TITLE PACE

FRAUDS AND MALPRACTICES IN THE BANKING INDUSTRY.

BY

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DECLARATION

I hereby declare that this thesis was written by me, and that it is a record of my own research work. To the best of my knowledge, this thesis has not been presented to any Post-Graduate School for the award of a higher degree.

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CERTIFICATION

This project entitled, **"FRAUDS AND MALPRACTICES IN THE BANKING INDUSTRY" By ABDULLAHI, AMINU** meets the regulations governing the award of the degree of **MASTER OF BUSINESS ADMINISTRATION (MBA) OF AHMADU BELLO UNIVERSITY, ZARIA,** and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

I dedicate this work to:

1. ***My parents for bringing me up with love, encouragement and guidance.***

2. ***My family for bearing with me all those times I should have been with them but was not possible.***

ABSTRACT

The project was aimed at identifying the common forms of frauds and malpractices in the banking industry, their frequency, causes and the existing preventive measures in operation.

The analyses of primary and secondary data led to the conclusion that fraud and malpractices were complex phenomena which vary in nature, character and methodology. The findings of this study revealed that majority of the fraudsters were banks staff, mostly cashiers and clerks, working in collusion with customers and non-customers.

Inadequate supervision, control and staffing were ranked as the most significant causes of frauds and malpractices. Regular balancing of accounts, periodical inspection, rotation of job/staff, proper training of bank staff were ranked high as the most effective preventive measures against frauds and malpractices perpetration.

The findings of the research work provided the basis for our recommendations which include: That banks should ensure regular balancing of their accounts; and periodical inspection of branches should also be carried out regularly.

Finally, considering the nature, causes and methods employed to defraud banks and customers which vary with time, it is suggested that further research on frauds and malpractices be carried out every two years.

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CHAPTER ONE

1.1 INTRODUCTION

Studies on bank frauds and malpractices are normally prompted by the perceived effects of frauds and malpractices On banks, and the desire to find the means of curbing such adverse effects.

It is generally agreed that frauds and malpractices lead to loss of the money which belong to the bank or its clients. This loss results in reduced levels of resource availability which could hamper the operations of banks and could force- a close down if the frequency and size of frauds and malpractices are high.

Other effects of frauds and malpractices in banks include the loss of confidence in banks by customers which also reduce efforts aimed at promoting the banking habit. Malpractices and frequent occurrence of frauds lead to distraction of management's attention, increased running cost, wastage of time and resources on frauds and malpractices prevention.

The banking industry which is the back bone of the Nigerian economy is Increasingly worried on the level of frauds and malpractices in the industry. More disturbing is that the control of an identified specie of fraud or malpractice seems to give birth to another that is invariably more sophisticated and complex. This shows that frauds and malpractices vary widely in nature, character and methodology.

1.2 THE STATEMENT OF THE PROBLEM

Though the Nigerian banking industry being the back bone of the Nigerian economy and one of the most profitable, higher performance could be achieved in

terms of their output and obligations to the society. To realize this, the banking industry must perform a leading role in reactivating and invigorating the economy.

The low level of performance of the Nigerian banking industry is due to an array of problems. of these problems, the issue of frauds and malpractices is one of the most intractable and monumental.

The frequency of these problems and their implications for the industry have inspired this research on frauds and malpractices in the banking industry. The following research questions have also been asked:

1. What is the magnitude of frauds and malpractices in our banks?
2. Why do bank staff commit frauds and malpractices?
3. How effective are frauds and malpractices control systems in our banks?
4. How can the problem of frauds and malpractices be handled or controlled in our banks?
5. Can banks have sufficient information to predict when and how fraud or malpractice will occur?

These questions form the problem of this research work and the need to provide workable answers to them constitute the justification for the research.

1.3 PURPOSE OF THE STUDY

The primary object of this research is to find practical means of eliminating or minimizing the incidence of frauds and malpractices in our banks.

To achieve the primary objective, the following secondary objectives have been specified:-

1. To review existing literature, collect and collate information on frauds and malpractices in our banks.

2. To identify the causes of frauds and malpractices in banks.
3. To identify the various types of frauds and malpractices perpetrated by banks.
4. To identify the various means employed in defrauding banks.
5. To determine the magnitude and frequency of frauds and malpractices in banks.
6. To determine the effects of frauds and malpractices in the banking industry and the economy in general.
7. To make recommendations based on the findings.
8. To identify the means through which the recommendations can be effectively implemented.

1.4 THE SIGNIFICANCE OF THE STUDY

The significance of this research study is hinged on the fact that the fate of the Nigeria's economy is inevitably tied to the structure, direction and the survival of the banking and financial system. It follows therefore, that any serious distortion in the system will not only affect the system itself but the Nigerian economy and the public in general and the consequences which could be financial or otherwise cannot be quantified.

This research study will go a long way to show the effect of frauds and malpractices on banks, its implications on the industry and possible remedies. It will also show the impact of this malady on the economy and the society in general.

Banks and other financial institutions are expected to gain doubly from this study. Firstly, the study will highlight operational lapses and other loopholes that

give room to fraudulent activities in banks and secondly the study will stimulate self-reassessment by banks.

The study will assist the government in fashioning economic policies that do not give room to fraudulent activities and mismanagement of investors and depositors money in banks.

The study will also benefit the society in general as it will enable banks to render their services more effectively and efficiently.

To the academic world, the study will serve as a source of knowledge and confirmation of whether earlier research findings still hold in the face of the turbulent nature of Nigerian economy. The study will further identify new strategies that will consolidate or revolutionalize earlier research findings.

1.5 DELIMITATIONS OF THE STUDY

The research study will focus on frauds and malpractices in the banking industry with special emphasis on commercial banks operations in Nigeria. The environment in which the research will be conducted will mainly be Jos metropolis in Plateau State, Zaria and Kaduna in Kaduna State of Nigeria. The study will be restricted to some selected banks in the environments Under review. The study will exclude the infant banks first coming up and yet to find a firm footing in the industry.

The information used for the analysis covered a three-year period between 1990 - 1992. In order to attain the objectives of this research, the delimitation of the study was defined to embody all relevant aspects of frauds and malpractices In banking operations. Information was obtained on the number of fraud cases perpetrated in each bank; the different types of frauds and malpractices and the

frequency of each; the amount involved in the types of frauds and malpractices; the cadre of persons involved; the period of concealment; the incidence of collusion; the causes and the level of effectiveness of frauds and malpractices preventive measures.

The study also focused on areas relating to staff strength of banks; size of deposits, size of loans and advances, age of fraudsters, years of banking experience of persons involved in the fraudulent activities, the means of frauds and malpractices prevention and detection and the punishment meted to fraudsters.

1.6 LIMITATIONS OF THE STUDY

Time and cost are the major constraints to this study. They will not allow for a nation-wide survey of all banks branches and persons involved in the fraudulent activities.

The almost Non-existent literature on the subject also constituted another serious limitation to this research study.

Despite these limitations, the findings of the research still hold because the facts contained in the study will help all bankers and the general public to have some insight into input of frauds and malpractices upon the banking industry and the Nigerian economy.

1.7 DEFINITION OF TERMS

Fraud can be described as a "conscious premeditated action of a person or group of persons with the intention of altering the truth and or fact for selfish personal monetary gain. It involves the use of deceit and trick and sometimes highly intelligent cunning and know-how. The action usually takes the form of

forgery, falsification of documents and authorizing signatures and outright theft."[1]

1. Management Fraud:- This is a "deliberate fraud committed by management that injures investors and creditors through materially misleading financial statements."[2]
2. Malpractice:- has also been defined as "those practices which are not only just contrary to the ethics of the banking profession, but also constitute infringements of various banking laws and regulations."
3. Defalcation:- Is the "misappropriation of business assets by employees and officers of the business. It consists of the confiscation of physical properties or cash. It is the actual theft of business assets."
4. Falsification:- Falsification of financial statements is the issuance of financial statements which present false account valuations by management.
5. Clearing House:- This is where banks exchange cheques. It serves as a forum where the representatives of each commercial bank deliver cheques drawn on other banks and to receive the cheques drawn on them. In Nigeria, the Central Bank of Nigeria serves as the Clearing House.
6. Software:- A term used to describe the programme, instructions and applications of a computer system.
7. Hardware:- The physical components of Computer system.
8. System:- Organized set of related components established to perform a certain task.
9. Program:- Step by step set of instructions that directs the Computer to perform certain operations to solve a problem preparing for the execution.
10. Internal Control System:- The whole system of controls, financial and otherwise, established by management in order to carry on the business of

the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records.

11. Internal Auditing:- This is an independent appraisal activity within an organization for the review of operations as a service to management. It is a managerial control which functions by measuring and evaluating the effectiveness of other controls.

