measures	Number of Responses	Percentage (%)
Internal audit (periodic inspection	18	22.5
Manual of Instruction	4	5
Regular Balancing of Account	14	15
Preparation of monthly Returns to Head Office	2	2.5
Management Supervision	10	12.5
Regular rotation of Bank staff	8	10
Proper Training of bank staff	10	12.5
Internal disciplinary action	7	8.75
Lending Limits	5	6.25
Prosecution of Fraudsters by Law enforcement agents	4	5
Total		100%

The sampled opinion from questionnaires and structured interview has revealed that internal audit (periodic inspection) of books has the highest number of response. Regular balancing of account, managerial supervision, proper training of bank staff and regular rotation of bank staff were also strongly appraised. The least appraised measures were the prosecution of fraudsters by law enforcement agents and preparation of monthly returns to the head office.

Respondents were of the opinion that prosecution of fraudsters by law enforcement agents is ineffective as fraudsters disappear immediately after committing the crime.

4.4 PRESENTATION OF SECONDARY DATA

Banks are required under section 39 and 40 of the Nigerian Deposit and Insurance Corporation decree No 22 of 1988 to render returns on frauds and forgeries. The returns are expected to cover the amount involved in fraud cases, actual/expected to cover the amount involved in fraud cases, actual/expected loss and the number of staff dismissed and terminated on frauds/forgeries in insured banks.

These returns shall form the secondary data for the purpose of this research work.

The table below shows the statistics on the level of magnitude of reported fraud and forgery cases in commercial banks during 1996 alongside 1997.

Table 4.11 Returns of Commercial Banks on Frauds and Forgeries 1996/97.

TABLE

Quarter	Year	Average No. of Banks Rendering Returns	Total no of fraud cases	(N'm) Total Amount Involved	(N'm) Actual Expected total Loss	(%) Proportion of actual expected loss to amount involved
1st	1997 1996	44 40	149 131	288.97 563.57	64.92 149.80	2.25 26.58
2nd	1997 1996	34 24	117 86	275.81 179.99	42.15 64.53	15.28 35.85
3rd	1997 1996	40 61	99 190	236.40 327.22	44.03 76.44	18.63 23.36
4th	1997 1996	36 45	106 180	189.13 472.13	73.44 80.31	38.83 16.90
Total			471 587	3590.31 1542.91	224.54 371.08	6.25 24.07

Source; Returns on fraud/forgeries to NDIC./NDIC Annual Report, 1997Pg. 37.

The table above shows the number of reporting commercial banks, the number of fraud cases reported on quarterly basis, the amount involved and the actual/expected loss.

During the year, the average number of reporting banks stood at 39 per quarter as against 43 in the previous year. Similarly, the number of reported fraud cases reduced to 471 from 587 attained in 1996. On the other hand, the total amount involved in the reported cases in 1997 increased to ₦3,590.31 million from ₦1,542.91 million in 1996, though the actual/expected loss stood at a lower level of ₦224.54 million relative to

₦371.08 million in 1996. On the average only the year whereas for the previous year the proportion was 24.07 percent.

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4.12 RANKS OF BANK STAFF INVOLVED IN FRAUDS AND FORGERIES IN 1996-1997

	1996			1997
Rank	Number	%	Number	Number
Supervisors and Manager	218	39.49	203	5.9
Officers, Accountant and Executive Assistants	96	17.39	154	27.2
Clerks and Cashiers	145	26.27	124	21.9
Typist, Technicians and Stenographers	19	3.44	20	3.5
Messenger, Drivers, Cleaners, Security Guards and Stewards	66	11.96	57	10.1
Temporary Staff	5	0.91	5	0.9
Uncategorized Staff	3	0.54	3	0.5
	522	100	566	100

Source: Bank returns to NDIC Annual Report 1997, P. 38

The table shows the rank and number of banks staff involved in frauds and forgeries during the year 1997 and 1996.

A total of 566 staff of banks were involved in fraud and forgeries in 1997 compared to a total of 552 in 1996. The staff involved were either dismissed, retired or had their appointments terminated. Of the total, core operations staff such as supervisors, Officers, accountants, managers, executive assistants, clerks and cashiers accounted for about 84.99 percent.

TABLE 13

TEN BANKS WITH HIGHEST FRAUD CASES 1996-1997

Group	1996		1997	
	Amount Involved (N'm)	%/Share	Amount Involved (N'm)	%/Share
Total of 10 Banks	1052.62	65.76	3649.1	96.6
Total of all banks	1600.68	100.00	3777.92	100.00

The highest reported incidence of frauds and forgeries occurred in ten banks. Jointly, they were responsible for a large percentage of the total amount involved.

