FRAUD AND ITS MANAGEMENT IN THE NIGERIAN BANKING INDUSTRY (A CASE STUDY OF SOME SELECTED BANKS)

BY

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BEING A PROJECT SUBMITTED TO THE POSTGRADUATE SCHOOL, AHMADU BELLO UNIVERSITY, ZARIA, IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION (MBA)

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DECLARATION

I hereby declare that this project was written by me and that there was no similar work that has been written before this research was conducted. All materials used from other sources and information that are not original to this research has been duly acknowledged.

Onuoha, Dickson Chinedum	16th November, 1998 Date

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DEDICATION

This work is dedicated to my dear parents, Mr. Samuel Onuoha & Mrs Gladys Onuoha

CERTIFICATION

This project titled Fraud and its Management in the Nigerian Banking Industry: A Case Study of Some Selected Banks, by ONUOHA, DICKSON CHINEDUM meets the regulations governing the award of the degree of Master of Business Administration (MBA) of the Ahmadu Bello University, Zaria. It is approved for its contribution to academic knowledge and literary presentation.

Project Supervisor	Date
External Examiner	Date
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ABSTRACT

Banks in the country often capture the centre stage of public attention. It is either banks are being accused for returning questionable level of profitability particularly seen against the quality of bank services or banks are collectively held responsible for any unintended consequences of fiscal policies. Continued and sustained depreciation of the rate of exchange of the Naira has been attributed to unpatriotic roles of the banks, notwithstanding the glaring incidences of fiscal indiscipline and shortcomings on the part of the Government and its agencies. In fact, the banks are ready whipping boys to be held responsible for all manner of mal-practices and shortcomings of policy instruments and programmes.

Recently, the incidence of frauds has got the attention of all and sundry and has been the focus of government attention. The wave of this current happenings in the financial sector, especially the banking sub-sector dictates a worrisome pace and makes it an intractable problem of modern day banking. That our banking industry would finally arrived at this impasse was a matter of time. Bombarded by inside abuse, outsider scams, customer/worker collusion and immense wastage, this supposedly enduring edifice built on assumed unwavering trust has gone through a chaotic metamorphosis in just under a decade.

From a solid seemingly unyielding financial edifice, we have through avarice, greed and bad management witnessed some crashes that have reverberated both on the populace and the government, such that international confidence in Nigeria is now seriously eroded.

Fraud with its hydra-headed tentacles has over the past decade eaten deep into our psyche, drained the banks, financial institutions and other government organizations of their substance.

But is it true that all frauds are due to the activities of bank employees ? Are these employees a special breed of Nigerians or are they a reflection of the larger society ? Are bank employees because of their special training, socialization and the controls in place expected to rise beyond the prevailing level of probity in the society at large ?

There exists therefore a compelling need to examine ways of arresting, detecting, preventing and controlling this 'cancer'. These issues and answers to the above recurring questions form the focus of this research work.

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CHAPTER ONE

GENERAL INTRODUCTION

1.1. <u>An Overview</u>

The cornerstone of the nation's economic and financial mainstay, which has always been anchored on the banking sub-sector has in recent times been going through travails.

The last decade has witnessed a tremendous increase in the level of decadence in Nigeria in particular, and the world at large. The level of corruption and crime in our society in the last ten years has gone completely beyond the scope of what any sane mind could imagine.

The level of frauds in the banking industry of the Nigeria economy have assumed epidemic dimensions. It has eaten deep into every aspect of our life to the extent that a three to four year old child talk about "419" the newly discovered nickname for an advanced fees frauds that is hunting us as a nation.

Frauds in banks are not new, they are as old as the industry itself. The alarming rate at which this criminal act has permeated our banking sector in recent times and the growing threat it poses to its survival and the economy at large has made the choice of this topic more relevant. Meanwhile the importance of the banking sub-sector as an engine of growth for development cannot be over emphasized. This is derived from their assumed role of mobilizing deposit and channeling them towards profitable investment for economic development. Fraud, on its own, causes a devastating effect both to the industry and individuals. This leads to loss of assets, denting of images and the total winding-up of most organisations.