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CHAPTER TWO

LITERATURE REVIEW

2.0 THE NIGERIAN BANKING INDUSTRY: AN OVERVIEW

The Nigerian banking system consist of the Central Bank of Nigeria, the commercial banks, merchant banks and development banks.

The Central Bank of Nigeria (CBN) was established by the Central Bank of Nigeria Ordinance in 1958. The establishment of the bank was based on the report and recommendations of Mr. J.B. Loynes. The bank effectively came into existence and commenced operations on 1st July, 1959. With the following principal objectives as pelt out in Section 4 of the Ordinance:-

1. to issue legal tender currency in Nigeria.
2. to maintain external reserves in order to safeguard the international value of the currency.
3. to promote monetary stability and a sound financial structure in Nigeria; and
4. to act as banker and financial adviser to the Federal Government.

The structure of commercial banking in Nigeria is fashioned towards that prevailing in the United Kingdom. Other countries in the western world, have the structure which can be described as the branch banking system. This is characterized by a few large banks with a wide network of branches extending throughout the country. For instance, the United kingdom has only eight clearing banks (commercial banks) with over 12,000 numerous branches serving the banking needs of the country.

However, in the United States of America, the banking structure is based on a unit banking system (i.e. numerous individual local banks). The United States system has been described as a dual system, meaning that banks are subject to either Federal or State regulatory control and in some instances both.

Commercial banking in Nigeria can be classified into two: The purely indigenous banks, owned 100% by Nigerians and the mixed banks, with a majority indigenous share holding (at least 60% equity) and minority foreign interest (at most 40%).

Commercial banking business started in Nigeria with the establishment of the African Banking Corporation in 1892 (the founding father of the present day First Bank of Nigeria PLC). Commercial banks operate as bankers to the majority of the Nigerian banking populace by providing a wide variety of services which include:

i. receiving demand deposits and paying customers' cheques drawn against them.
ii. receiving time and savings deposits and paying interest thereon.
iii. Granting loans and overdrafts to customers.
iv. discounting commercial papers, acceptances and bills of exchange.
v. providing services to the importer and exporter (e.g. documentary credits).
vi. provisions of safe deposit vault service.
vii. management of customers' investments.
viii. acting as executor and the trustee of wills.
ix. providing foreign exchange facilities for travellers.
x. buying and selling of stocks and shares for their customers.

Merchant banking business first came into existence in Nigeria in 1960 with the registrations of Messrs Nigeria Acceptances Limited (NAL) and Philip Hill (Nig.) Limited. These two institutions dominated the merchant banking business up to 1969 when they eventually merged. The resulting company - NAL Merchant Bank Limited had since been joined by others.

The essential function of merchant bank that distinguishes it from other institutions is that a substantial part of its business consists of accepting bills of exchange to finance trade. These bills are eligible for rediscounts at the Central Bank and command a very fine rate in the market.

Unlike commercial banks offering retail banking services, merchant banks provide whole sale banking services. They mobilize deposits in large amounts and also lend in large amounts to institutional investors and firms. In a nutshell, they deal with relatively small number of specialized accounts. Merchant banks deposits are usually fixed and interest bearing. They grant more of medium term loans and less of overdrafts.

Merchant banks among others provide the following specialized services:-

1. Stock broking services.
2. Corporate finance.
3. Equipment leasing.
4. Debt factoring.
5. Investment management.
6. Issue and acceptance of bills and the management of unit trust.

Development banking in Nigeria started with the establishment of the Nigerian Industrial Development Bank Limited (NIDB) in 1959, other development-oriented banks which subsequently followed are: The Nigerian

Agricultural and Co-operative Bank Limited (NACB), The Nigerian Bank for Commerce and Industry (NBCI), Federal Savings Bank (FSB), Federal Mortgage Bank of Nigeria (FMBN).

The main functions of development banking are threefold:-

1. To fill the financial gap created by the operations of commercial and merchant banks which lend mainly on short and medium term basis respectively.
2. To act as a catalyst for development.

Development banks lend mainly on long term basis. They engage in equity participation in other companies and perform promotional functions like project identification, appraisal and market survey.

2.1 THE DEFINITION OF FRAUD

Fraud is a very comprehensive and complex field of crime which encompasses a range of different activities. Due to its diverse nature, it has been difficult to proffer comprehensive definition of the term "fraud".

For many years the standard formula was that of Buckley J. in Re London and Globe Finance Corporation Limited.

"To defraud is deprive by deceit: it is by deceit to induce a man to act to his injury. More tersely it may be put, that to deceive is by falsehood to induce a state of mind; to defraud is by deceit to induce a course of action".[1]

That formula, it is now accepted, is not exclusive; fraud can consist of depriving a person of what is his by any other dishonest means, including simple taking.

Radzinowiez and Wolfang classified fraud together with white collar crime, and defined them as "illegal acts characterized by guilt, deceit and concealment and are not dependent upon the application of physical force or violence or threats thereof".[2]

A.I.J. Etuk (Auditor-General for the Federation of Nigeria) defined fraud to "embrace any cunning, deception or trick employed to deceive or cheat another. It includes all means which human ingenuity can devise that are employed to gain an advantage by false suggestion or by suppression."[3]

Advanced Learners Dictionary defines fraud as "criminal deception, act of this kind, person or thing that deceive."[4]

Justice Akinola Aguda, in his "The Criminal Law and Procedure of the Southern States 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."[5]

Fraud may be defined as "intentional misrepresentation, concealment, or omission of the truth for purposes of deception or manipulation to the financial detriment of an individual or organization."[6]

"Fraud", then is comprised of two fundamental elements. One is premeditated deceit. The other is peculation, a collective term for any combination of embezzlement, defalcation, or misappropriation of funds.

THE DEFINITION OF MALPRACTICE

Oxford Advanced Learners Dictionary defined malpractice as "wrong doing; neglect of duty". An example is dishonest use of a position of trust for personal gain.

Malpractice has also been defined as "those practices which are not only just contrary to the ethics of the banking profession, but also constitute infringements

of various banking laws and regulations".[7]

2.2 TYPES OF FRAUD AND MALPRACTICES AND WAYS OF DEFRAUDING BANKS

Frauds and malpractices in banks vary widely in nature, character and method of perpetration, thus making the classification a very difficult exercise, while some authorities (such as the Committee of Chief Inspectors of Banks) prefer to group frauds and malpractices according to the perpetrators, others prefer a classification based on the methods used.

On the basis of perpetrators, bank fraud may be grouped into three broad categories:

1. **Internal Fraud** - committed by members of staff and usually on small scales but are more regular.
2. **External Fraud** - committed by those not connected with the banks; and
3. **Mixed Fraud** - committed by outsiders in collusion with bank staff.

Using the methods of perpetration as a basis for classification, the following types of fraud have been identified:-

1. CASHIERING FRAUDS

Some cashiers are usually exposed to handling of raw cash and the temptation to commit some sort of frauds cannot be completely eliminated. Some of the common forms/ways of cashiering frauds are as follows:-

(a) Substitution of names on credit voucher/teller. This type of fraud involves changing the credit teller of one person for another. However, the books of accounts are balanced but the wrong person has been credited. Illiterate customers account and big account

holders are usually victims of this type of fraud.

(b) Teeming and Lading: This is a common feature in local branches of commercial banks. The cashier suppressed lodgements made and misappropriates the fund. If the cheque of the customer is about to be returned for the reason of insufficient fund, an inquiry is made from the receiving cashier for any lodgement by the customer through a form known as enquiry memo. This memo alerts the cashier, who would subsequently raise new teller in favour of the customer's account at the expense of another customer's account in order to conceal his fraudulent deals.

(c) Cashier shortages: A cashier may intentionally declare a shortage if he is out of purse. In most cases, the shortages are spurious and unjustified. Sometimes, they collude with outsiders to steal part of the cashier's taking relying erroneously on the bank's provisions which stipulate that shortages should not be debited to his personal accounts immediately without enquiry. Cashier shortages is one of the commonest forms of frauds in banks.

2. FALSIFICATION OR ALTERATION OF ACCOUNT

This type of fraud is common with the machinists who are either acting ignorantly, innocently or with proven criminal intent to defraud. This type of fraud is committed by:-

i. Inflating the credit balance of particular customer.

ii. By carrying wrong balances forward in favour of a customer.

iii. By taking overdrawn current account debit balances as credit. In most cases the original ledger cards are maliciously destroyed or

tempered with.

Another form, is when a cheque is paid and is suppressed from being debited to the customer's account. This is common in branches where accounts are not balanced regularly and the internal control system has broken.

3. FORGED CHEQUES WITH FORGED SIGNATURES

Cheque forgery is a common source of fraud and constitute the source of most forgeries in banks. In some instances, cheque leaves are stolen, customers signatures are perfectly forged and many successful withdrawals are made.