The table shows that ten banks accounted for a total amount of ₦3,649.1 million about 96.6 percent of the total amount involved in 1997 as compared with 65.76 percent in 1996.

REPORT ON FIDELITY INSURANCE COVER FOR INSURED BANKS IN 1997

Section 32 of the Nigerian Deposit Insurance Corporation (NDIC) Decree No. 22 of 1988 stipulates that "any licensed bank or such other financial institution which insures its deposits with the corporation shall be required to provide fidelity bond coverage". The fidelity insurance policy covers frauds and forgeries committed by banks' staff. The insurance policy is intended to reduce the adverse effects of insider frauds and forgeries on the banks.

In this wise, therefore, all insured banks are expected to take up the fidelity insurance cover and renew same on an annual basis. The required minimum insurance coverage for each bank has been put at 15% of its paid-up capital as at the preceding year.

Regrettably, insured banks in 1997 were unenthusiastic about complying with this requirement, specially are regards renewal of the

policy. As a result of this observed apathy on the path of the banks, reminder letters were sent to them to renew their policies. In addition those banks which failed to take the policy in 1996 were warned about the consequences of such deliberate violation of the provisions of the NDIC Decree.

Bank Type	Number of Banks	No. of Compliance	%
Commercial	64	36	56.3
Merchant	51	32	62.7
Total	115	68	59.1

Source: Bank returns to NDIC, NDIC Annual report 1997 P. 40.

The table shows that as at the end of December 1997, Only 68 insured banks (comprising 36 Commercial and 32 Merchant Banks) representing 59.1 percent of the total number of insured banks complied with the provision of the NDIC Decree as regards fidelity insurance coverage.

4.5 DATA ANALYSIS

The study has revealed that the major causes of bank fraud are poor conditions of service, general lust for wealth, staff negligence, poor management and inadequate control in commercial banks.

The total number of fraud cases involving members, the amount involved, actual/expected losses are all independent of one another. The

study also revealed that the highest incidence of frauds and forgeries was traced to clerks/cashiers followed by supervisors and managers.

On the whole, it revealed that the most effective ways by which the occurrence of bank frauds may be prevented and controlled include:

i. Internal Audit (Periodic Inspection)

ii. Regular Balancing of Account

iii. Proper training of bank staff

iv. Managerial Supervision

v. Regular rotation of bank staff.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

Commercial banks are the nation's most important financial institution. They are unique in their performance of services and are distinguished from other forms of financial institutions or intermediaries.

Cases of fraud and forgeries in banks have not only become incessant but have also been on the increase in recent years. It is generally accepted that fraud occurs when:

(i) A person or group of persons, through deception or trick, acquires an unnatural advantage he could not have otherwise acquired through lawful, just or normal process.

(ii) A person or group of individuals in a position of trust and responsibility, in defiance of prescribed standards, breaks all statutory rules and regulations so as to promote one's personal interest at the expenses of the corporate interest he has been committed to protect and enhance.

The major causes of fraud are said to be social and economic conditions, misplaced social values, insufficient internal control system and lack of corporate culture against fraud.

The banks are noticeably in the front line in the battle against financial fraud. Moreover they stand at a point in the chain where all the frauds end up sooner or later. Prevention range from in houses remedies, such as greater supervision, proper training and rotation of staff amongst others. The exchange of information about new developments can also prevent fraud.

5.2 CONCLUSION

In view of the high taste for wealth in Nigeria and the prevailing harsh economic environment, big time frauds are on the increase and the banks are losing amounts running into millions of naira to fraudsters. In most cases, even where the frauds are detected on time, amounts already drawn are usually difficult to recover.

Conclusively, no matter the control measures that are adopted by any bank, it must be realised that fraud could be minimized once there obtains a greater sense of discipline, accountability and patriotism within the wider society. Irrespective of the prevailing socio-economic conditions in the society, a distinctive and distinguished bank officer, selected and employed on the strength of his unassailable attributes and proven experience, should strive to be responsible for the efficient and harmonious administration of his statutory functions. The bank officer will be liable for any act of negligence, misconduct or inefficiency which may occasion losses on the part of the banks.