Like in the greater society, frauds have become one of the most intractable problems of modern day banking. While public concern is growing day by day and management vigilance is improving with the help of computerization, it is on record that millions of Naira are lost to frauds and forgeries on daily basis. While some of the frauds are the handiwork of outsiders, most are perpetrated by the staff of the banks concerned. Still, some significant percentage of the frauds are done in collaboration with outsiders by the staff. As a result of this very serious economic crime, some staff in the industry have either been dismissed, or have their appointments terminated or prematurely retired. This means that some experience hands in the sector are lost due to their involvement in frauds.

The advanced learners dictionary defines fraud as a "criminal deception, act of this kind, person or thing that deceives " while the international auditing guideline (I. G. A) defines fraud to mean a particular type of irregularities involving the use of deceit to obtain an illegal or unjust advantage and may involve the following:

a) Manipulation, falsification or alteration of records or documents;
b) Misappropriation of assets;
c) Suppressing or omitting transactions from records or documents;
d) Recording transaction without substance;
e) Misapplication of accounting policies of which is intentional or deceitful.

From whichever perspective fraud is looked at, it connotes an intentional distortion of financial statement for whatever purpose; the misappropriate of assets whether or not accompanied by distortion of financial statements.

In discussing fraud in the Nigerian banking industry therefore, it is necessary to ask some fundamental questions. What is fraud? Can fraud be committed without forgery? Is there unintentional fraud? Who are the principal perpetrators? Where do they work? From where do they obtain financial instrument they use in perpetrating frauds?

The issue of fraud has become a serious food-for-thought in the banking sector in recent times and many of our professionals have been looking for a stop in the expansion of these deep eaten cankerworm. This situation calls for all hands on deck to give a thorough surgical operation to rid the system and the society of these bad elements. Thanks to the Federal Military Government of Nigeria for promulgating the decree 18 of 1994 which has been exposing the fraudsters to the public. The heightened frequency of fraud in banks has been of serious negative consequence to the financial sector(banks) in particular and the economy at large.

This project therefore presents the magnitude of reported cases of fraud in the banking industry, the implications and remedies as the case may be.

1.2 STATEMENT OF PROBLEMS

For banks to be able to function effectively and contribute meaningfully to the development of a country, the industry must be stable, safe and sound. What we are witnessing in Nigeria today is a far cry from the level of soundness and stability required.

The taxpayer who is the depositor and who is also the investor is made to pay dearly for the banking crises in the country. It is known that the depositor stands to loose his deposits with the failure of a bank, but to what extent will he loose his money? The investor may loose his investment, to what extent dose he stand to loose his investment? Likewise, the economy may be affected by the alarming rate of fraud and failure in banks, but in what ways is the economy affected and to what extent is it affected?

These are the major problems and puzzles the study will aim at unravelling.

1.3. OBJECTIVES OF THE STUDY

The main objectives of this write-up is to examine the various fraudulent practices in the Nigerian banking system with a view to finding some lasting preventive and curative measures to these fast growing problems in our banks.

To achieve this objective therefore, the following secondary objectives have been identified. These are;

- To know fully, what fraud in the banking industry is all about;
- To examine the various causes of fraud;
- To highlight the types/forms and nature of bank fraud;
- To suggest managerial/preventive and control measure that could stop the incidence of fraud;
- To create awareness in the minds of the public, the danger this grievous issue and poses and what it can cost the nation's economy if not stopped in good time.

1.4 <u>SIGNIFICANCE OF THE STUDY</u>

The significance of this study stems from the assumption that attacks on bank funds has been as a result of the belief by many Nigerian that the banking industry is the most buoyant and profitable sector of the economy.

They believe strongly that the banks make a lot of profit annually and are always liquid; consequently, any amount of financial loss to a bank will not affect its existence and operation. However, the theme of this write-up is to point out that this notion is wrong and misleading.

An examination of the published accounts of some commercial and merchant banks will show that most of these banks cannot fully provide for losses sometimes sustained through fraud in their financial statement of accounts.