Of recent, fraud syndicates have adopted the following means of perpetrating fraud in banks:-

i. Operation of specie movement of their own with forged instructions from one bank branch to the other to obtain cash;

ii. Printing of cheque books to agree with the cheque books of the bank they intend to defraud;

iii. Use of forged credit advice from the Central Bank. An example is where a government parastatal was purported to have given instruction to Central Bank where they maintain their account to credit an account of either an individual or organization in another bank. This type of fraud is usually perpetrated through the clearing system.

iv. Substitution of Central Bank presentation form for clearing cheques;

v. Interception and switching of telex messages for transfer of frauds.

CLEARING FRAUD

This type of fraud now constitutes a major source of loss of fund by banks in recent years and the common forms and ways of committing this fraud are as

follows:-

(a) Substitution of Clearing Cheques:

This is a situation where a cheque is sent for collection through the clearing system, a bank is substituted in transit with another cheque having the amount in common. The substituted cheque causes problems in the drawee or paying bank and before the problem is solved, the mandatory days allowed for clearing may have elapsed and damages have been done as money would have been withdrawn by the brains behind the deal from the bank.

Such accounts are usually opened with false documents and in many cases, banks staff connive with outsiders to facilitate their acts of fraud.

(b) Splitting of Clearing Cheques:

This is another complex method of clearing fraud. To fully understand this type of fraud, an example is demonstrated. Let say Bank 'A' sends a cheque to Bank 'B' for presentation through the normal clearing house. After presentation and in-between the clearing house and Bank 'A', the cheque gets stolen or removed and replaced with two or more cheques adding up to the same amount and bearing the crossing stamp of some banks say Bank 'X' and 'Y', etc. as if the cheques were presented by these banks. The original cheque does not reach Bank 'B' and the new inserted cheques are returned to Banks 'X' and 'Y' for reasons of 'No Account" by Bank 'B'.

After the clearing period allowed to clear the cheques have elapsed, Bank 'A' gives value to the original cheque believing that Bank 'B' had honoured the cheque since the cheque has not been returned unpaid within or after

the stipulated time. Before such confusion is resolved, the damage might have been done and the fraudsters would have made away with the money. This fraud can only take place with active participation of the bank's staff who may invariably but not necessarily be the clearing bank staff.

FALSE PROCEEDS FOR COLLECTION

This is a situation whereby a customer pays in a cheque, almost immediately he requested that the cheque should be cleared specially.

At the paying bank, his accomplice would ensure that a banker's payment is issued, this banker's payment is then presented to the collecting bank where the customer is given immediate credit and disappears into the thin air. Later, when collecting bank eventually presents its banker's payment, it is discovered that it has been forged. Such customer will make sure that he cannot be traced as such related accounts are usually opened with false documents.

FOREIGN EXCHANGE FRAUD

The structure and administration of foreign exchange operations in Nigeria following the introduction of SFEM/FEM in 1986 seem to have given impetus to frauds and malpractices in international trade for which foreign exchange is required to finance. The scope has widened considerably and the following types of frauds are now prevalent.

(a) Telex Fraud:

This can be a combination of raising a fictitious telex message purporting it to emanate from a bank or a substitution of a genuine message with a factitious one with the sole purpose of diverting funds to a wrong source.

(b) Utilizing false letter of credit to procure goods from unsuspecting exporters abroad. Though this type of fraud essentially does not involve actual

procurement of foreign exchange but basically it is foreign exchange induced fraud which enables the fraudster to obtain goods without actually paying for them.

(c) Under the table deals which became common with introduction of autonomous funds scheme under FEM. Here, benefits accruing from such deals are not passed to the employer by the employee.

(d) Lodgement of forged currency into customers foreign currency domiciliary account.

(e) Irregular release of shipping documents in respect of imports to persons other than the importer.

(f) Fraudulent sales of travellers cheques, drafts, under basic travel allowances meant for academics and government officials on overseas courses but who for one reason or the other did not buy the approved foreign exchange.

(g) Negotiation of forged draft purportedly issued by a bank in Nigeria or by an overseas correspondent bank.

(h) Negotiation of bills payable cheque overseas whereas the cheque is in local currency.

(i) Diversion of foreign exchange to beneficiary other than those approved by the Central Bank of Nigeria through alteration of customers instruction by staff.

(j) Defalcation of foreign currency lodgement by staff.

(k) Forged mail transfers and letters of credit purportedly issued by a Nigerian bank, with intent to dupe overseas exporters.

(l) Forged documents to support application for foreign exchange e.g. overseas school bill, tax clearance certificate.

(m) Theft and encashment of travellers cheques, drafts, personal cheques, etc.

(n) Fake instruction to transfer funds overseas, purportedly written by foreign currency domiciliary account holder.

(o) Fraudulent use of bank letter head to obtain goods from overseas exporter or advance payment from overseas importers who believed that such letters were genuine. This is a common example of the popular "419".

(p) Connivance of staff in laudering foreign currency from drug trafficking and narcotic activities, e.g. large cash lodgement not justified by nature of business.

(q) Over-invoicing for foreign exchange application in respect of imports.

(r) Forgeries of foreign currency notes.

(s) Spurious request on foreign bank to transfer funds from customer's account.

COMPUTER FRAUD

With introduction of computers, fraudsters also modernize their techniques and the act in a computer environment got the name computer fraud. A recent survey in the United States gave the following startling statistics: approximately $500m is lost to computer fraud annually. On the average, each computer fraud involves $500,000 as against $10,000 per bank robbery and $19,000 per conventional bank embezzlement.

There are various types of computer frauds. Listed below are some common types:

1. Input Fraud.

Input fraud is said to occur when the input to a computer system is maliciously modified or deleted. This normally, takes the form of modifying or deleting records of transactions to be fed into the computer system. It

may also involve the modification of system and batch totals so as to ensure that the computer system does not reject the corrupted input data on account of unreconcilable control totals.

The main reason for this is the desire to misallocate money or company merchandise or to cover up management incompetence. Input fraud can be initiated outside the immediate environment of the computer, hence the usual initiators are company staff responsible for raising, processing and forwarding input forms and computer staff responsible for data entry.

2. Theft of Software

Computer fraud can also take the form of stealing either programs or data. This crime can be committed by simply copying programs or data file for use outside the work environment.

Typical motivations for this act include:-

- **Intelligence** - i.e. as part of an elaborate espionage scheme by a competitor company or bank.

- **Profit** - the culprit sells the stolen software for money to interested buyers.

- **Private use** - the culprits installs the software on a personal machine for private use.

The perpetrator of this act has to be somebody with access to the machine. If the computer is linked to global communications network, then the perpetrator can be anybody with a personal computer. Theft of software is generally difficult to detect because unlike the other resources of an organization, computer data can be stolen non-destructively - hence, it is difficult to know that it has been stolen.

THEFT OF COMPUTER TIME

It is common for personnel to use computer time for unofficial activities. Such things like units, disk packs or floppy diskettes, etc. The concept here is using computer time to analyze the data of other banks or businesses or the outright sale of computer time to other organizations are common types of computer time theft or fraud.

HARDWARE RELATED COMPUTER FRAUD

The hardware can be the target of a computer crime from three view points:

1. To Destroy Hardware:

   A personnel trying to cover up crime or incompetence can resort to destroy the computer hardware - i.e. the physical machine itself or some storage media such as tape units, disk packs of floppy diskettes, etc. The concept here is that with the evidence (information) destroyed, crime cannot be established. A common form of destruction these days is by fire.

2. Illegal Borrowing:

   A person with physical access to storage media units may temporarily remove a tape, disk or diskette from the office and use another computer facility to copy program and data files contained therein.

3. Steal Hardware:

   The storage media on which vital information is stored can also be stolen. The actual target is usually not the stolen hardware but the information contained therein. The intention is either to use the information offensively or simply to deprive the owner of its use. This act can only be perpetrated by someone with physical access to the relevant hardware unit.

Fraud differs from malpractice in at least three respects:

i. Malpractice embraces not only the criminal but, more specifically, the unethical in the general conduct of practitioners in a profession.

ii. Malpractice addresses, in particular, professionals who owe a duty to uphold the ethical standards of their calling in the drive to maximize corporate profit or individual gratification.

iii. Malpractice may not necessarily be driven by a selfish, short-run precuniary motive. It might be attributable to a training gap, as will be exemplified by a rude bank cashier or manager. It might alternatively be attributable to professional indiscipline, as in lateness by an authorized dealer in submitting its banks completed bid form to the Central Bank of Nigeria at a foreign exchange auction session.

Malpractices can be broadly categorized into three, namely:

1. **Bank Employees Malpractices:** These are malpractices perpetrated by bank employees against the interests of their banks/employers or clients of the banks, solely for self aggrandizement. Such malpractices include stealing of banks' monies, stealing of customers' monies, falsification of accounts and forgery of bank papers for purposes of self-enrichment or deliberately breaching banking rules.