5.3 RECOMMENDATIONS

Proper financial management implies that a good internal control system is in operation, that the system is constantly monitored and that lapses should be discovered quickly, identified and corrected in good time. While there is no fool-proof method of ensuring that frauds do not occur in any establishment, more so in our environment where our stock is largely cash, competent management with well defined procedures and well lay out and realistic rules and regulations will go a long way in ensuring that frauds and forgeries are forestalled.

In the light of this research findings it is hoped that the following recommendations will greatly assist in the prevention detection and control of frauds in commercial banks.

i. Surveillance over long serving officers in entrusted positions

ii. There should be thorough auditing, investigation, monitoring action and publicity.

iii. Audit committees should be established in all financial institutions, whose members would be independent outside directors, will meet at least four times each year (quarterly) with the banks public accountants, its principle financial officer accounting and chief auditor. One principal function of the committee should be to review the audit plans and scope of examination of both the independent auditors and the bank's internal audit division.

iv. New guide lines with respect to capital adequacy, risk asset and other financial portions of bank should be introduced and are expected to be further strengthened.

v. Bank's staff should be motivated through good salary and incentives.

vi. Regular transfer of staff from one branch to another.

vii. All accounts should be balanced daily.

viii. The implementation of the failed banks decree should be strictly adhered to.

ix. There should be competent staff who know the rudiments of banking to manage the financial institution.

x. Adequate internal checks and control measures should be adopted.

It is important to stress the need for all financial institutions to comply with statutory requirements of rendering returns for effectiveness of all the policy measures which the government, monetary and supervisory authorities might design to curb the menace.

The prevention, control and detection of frauds should be a collaborative effort of banks, their customers, the public and the government including relevant agencies. Frauds in the financial system should as much as possible, be minimized as it kills the institutions and destroys the economy of a nation.

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DEPARTMENT OF BUSINESS ADMINISTRATION
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QUESTIONNAIRE ON FRAUD PREVENTION AND CONTROL IN COMMERCIAL BANKS

This questionnaire is an attempt to solicit information on Fraud Preparation and Control in Commercial Banks.

1. The Questions are straight forward and require short-direct answers.

2. The aim of this project to which this questionnaire is being incidence of fraud in our banks.

   Information so obtain shall be treated with strict confidence.

Yours faithfully,

BANKER'S QUESTIONNAIRE

1. Position Held.....

2. Years of banking experience .....

3. What are the probable cause(s) of fraud in your Organisation?

   Please tick as appropriate

i. Poor Management ( )

ii. Inadequate Control ( )

iii. Under Staffing ( )

iv. Poor Conditions of Service ( )

v. Staff Negligence (No proper reference in Accountant Opening) ( )

vi. Other Causes (please specify) ( )

4. Please rank the following type of fraud in order of frequency as recorded.

Types of Fraud	Level of Frequency
Cashiering Fraud	*Frequency* *Very Frequent* *Not Frequent*
Falsification of Acc. (Current/Saving/deposit.	
Forged Cheques and Signature	
Illegal Printing of Bank document	
Computer Fraud	
Opening and operating of Fraudulent Loan Accounts	
Robberies	
Over Invoicing	
Others (Please Specify)	

5. What is the percentage of fraud in the branch.....

6. The cases of fraud in the banks branch are

   (a) Increasing ( )

   (b) Decreasing ( )

   (Please tick as appropriate)

7. What are the number of fraud cases in your bank branch.

Year	Number of Cases	Amount Involved
1996		
1997		
1998		

8. Positions of persons involved (P.s. tick appropriate

   i. Senior Staff ( )

   ii. Junior Staff ( )

9. What were the major causes of the reported cases?

   .....

   .....

10. Comment briefly on the issue of fraud on your banking operation

    .....

    .....

11. Please rank the following fraud preventive measures according to their levels of effective

FRAUD PREVENTIVE MEASURES

S/NO.	EFFECTIVENESS	LEVEL OF EFFECTIVENESS Effective Very Effective Not effective
1	Internal audit (periodic Inspection)	
2	Manual of Instruction	
3	Regular balancing of Account	
4	Preparation of monthly returns to Head Office	
5	Managerial Supervision	
6	Regular rotation of Job/Staff	
7	Proper training of bank staff	
8	Internal disciplinary actions	
9	Prosecution of fraudsters by law enforcement agent	
10		

12. For each of the measures ranked not effective, please state your reasons.

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.....

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13. What other measures do you consider applicable in preventing the occurrence of bank fraud?

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14. Please state below any other comment or observation that you consider could enhance the success of this research on fraud in your banks.

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