2. **Malpractices by non-employees of banks:** These malpractices range from passing forged cheques to defraud banks, fraudulent transfers of monies such as fake international tested telexes, purportedly sent by Nigerian banks to foreign banks.

3. **Malpractices by the banks:** Under this, three broad categories are identified as follows:

i. Exceeding Credit Ceilings: The Central Bank of Nigeria over the years imposes a general credit ceiling on banks on the percentages of their operational funds which they may lend out as loans. Within these limits, it then sets our guidelines for sectoral allocations of such loan-funds. Banks are known to have breached these guidelines on sectoral allocations, such breaches may be due to the quest for excessive profits, namely; operating policies which result in neglect of the less lucrative areas and diverting their loan activities into lucrative areas even in excess of the sectoral ceilings imposed by the guidelines.

An example is that commercial banks tend to give more loans to general commerce at the expense of productive sectors like manufacturing and agriculture.

These commercial banks' attitude of over-lending serves as encouraging large-scale foreign goods importation, to the detriment of the growth of local industries. This attitude has constituted an encouragement to smuggling of foreign goods into Nigeria. Such a malpractice which is brazen and patently damaging to the economy must be condemned by all and sundry. Some people have even suggested that the malpractice qualifies as an economic sabotage under the Special Tribunal (Miscellaneous Offenses) Decree No. 29 of 1984 of 1984 as amended.

ii. Illegal Sales of Foreign Exchange: Banks are known to have engaged in the malpractice of purchasing foreign exchange from independent sources in circumstances almost similar to what obtains in the

"parallel" or the "black market". The banks then sell off such privately purchased foreign exchange to their customers at exorbitant rates.

The malpractice of hoarding foreign exchange by banks which they officially purchased is also not new in the banking industry. They are able to account for their sales by entering into their sales the transactions involving their sales of the parallel market purchases. This then involves cooking up the books to reflect what are considered to be acceptable exchange sales rates, which do not often reflect the actual rates of exchange sales. The hoarded officially acquired foreign exchange is also sold at exorbitant rates, leading to exorbitant overall profits all-round for the banks.

iii. RoundTripping Funds: This is the practice whereby a foreign bank would guarantee a local loan for a local project. Usually, the foreign bank would be a corresponding bank or an affiliate of the local bank. The two banks would then enter into collusion and the following scenario would emerge: On the raising of the bank guarantee by the foreign bank to the Nigerian bank to back up an application to the Nigerian bank for a loan in Naira for the execution of a project in Nigeria, the Nigerian bank would then decide to grant the loan.

The project would subsequently be executed in Nigeria. All necessary foreign importations would be effected through the normal procedure of obtaining the required foreign exchange in Nigeria. During the execution or after the completion of the project, all the parties involved (contractor, the Nigerian bank and the foreign bank) would in accordance with their initial conspiracy, record the

failure to execute or complete the project. The Nigerian bank would then formally call upon the foreign bank to remit the amount of the foreign exchange provided for in its guarantee to enable the completion of the project or reimbursement of itself. the foreign exchange so transferred would then be sold at exorbitant rates locally. After the deduction of its own profit locally, the remaining amount would then be transmitted back to foreign bank through the purchase of foreign exchange in the Nigerian market. All the parties to the conspiracy, banks and individuals concerned, would then share the remaining profit over and above the original sum guaranteed in foreign exchange.

2.3 CAUSES OF BANK FRAUDS AND MALPRACTICES

The major causes of frauds and malpractices within the Nigerian banking industry are as follows:

1. SOCIAL AND ECONOMIC CONDITIONS

This may include unemployment, prevalent poverty and extended family. An increase in inequality, for instance, is assumed to induce changes in the behaviour of individuals, particularly those within the low income categories. A political argument asserts that relatively poor individuals respond to "perverse" inequality by attempting to overthrow the current system. In other words, deprived individuals within the industry connive with others to defraud the financial establishment with the express intention of replacing the "unfair" distribution with a system that is conducive towards greater equality.

2. MISPLACED SOCIAL VALUES

This include worshipping of wealth no matter how acquired and thoughtless aping of ostentatious lifestyles. This materialistic attitude and open exhibition of

fortunes have invariably enticed people to wide-spread frauds and malpractices.

3. INADEQUATE INTERNAL CONTROL SYSTEMS

This may result from sluggish and inefficient management, inappropriate recruitment, favoritism in appointing or employing board of directors, top managers and officers who are often totally unqualified or have had records of malpractices elsewhere.

Others grouped the causes of frauds and malpractices into two major classes. Institutional factors and environmental/social factors. The institutional factors are those traceable to the internal environment of the bank, while the environmental/societal factors are those which result from the influence of environmental/society on the banking industry.

The common institutional causes of frauds and malpractices are summarized as follows:

- Volume of work
- Number of staff
- Nature of services
- Banking experience of staff
- Inadequate/lack of staff training
- Poor management
- Staff negligence
- Recruitment system
- Poor security arrangement for documents\
- Use of sophisticated accounting machines
- Frustration
- Inadequate infrastructure

- Delays in procuring documents
- Lapses in the management control system of corporate customers
- Negligence of customers

The environmental/societal factors have been identified as follows:

- Societal values
- Inability of law enforcement agents to detect frauds and malpractices and prosecute fraudsters with despatch.
- Lack of effective deterrent punishment.

Mr. H.K. Fuja in an article "Frauds, Malpractices in Banking Industry" asserts that there are extraneous causes of foreign exchange frauds and malpractices, the control of which may be beyond the capacity of any one bank or group of banks. Prominent among these are:

i. The continuing wave of internationalization permeating all of our economic, political, technological and social life. Greater freedom begets greater permissiveness. This in turn engends a relaxation of societal ethical standards and an upsurge in the "get-rich-quick" syndrome.

incidents of advance fee fraud, for instance, usually involve not only an indigenous trickster, but equally a fraudulent foreigner who may be tempted to reap where he did not sow.

ii. Loopholes in the regulatory, supervisory and legal system. This may find expression through ineffectiveness, or lack of firmness, on the part of regulatory, supervisory or law enforcement authorities. For example, the wave of liberalization and deregulation sweeping through the world's financial centres may alter price structures,

increase competition and pose greater operating risks to financial institutions. These can lead not only to an increase in the number of failures of financial institution but, equally important, to increase in fraud cases.

iii. Frauds and malpractices may be unwillingly encouraged by gullible depositors who may have been given to believe that money lodged with a bank or financial institution is necessarily free of the risks of loss especially through peculation. The same goes for passive shareholders, who may remain ignorant of the excesses of management for prolonged periods.

2.4 THE EFFECTS OF FRAUDS AND MALPRACTICES ON BANKS

Frauds and malpractices lead to loss of funds which belong either to the banks or its clients. The loss results in reduced levels of resources availability which would seriously affect the operations of banks and could even force a close-down if the frequency and size of the frauds are high.

The loss of confidence in banks by customers which also result in a set-back on efforts aimed at promoting the banking habit are other serious effects of fraud and malpractices on banks.

2.5 MEASURES FOR CONTROLLING FRAUDS AND MALPRACTICES IN BANKS

Mr. Joseph O. Sanusi (Chief Executive of First Bank of Nigeria PLC) has classified existing systems of control into two: Those aimed at prevention and those aimed at detection:

1. Measures aimed at fraud prevention include; dual control, operational manual, graduated Limits of authority, lending limits, reporting system, micro filming, close circuit television, establishment of inspectorate units, general personnel policies, segregation of duties, verification of signatures, control of dormant accounts, retention of passport sized photographs, closure watch on the life style of staff, coding, decoding and testing of cable and telex messages.

   Others are observers of laid down procedures for opening and closing of accounts and the use of regiscope camera to photograph persons drawing large sums of money.

2. Measures aimed at fraud detection include checking of cashiers, call-overs, reconciliation and balancing of accounts at branch, inter-branch and head office levels, periodical submission of statement of accounts, stock taking of security items and cash in vaults and inspection by bank inspectors.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 SOURCES OF DATA

Data for this study were obtained from two major sources, namely:-

1. Primary Source:- Information obtained directly from questionnaire respondents and personal interviews conducted on the research topic.
2. Secondary Source:- This is information obtained from publications relevant to the research study. Data obtained were from returns of commercial banks on frauds and forgeries - Nigeria Deposit Insurance Corporation (NDIC) reports, relevant articles and papers presented on the subject.

3.2 METHODS OF DATA COLLECTION

Primary and secondary data were collected for this research work. The primary data were obtained from responses to the structured/unstructured questions in the questionnaire administered to banks in the areas under study.

Secondary data were obtained from returns of commercial banks on frauds and forgeries (NDIC) reports and other relevant statistics as contained in other publications/reports.

3.3 METHOD OF DATA ANALYSIS

3.3.1 Analysis of Field Survey

The analysis is based on responses from questionnaire administered in the sampled areas of the research study i.e. Kaduna and Plateau States. The responses

were analyzed in the light of our research questions.

3.3.2 Analysis of Commercial Banks Returns of Frauds and Forgeries

The analysis here were based On secondary data mainly from commercial banks returns on frauds and forgeries as contained in NDIC reports. Comprehensive inferences and conclusions were drawn on the data given in the reports for the period 1990 to 1992. The analyses were also tailored towards the research questions raised in the study.

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CHAPTER FOUR

DATA PRESENTATION AND ANALYSES

This chapter is divided into two sections in which an indepth analyses of the data obtained from the research study are presented. In the first section, data obtained through questionnaire administered to banks staff in Kaduna and Plateau States were tabulated, ranked as a percentage of total responses and analyzed.

some fifty banks staff drawn mostly from commercial banks completed the opinion survey questionnaire. Majority of the staff that responded have banking experience spanning three years and above.

These fifty members of staff were asked to rank the various causes and types of frauds and malpractices by their relative frequency and magnitude. They were also asked to rank frauds and malpractices preventive measures by their level of effectiveness.

The second section of the chapter dealt with the analyses of data as contained in returns of commercial banks and forgeries in Nigerian Deposits Insurance Corporation (NDIC) reports from 1990 to 1992. The analyses covered the year, number of banks rendering returns, number of banks with fraud cases, amount involved, actual/expected loss and rank of staff were involved in frauds.

The analyses were aimed at answering the research questions raised in chapter one.

4.1 ANALYSIS OF SURVEY RESULTS

Fifty bankers drawn from various commercial banks in Plateau and Kaduna States were asked to rank the various types of frauds and malpractices by their

relative frequency, the results of which are presented in Table 4.1.

Table 4.1: Ranking of Frequency or Types of Frauds and Malpractices

S/NO.	TYPE OF FRAUDS AND MALPRACTICES	%
1.	Cashiering fraud	86
2.	Falsification of accounts	76
3.	Clearing fraud	74
4.	Suppression of entries	70
5.	Cross firing of cheques or kite flying	68
6.	Forged cheques with forged signatories	50
7.	Computer fraud	46
8.	Foreign exchange fraud	20
9.	Printing of bank documents illegally	18
10.	Robberies	0

SOURCE: The questionnaire.

In the opinion of 86% of the respondents, cashiering frauds and malpractices ranked highest among the types of frauds and malpractices perpetrated by bankers. The high frequency of this type of fraud was attributed to the exposure of cashiers who were mostly junior staff, inexperienced and inadequately trained to handling of raw cash. Another reason was most of banks cashiers and clerks did not pass through the vigourous process of screening before their employment.

Falsification of accounts was ranked next at 76%. These types of frauds and malpractices were usually committed by machinists who were acting ignorantly, innocently or with proven criminal intent to defraud. This category of staff that were opportuned to handle transfer vouchers (non-cash transaction vouchers) often play with customers' accounts by inflating credit balances, carrying wrong balances

forward in favour of a customer, taking debit balances as credit, etc. with the sole aim of committing fraud.

Clearing fraud in the opinion of the respondents accounted for 74%. This type of fraud and malpractice constituted a major source of loss of funds by banks in recent years. The fraud was usually perpetrated by customers and in most cases with active collusion of bankers. It usually involved large sums of money and most bankers were enticed to collude with outsiders because of the large share of fraud proceeds they might get.

Suppression of entries accounted for 70% in the opinion of the respondents. This type of fraud and malpractice was attributed to bankers' greed and lack of loyalty to their banks. It also constituted a major source of income leakage to most banks. An example was a suppression of a cheque paid in from being debited to the customers account. In such a situation, the bank loses interest for the number of days the cheque was suppressed or not reflected in the customers account.

In the opinion of the respondents, foreign exchange fraud with 20%, printing of bank documents illegally with 18% and bank robberies with 0% were not frequent types of frauds and malpractices in their branches. The reason attributed for the less frequent occurrence of foreign exchange fraud was that in most of the branches sampled, foreign exchange transactions were mostly handled by their head offices or central foreign exchange units in Lagos. The role of the branches was documentation only and sending same to the controlling offices. The branches sampled were not also involved in bidding and allocation of foreign exchange to customers.

Printing of bank documents illegally was also a rare occurrence in the branches sampled.

This was attributed to sufficient stationery documents usually sent to the branches by their Head or Area offices and the fact that most of the documents were specially printed by the Nigerian Printing and Minting Company with advanced technology which ordinary printers did not have.

Most of the branches sampled did not record a single case of robbery. This was also attributed to tight security provided to banks by armed police personnel.

Table 4.2 showed the ranking of the causes of frauds and malpractices.

Table 4.2: Ranking of Frauds and Malpractices Causes

S/NO.	CAUSES OF FRAUD AND MALPRACTICES	%
1.	Poor Management, e.g. inadequate supervision, inadequate control and under-staffing	76
2.	Lapses in the management control system of corporate customers	74
3.	Inadequate/lack of staff training	72
4.	Poor salaries and condition of service	70
5.	Recruitment	66
6.	Inability of law enforcement agents to prosecute fraudsters with despatch	64
7.	Societal values	60
8.	Use of sophisticated accounting machines	54
9.	Poor security arrangement for documents	50
10.	Frustration	50
11.	Staff negligence	46
12.	Delays in procuring documents	44
13.	Years of banking experience	16
14.	Age of branch	10
15.	Location of bank branch	10
16.	Banks ownership structure	6

SOURCE: The Questionnaire

76%, in the opinions of bankers sampled, identified poor management, inadequate supervision, inadequate control and under-staffing as the most significant causes of frauds and malpractices in banks. These causes were attributed to the rapid expansion of the banking industry in 1980s. In order to produce more officers, some banks had resorted to accelerated promotion policy. This apparently affected the quality of supervision of the junior staff by these new-breed officers.

Another cause of frauds and malpractices attributed to poor management was inadequate control system.

The comprehension of the banks control systems are basic necessities for managers. However, in a situation where managers were not opportuned to know or familiarize themselves fully with the control systems, it would not be possible for them to know whether the control system at their various branches were adequate or not. Consequently, fraudsters often easily took advantage of the situation.

These causes were followed closely by lapses in management control of corporate customers with 74%. These causes of frauds and malpractices were attributed to lapses and inadequacies in the management control systems of banks corporate customers. If a corporate customer loses its cheques book or leaf and delays in reporting such to the bank, this document might be used to commit fraud. Similarly, if a firm, is careless in the handling of its security materials, such as the seal, it might be aiding the perpetration of fraud using its bank accounts.

Inadequate/lack of training accounted for 72%. In the opinion of the respondents, this was another cause of frauds and malpractices. It was common to find inadequate trained staff working in some banks. Frauds and malpractices perpetrated in this area, was attributed to the rate of expansion in the banking

industry since the introduction of Rural Banking Scheme in 1977. This had led to acute shortage of trained personnel in the banks generally. Another effect of this was that even some clever long-serving messengers or ancillary staff could easily take advantage of the inexperienced and half-baked officers to perpetrate frauds and malpractices.

Poor salaries and condition of service at 70% was another cause of fraud and malpractices in banks in the opinion of the respondents. There was a general perception in the banking industry that the staff were inadequately compensated.

This view was based on the fact that considering the efforts put by banks staff in generating the jumbo profits which banks declare annually and what they were paid as salaries and allowances.

The compensation to staff in terms of salaries and allowances was generally viewed to be inadequate by the respondents. It was also generally agreed that when people were poorly paid and they were unable to meet their personal physiological and social needs, they would be tempted to fraudulently convert some of their employers money into their own use. The temptation becomes harder to resist particularly for banks staff who work with physical cash or near money instruments that could be easily converted to cash.

Lapses in recruitment system with 66%, in the opinion of the respondents was another cause of frauds and malpractices in banks. Some years back, recruitment of bank staff was purely based on merit, as a result, banking used to be publicly acknowledged as a noble profession. However, nowadays, all kinds of subjective factors like tribalism, family connections, religion, etc. were employed for recruiting staff into banks.

This sad situation had made fraudsters infiltrate the banking industry easily.

Inability of law enforcement agents to prosecute fraudsters with despatch was next in the ranking with 64%. Sadly, the kind of punishment meted out to fraudsters in Nigeria do not seem to be sufficiently deterring and often not carried out with despatch.

In the words of Mr. Wole Adewunmi "A fraudster knowing that the chances of being detected is small and that he will be welcomed back with open hands as a rich man after a few months or years in prison, sees no reason why he does not catapult himself swiftly into the class of those who have 'arrived' by committing fraud."[1]

Misplacement of societal values was ranked next at 60%. The banking industry is not an island but an integral part of the society. It is affected by as well as it affects the elements in its immediate and remote environments. If the whole society of which the bank is a part, is morally corrupt, it will be difficult to expect banks to be insulated from the effects of such moral decadence. What society appreciates and generally worships is money. In effect, the present high propensity to defraud of the average Nigerian is the direct product of our materialistic society."[2]

Sometimes frauds and malpractices were perpetrated because of the need to make ends meet. Such need usually arose because of:-

i. inordinate ambition to join the class of those who have made it.

ii. biting inflation; this is the greatest enemy of workers all over the world when prices of goods and services are rising and workers salaries remain fixed, purchasing power will tend to decline and correspondingly, the standard of living will also tend to fall.

iii. increased financial burden resulting from dependents thrown out of jobs.

Next in the ranking with 54% was the use of sophisticated accounting machines. This type of fraud and malpractice was mainly attributed to the use of sophisticated accounting and communication equipment known as computer. There was wide spread concern about computer fraud mainly because of its technicality and difficulty of fraud detection until losses had reached large scale.

Poor security arrangements for security documents ranked at 50% was also a cause of frauds and malpractices in banks. Easy access to cheque books, drafts, specimen signature cards could be exploited by fraudsters.

Size of branch in terms of deposits, number of staff, loans and advances was equally ranked at 50% to be significant factor in frauds and malpractices perpetration.

Years of banking experience with 16% was in the opinion of the respondents not a significant factor in the cause of frauds and malpractices. This fact was attributed to instances where some bankers under probation committed frauds and malpractices.

Age of branch at 10% was another insignificant factor. This had also been attributed to the fact that frauds and malpractices took place In many new branches in the respondents banks.

Location of bank branch was another insignificant factor on the cause of frauds and malpractices with 10%. Some of the respondents opined that frauds and malpractices took place more in rural branches than in urban branches. This was due to the remoteness of these branches and less frequent visits by controlling offices, officers and bank inspectors.

Banks ownership structure was the least significant cause of frauds and malpractices in banks with 6%. In the opinion of the respondents wherever fraudsters find the opportunity, they defraud irrespective of the banks ownership structure.

Table 4.3 shows the ranking of frauds and malpractices preventive measures.

Table 4.3: Ranking of Frauds and Malpractices Preventive Measures

S/NO.	PREVENTIVE MEASURES	%
1.	Regular balancing of Account	82
2.	Internal Audit (Periodical Inspection)	72
3.	Regular rotation of job/staff	72
4.	Internal disciplinary actions	70
5.	Proper training of bank staff	66
6.	Manual of instructions	66
7.	Area offices branch monitoring	64
8.	Staff Schedule of duties. Ensuring check and balances in every operation	62
9.	Dual control over assets and other security documents	54
10.	The checking of cashiers	52
11.	Preparation of weekly/monthly returns to controlling offices	50
12.	Control over lending limits	50
13.	Prosecution of fraudsters by law enforcement agents	10

SOURCE: The Questionnaire.

In the opinion of the respondents, regular balancing of accounts was ranked as the most effective measure with 82%. This was attributed to the fact that whenever heads of accounts were not balanced, it signals problem.

Periodical inspection (internal audit) was ranked at 72%. In the opinion of the respondents that was the second most effective frauds and malpractices preventive measure. The periodical inspection gave management an insight on how well branches were complying with laid down rules and procedures, the accuracy, truth and fairness of the returns sent to their head offices. In a nutshell, the auditors serve as watch dogs.

Regular rotation of job/staff was also ranked at 72%. In the respondents opinion that was another effective frauds and malpractices preventive measure. The logic for regular staff/job rotation was any staff who did something that was fraudulent or unethical could easily be detected by the staff that took over his assignment.

Internal disciplinary action is ranked at 70%. This was another effective frauds and malpractices preventive measure. Staff of the banks operating in a disciplined environment, frauds and malpractices perpetration would be difficult and often internal disciplinary measures taken on staff served as a detterent to others in the bank.

However, prosecution of fraudsters by law enforcement agents ranked at 10%, in the opinion of the respondents, was not an effective preventive measure of frauds and malpractices. This was attributed to longer time spent by police in investigation of fraud cases and the undue delay in conviction of fraudsters. This assertion had been confirmed by police statistics of frauds and forgery cases in Table 4.7.

4.2 ANALYSIS OF RETURNS OF COMMERCIAL BANKS ON FRAUDS AND MALPRACTICES

In compliance with the provisions of Sections 39 and 40 of Nigerian Deposit Insurance Corporation Decree No. 22 of 1988, insured banks are to render returns on cases of frauds and forgeries and the number of bank staff terminated, dismissed and retired on grounds of frauds.

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. The elimination of these malpractices from the banking system is therefore in the best interest of depositors and the development of the economy in general.

Table 4.4 shows a breakdown of frauds and forgeries cases in the period 1990 to 1992.

Table 4.4 Returns of Commercial Banks on Frauds and Forgeries

YEAR	NO. OF BANKS RENDERING RETURNS	NO. OF BANKS WITH FRAUD CASES	AMOUNT INVOLVED (₦'000)	ACTUAL/ EXPECTED LOSS (₦'000)	PROPORTION OF ACTUAL/EXPECTED LOSS TO AMOUNT INVOLVED (%)
1990	148	91	788,798.4	22,449	2.9
1991	155	79	360,194.4	25,498	7.1
1992	204	89	351,930	64,800	8.7

SOURCE: N.D.I.C. Reports (1990 - 1992).

A total sum of ₦788.8 million was involved in fraud and forgeries in 1990, out of which ₦22.4m was regarded as actual/expected loss. A total sum of ₦98.2m in 1989 was involved in frauds and forgeries. This showed an increase of 703.1% in 1990.

In 1991, a total sum of ₦360.2m was involved in frauds and forgeries out of which ₦25.5m was regarded as actual/expected loss. Compared with its level

of ₦788.8m in the year 1990, the amount involved in frauds and forgeries showed a remarkable decrease of 54.3% in 1991. The actual/expected loss at ₦25.5m in 1991, however, showed a slight increase of 13.8% above its level of ₦22.4m in 1990.

It is worth noting that on the average, the number of banks with fraud cases per quarter in 1991 was 19, compared with the 23 cases in 1990. This decrease was a result of some improvement in the internal control systems of some banks that had fraud cases in the year 1990.

The sum of ₦351.9m was involved in frauds and forgeries in the year 1992. Compared with ₦360.2m in 1991, this showed a marginal decrease of 2.3% in 1992. The actual/expected loss was ₦64.8m in 1992 which had more than doubled the actual/expected loss of ₦25.5m in 1991.

The rise of 189.3% in 1992 over the 1991 figure of actual/expected loss arising from frauds and forgeries in commercial banks could be partly due to the increased number of banks which submitted returns in 1992 and partly because of increasing sophistication with which the perpetrators go about their nefarious activities. Another reason was lack of punishment by law enforcement agents that would serve as a deterrent.

Table 4.5 Ten Banks with the Highest Fraud Cases

GROUP	1990		1991		1992	
	Amount Involved (₦'m)	% Share	Amount Involved (₦'m)	% Share	Amount Involved (₦'m)	% Share
Total for 10 banks	782.69	97.3	381.44	98.1	346.77	84.4
Grand Total for all banks	804.19	100	388.51	100	411.75	100

SOURCE: N.D.I.C. Reports (1992)

A larger percentage of the amount involved in frauds and forgeries during the years 1990 through 1992 were accounted for by ten banks most of which were commercial banks. The reason for the high proportion of commercial banks with fraud cases in the total number of banks could be seen in terms of commercial banks large branch network, large number and low quality of employees, numerous customers and products. Table 4.5 presents the total amount involved In frauds and forgeries for ten banks with highest fraud cases.

There was a decline of 9.1% between 1992 and 1991 in the total amount involved In frauds and forgeries in the ten banks as shown in Table 4.4. This was against an increase of 3.7% in the total amount involved in frauds and forgeries in 1992.

This evidence suggests that fraud cases in banks were spreading and no more concentrated in a few banks. The share of ten banks with the highest fraud cases in the total amount declined from 98.1% in 1991 to 84.4% in 1992.

Bank frauds take different forms as the perpetrators become more sophisticated in the methods. As per 1992 NDIC report the most common types of frauds and forgeries perpetrated during 1992 as per returns rendered by banks included the following:

i. Diversion of unutilized foreign exchange.

ii. Fraudulent withdrawal from customers account.

iii. Granting unauthorized credit in exchange for uncleared effects - cheque kiting.

iv. Alteration of cheques.

v. Blotting of account number on cheques and forging of signature.

vi. Fraudulent suppression of applications/operations of loan account.

vii. Transfer of customers lodgement to staff account.

viii. Withdrawal and suppression of cleared cheques.

ix. Fraudulent manipulation of Central Bank of Nigeria clearing cheques.

These fraudulent practices by bankers as reported in the NDIC Report (1992) confirmed the ranking of our survey results on types of frauds and malpractices perpetrated by banks staff - Table 4.1.

Table 4.6: Members of Staff Involved in Frauds and Forgeries

S/NO.	RANK	1990		1991		1992	
		No.	%	No.	%	No.	%
1.	Supervisors and Managers	37	13.7	66	12.8	132	30.3
2.	Officers, Accountants and Executive Assistants	45	10.8	60	11.7	66	15.1
3.	Clerks and Cashiers	207	49.6	236	45.9	156	35.8
4.	Typists, Technicians and Stenographers	8	11.9	47	9.1	9	2.0
5.	Messengers, Drivers, Cleaners, Security Guards and Stewards	68	16.3	51	9.9	54	12.4
6.	Temporary Staff	2	0.5	24	4.7	-	-
7.	Uncategorized Staff	30	7.2	30	5.8	19	4.4
	TOTAL	417	100	514	100	436	100

SOURCE: N.D.I.C. Report (1992).

Table 4.6 shows the ranks and number of staff involved in frauds and forgeries from 1990 to 1992. The table showed that a total of 436 staff of banks were dismissed, retired or had their appointments terminated because of their involvement in frauds and forgeries during 1992 as compared with 514 and 417 in 1991 and 1990 respectively.

This has confirmed the assertion that more and more sophisticated methods are being employed as fewer staff were involved in 1992 but the amount lost was larger than in 1991. The table further reveals that 81.2% of the staff involved in frauds and forgeries constituted the core grades of staff in the banking operations.

Supervisors/managers constituted 30.3%, officers/accountants/executive assistants accounted for 15.1%, and clerks/cashiers accounted for 35.8% in the total number of staff terminated, dismissed or retired in 1992. These three categories of employees accounted for 12.8%; 11.7% and 45.9% respectively of total staff involved in 1991. In the last three years (1990 - 1992), a total of 1,367 staff of banks lost their jobs due to their involvement in frauds and forgeries.

However, it is worth noting that despite the fact that NDIC has strived to provide figures which though verifiable 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.

In Newswatch Magazine, February 14, 1994 edition, the Inspector-General of Police was quoted as saying "between May 1, and July 5, 1993 the Police handled 76 cases of fraudulent malpractices in finance houses. In all, ₦2.158 billion went down the drain, with only ₦46.11m recovered." This revelation definitely indicated that frauds and malpractices in the banking industry is on the increase.

It is also a Known fact that not all fraud cases that occur in the banks and other financial institutions are reported to the police. The fear here is that, if the public should get to know of the frequent incidents of fraud in their depositing banks, they would rush to withdraw the deposits, an occurrence that may lead to the collapse of such financial institutions. This has made statistics given by the police authority in fraud cases to be different from the one given by NDIC whose proper returns are supposed to be rendered.

Table 4.7 shows bank frauds statistics by the police for the period 1990 to 1991.

Table 4.7: Statistics of Police Fraud and Forgery Cases

YEAR	NO. OF CASES REPORTED	NO. CHARGED TO COURT	NO. OF PERSONS ARRESTED	NO. OF PERSONS CONVICTED	NO. UNDER INVESTIGATION	AMOUNT INVOLVED (₦)
1990	104	30	82	9	57	4,638,246.22
1991	46	22	69	9	28	9,679,088.55

SOURCE: M.S.D. Police Force Headquarters Annex, Lagos.

A breakdown of the figures in Table 4.4 showed that in 1990 and 1991 as per NDIC Reports the sums of ₦788.8m and ₦360.2m were involved in the frauds and forgeries. But police report as per Table 4.7 for the same period showed that ₦4.64m and ₦9.68m were involved in frauds and forgeries. This has confirmed the assertion that not all frauds and forgery cases were reported to police. Table 4.7 also confirmed our survey results that fraud cases were not treated with despatch.

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CHAPTER FIVE

SUMMARY, OBSERVATIONS, CONCLUSIONS AND RECOMMENDATIONS

This chapter contains four sections. In section one, summary of the study is given. The second section contains observations made. The third section contains conclusions derived from the research findings. Finally, in the fourth section recommendations were made based on the conclusions.

5.1 SUMMARY

Chapter one outlined the purpose of the research study, its significance to the banking industry, government and the general public. The delimitations of the study focused on fraud and malpractices in the banking industry with special emphasis on commercial banks operations in Nigeria. The research was conducted in two states, Kaduna and Plateau and covered a period of three years (1990 - 1992).

However, time and cost were the major limitations of the study as they did not allow for a nation-wide survey of all banks branches and persons involved in frauds and malpractices.

In chapter two, related literature was reviewed on the research topic. The first part of the chapter was a brief history of the Nigerian banking industry. The second part dealt with various definitions of frauds and malpractices and major types of frauds and malpractices in the banking industry. Ways of defrauding banks were also discussed in the section.

The chapter also discussed the differences between frauds and malpractices and broad categories of malpractices perpetrated by banks. Major causes of bank

frauds and malpractices within the Nigerian banking industry were discussed in the chapter.

The third chapter discussed the research methodology employed, such as the sources of data, method of data collection and method of data analysis.

In chapter four, the presentation and analyses of data were made. In the first section of the chapter, data obtained through questionnaire and interviews conducted (primary data) were tabulated, ranked as a percentage of total response and analyzed. The second section of the chapter dealt with the analysis of data as contained in returns of commercial banks on frauds and forgeries in NDIC reports from 1990 to 1992. The analyses in the chapter were tailored towards answering the research questions raised in chapter one.

5.2 OBSERVATIONS

Based on the analyses in chapter four on field survey and NDIC reports data on frauds and malpractices in the banking industry, we observe as follows:

1. That between 1990 and 1992, commercial banks filed 259 cases of frauds and forgeries with Central Bank of Nigeria (CBN).
2. That the highest number of fraud cases occurred in 1990 when 91 cases were reported with ₦788.8m as the amount involved in the fraudulent acts.
3. The highest actual/expected loss was in 1992 where the sum of ₦64.8m went down the drain due to frauds and malpractices.
4. In the period under review, 1367 bank staff were involved in the 259 cases of frauds and forgeries reported. The number of junior staff of various cadres accounted for 941 or 68.84% of the total. Within the junior staff

cadre, bank cashiers alone were 599 or 43.82% of the total.

5. Share of total amount involved in frauds and forgeries for ten banks with highest fraud cases in 1990 was 97.3%, 1991 98.1% and 1992 84.4%.

5.3 CONCLUSIONS

On the basis of the data presented in chapter four, we conclude as follows:

1. Cashiering fraud, falsification of accounts, clearing fraud, suppression of entries, cross firing of cheques, foreign exchange fraud, forged cheques with forged signatures were the commonest methods employed to defraud banks. On the other hand printing of bank documents illegally and computer frauds had least occurrence.
2. Poor management in terms of inadequate supervision, inadequate control and under staffing were the most significant causes of frauds and malpractices.
3. Lapses in the management control system of corporate customers and inadequate/lack of staff training were other significant causes of frauds and malpractices.
4. Years of banking experience, bank ownership structure and location of branches were relatively insignificant factors in the perpetration of frauds and malpractices in banks.
5. Regular balancing of accounts, periodical inspection, rotation of staff/job, proper training of bank staff were ranked high as the most effective preventive measures against frauds and malpractices in banks.
6. Also ranked as important factors in frauds and malpractices prevention were a good manual of instruction, area offices branch monitoring, staff schedule

of duties, dual controls over assets and other security documents.

5.4 RECOMMENDATIONS

This section contains two parts:

i. Recommendations for action; and

ii. Suggestions for further research.

5.5 RECOMMENDATIONS FOR ACTION

In making these recommendations, cognisance had been taken on the fact that the integrity of bankers is tied to the prevailing standard of probity in society. The banking industry is not an island but an integral part of society, as such it would be unrealistic to expect higher standards from bankers.

1. **Regular balancing of accounts:** Experience has shown that unbalanced books provide fertile grounds for frauds and malpractices. At times books of accounts are intentionally distorted so as to create confusion. This situation should in fact be viewed as a danger signal.
2. Periodical inspection of branches by banks inspectors should be regularly carried out. It enables banks to operate as per laid down rules and procedures and any fraud or malpractice perpetrated can be detected in good time.
3. Regular rotation of job/staff should be undertaken by banks branches. In other words no staff should be left on one function for too long a period in order to forestall the possibility of exploring existing operational loopholes and short coming for personal gain. Bank management should also ensure that all members of staff take their leave when due. Accumulation of leave

should be discouraged.

4. Banks should have sound recruitment policy and proper training programmes for their members of staff. It is worth noting that a good number of frauds and malpractices in the banks succeed due to mainly staff involvement with fraud syndicates. It is also recommended that banks should insert in their employment contracts a clause to hold guarantors of banks staff responsible for fraud perpetrated by employees whom they introduced to the banks.

5. Regular checking of cashiers and close monitoring of their activities should be undertaken by banks. In consideration of cashiering fraud as the commonest form of fraud in most banks, there is the need to redesign a more effective internal control system particularly in cash departments of banks.

   Cash Officers should ensure the need of cash by the cashiers before the money is made available to them. Receiving and payment of cash, a common practice of rural branches of banks should be divorced from each other. The use of close circuit televisions in big or urban branches to monitor the movement of staff and customers should be implemented.

6. To stem the cause of fraudulent activities through the clearing system, banks should use officers for clearing house operations as against the present practice of using clerks.

7. Inability of law enforcement agents to detect fraud or prosecute fraudsters has made banks reluctant to report cases to police. It is hereby recommended that banks should liaise with the Federal Government to allow private prosecution of fraud cases in regular courts or special tribunals. This

might put an end to police attitude of delaying investigations.

8. All banks should introduce stricter disciplinary actions which would serve as a deterrent to other staff whenever malpractices are proved against such staff.

9. To avert abuses by board members and top management staff, The American - Filipino model called DOSRI (Directors, Officers, Stockholders and Related Interests) states that a bank's board member or management should not interfere with any process for granting loans and advances to customers. Through the vigorous application of the principle of DOSRI, a bank could help alleviate chronic problems of favouritism in granting and retrieving loans, unhealthy recruitment and promotions, which resulted in the collapse of many banks around the world. In Nigeria, a case in point was Owena Bank whose total outstanding staff loans as at February, 1993, amounted to over ₦60m, far exceeding the bank's actual total paid-up share capital. The amount represented 14% of the bank's gross loans.

The following guides in fraud detection known as "Red flags" are recommended to banks for use:-

1. **Personal**

   A. Financial Pressures:

      i. High Personal Debts

      ii. Severe illness in family

      iii. Inadequate income and/or living beyond means

      iv. Excessive gambling

      v. Heavy expenses incurred from association with other women/men.

vi. Undue family, peer, company, or community expectations.

vii. Excessive indulgence in alcohol or drugs which results in high indebtedness.

B. Revenge Motives - Complaints of:

i. Perceived inequities (e.g. underpaid, poor job assignment).

ii. Resentment of superiors.

iii. Frustration, usually with the job.

C. Personality Red Flag:

i. A person lacking in the development of personal moral honesty.

ii. A person without a well-defined code of personal ethics.

iii. A person who enjoys feeling of power, influence, social status and excitement associated with rapid financial transactions involving large sums of money.

iv. A person who is arrogant or egocentric.

v. A person with threatened self-esteem.

vi. A person who delights in subverting system of control.

vii. A person with a criminal history.

viii. A person who has questionable associates.

ix. A person with poor references.

D. Opportunity Red Flags:

i. Very familiar with operations (including cover-up capabilities)

ii. In a position of trust while he is not trustworthy.

iii. Close association with superiors and other key people.

5.6 SUGGESTIONS FOR FURTHER RESEARCH

In consideration of the fact that frauds and malpractices in the banking industry are alarmingly on the increase and the fact that the causes and methods employed vary with time, it is hereby suggested that research on frauds and malpractices be carried out regularly every two years to keep track of the development in the field.

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APPENDIX I

Department of Business Administration,
Institute of Administration,
Ahmadu Bello University,
ZARIA.

17th May, 1994.

Dear Sir,

This is an M. B.A. Project work on "Frauds and Malpractices in the Banking Industry" leading to the partial fulfillment for the award of Master in Business Administration.

The research work is for academic exercise only and all information given in answering attached questionnaires will be confidentially treated.

In the light of the above, I shall appreciate if you kindly answer the attached questionnaires.

Thanking you in advance for your co-operation.

Yours faithfully,

AMINU ABDULLAHI

QUESTIONNAIRE

1. Date of Opening _____

2. Staff strength _____

YEAR	1990	1991	1992
Total Number of Staff			

3. Size of Deposits:

YEAR	1990	1991	1992
Total Deposits in ₦'000			

4. Size of loans and advances:

YEAR	1990	1991	1992
Total Loans & Advances ₦'000			

5. Causes of Fraud in Banks:

To what extent do you consider the following factors as significant in the causes of frauds in your bank branch?

CONSIDERED LEVEL OF SIGNIFICANCE

S/NO.	CAUSES OF FRAUDS AND MALPRACTICES	HIGHLY SIGNI-FICANT	SIGNI-FICANT	NOT SIGNI-FICANT
i.	Size of Branch: (a) No. of Depositors (b) Total Deposits (c) Total Loans and Advances (d) Number of Staff			
ii.	Location of bank branch: (a) Urban (b) Rural			
iii.	Age of bank branch			
iv.	Bank's ownership structure (a) Wholly private indigenous (b) Wholly government (c) Private indigenous and foreign (d) Government and foreign			
v.	Years of banking experience of staff.			
vi.	Inadequate/lack of staff training.			
vii.	Poor Management, e.g. in adequate supervision, inadequate control, under-staffing.			
viii.	Poor salaries and condition of service.			
ix.	Staff negligence.			
x.	Recruitment system.			
xi.	Poor security arrangement for documents.			
xii.	Use of sophisticated machines (Accounting and Computer).			
xiii.	Frustration.			

S/NO.	CAUSES OF FRAUD & MALPRACTICE	HIGHLY SIGNI-FICANT	SIGNI-FICANT	NOT SIGNI-FICANT
xiv.	Delays in procuring documents			
xv.	Lapses in the management control systems of corporate customers.			
xvi.	Inability of law enforcement agents to persecute fraudsters with dispatch.			
xvii.	Inadequate infrastructure.			
xviii.	Leadership.			
xix.	Societal values.			
xx.	Other causes (please specify)			

TYPES OF FRAUD

Please, rank the following types of frauds and malpractices in order of frequency as recorded in your branch.

S/NO.	TYPE OF FRAUD AND MALPRACTICE	LEVEL OF FREQUENCY		
		Very Frequent	Frequent	Not Frequent
1.	Cashiering.			
2.	Falsification of accounts: (a) Current/cheque Account. (b) Suspense Account. (c) Savings/Deposit Account.			
3.	Forged cheques with forged signatures.			
4.	Printing of bank documents illegally.			
5.	Clearing fraud.			
6.	Computer fraud.			
7.	Foreign exchange fraud.			
8.	Cross firing of cheques and kite flying.			
9.	Theft of cash/suppression of lodgement.			
10.	Suppression of entries: (a) Cheque (b) Cash			
11.	Robberies.			
12.	Other types of fraud (Please specify)			

FRAUD PREVENTION

Please rank the following fraud preventive measures according to their level of effectiveness.

S/NO.	FRAUD PREVENTIVE MEASURE	LEVEL OF EFFECTIVENESS		
		Very Effective	Effective	Not Effective
1.	Internal Audit (Periodical inspection).			
2.	Area Offices branch monitoring.			
3.	Manual of instruction.			
4.	Regular balancing of account.			
5.	Preparation of weekly/monthly returns to controlling offices.			
6.	*Staff schedule of duties - ensuring checks and* balances in every operation.			
7.	Employment policy.			
8.	Regular rotation of job/staff.			
9.	Dual controls over assets and other security documents.			
10.	Control over lending Limits.			
11.	The checking of cashiers.			
12.	Internal disciplinary actions.			
13.	Proper training of banks staff.			
14.	Prosecution of fraudsters by law enforcement agents.			

What other measures do you consider could be employed in minimizing fraud in our banks?_____

_____

_____

_____

_____

_____

ANALYSIS OF FRAUD CASES FOR EACH OF THE CASES IN YOUR BRANCH BETWEEN 1990 AND 1992

PLEASE COMPLETE THE FOLLOWING TABLE:

S/NO.	NATURE/TYPE OF FRAUD	DEPART-MENT	DATE OF FRAUD	DATE OF DISCOVERY	AMOUNT INVOLVED	AMOUNT OF LOSS TO BANK	AMOUNT OF LOSS TO CUSTOMER	KNOWN/SUS-PECTED STAFF OR OUTSIDER

Please list in descending order of importance what you consider to be responsible for the successful cases of fraud recorded in your branch between 1990 and 1992.

_____

_____

_____

_____

EFFECTS OF FRAUD ON BANKING BUSINESS

Please list in a descending order the severity the effects of fraud on your banking operations:

_____

_____

_____

_____

OTHERS

Please, state below other comments/observations that you consider might enhance the success of this research work?

_____

_____

_____

_____

_____