Therefore, this study is significant in that it will help to highlight the socio-economic implications of frauds on the growth and development of the banking industry and thus provide a guide to commercial and merchant banks that may be interested in their detection and prevention. The increasing rate of thefts, defalcations, sharp practices and forgeries are giving the government and every right-thinking citizen of this country a great deal of concern, hence the need for this study.

This project work could also serve as a basis for further research work on management and control of frauds in banks in the developing countries and most especially in Nigeria.

1.5 **SCOPE AND LIMITATIONS OF THE STUDY**

Fraud in the Nigerian banking industry is going to be treated generally. Though efforts shall be made to touch all aspect of it, this study shall concentrate mainly on the forms, causes, reported cases as well as management and control of frauds in the banking system with much emphasis placed on the years from 1991 - 1996.

However, it would be very unrealistic to assume that all necessary facts have been gathered in the process of this write-up. Information gathered are limited to those made available by the respondents; the Nigerian Institute of Bankers; the central Bank of Nigeria; the Nigeria Deposit Insurance Corporation; Financial Experts; Analysts; Economists and Accountants, Such information provided may not be free of biases, hence a source of inadequacy of the findings.

Meanwhile, information relating to fraud in banks are kept as confidential irrespective of the purpose for which they are intended, hence a general

Finally, ***Chapter six*** summaries the study, concludes the findings of the study and makes recommendations.

1.7 DEFINITION OF TERMS

FRAUD	-	Any deliberate attempt in whatever form(written, spoken, physical designed) to deprive a legitmate owner of his/her assets, properties or rights.
CHEQUE	-	A bill of exchange drawn on a banker and payable on demand.
PROSECUTION	-	An act of starting legal proceeding against a fraudster.
PUBLIC DOCUMENT	-	Document made by a public officer for the purpose of public use and reference, for example, company Register.
CALL OVER	-	A system of checks and balances in banking operations.
UP-COUNTRY CHEQUE	-	Cheque drawn on banks outside a clearing radius.
INTERPOL		International Police Organisation.
NDIC		Nigeria Deposit Insurance Corporation.

attempts were successful as against the previous years of thirty- three percent (33%). According to him, this is reflection of falling standard of routine.

Boniface Chizer (1991), stated that a major cause of bank frauds is the accepted value system where wealth is glorified irrespective of its source. This statement can be seen to be the true situation of Nigeria of today where nobody wants to know the source of your wealth, they are more interested in the fact that you are rich and invited you to be the chairman or chairperson at one ceremony or the other, with chieftaincy title to go with it.

Paul .A. Ogwuma (1985) also observed that the present high propensity to defraud is the direct result of our societal setting. He said that the will to defraud is the direct product of our materialistic society. He observed that "since the banks do not operate in a vacuum, the fraud situation in banks is merely reflection of the society in which they operate".

Olumade Adeuja (1996) opined that large scale fraud in banks and other financial institutions in the country have been attributed to the stress in the economic life of Nigerians.

According to him, the stress of the economic down-turn has led many bright young and middle- aged executives into misappropriating funds put in their care. He added that there are environmental, economic and social stress in the country saying that the general insecurity occasioned by the menace of armed robbers, in the country occur as a result of the prevailing depressed economy. With these, so many failed banks swallowing hard people's hard earned money, and stressed that Federal

Intelligence and Investigation Bureau (FIIB), Alagbon Lagos is playing host to a lot of bank executives who were described as victims of stress in a depressed economy.

Ayanlaja (1996) disclosed that, the chairman of the liquidated Republic Bank of Nigeria Limited, Otumba Olufemi Ajayi was arraigned on 12thth April for allegedly contributing to the failure of the bank by granting N127,155,801.08 loans to seven of his Companies without declaring his personal interest to the bank Board of Directors.

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R. B. Awosanya (1986) observed that uncontrolled fraudulent practices are capable, in the long-run, of not only destroying a whole bank but can also destroy the economy of a nation.

I.U. Uwe (1982) called on the law enforcement officers to show more sympathetic approach to bank frauds and that the judicial process of trying suspects should be swift and speedy.

Femi Ekundayo (1996) also called for timely investigation and prosecution of bank officials with proven cases of insider abuses; conivance and indept management as this will halt further distress in the financial system as well as restore confidence in the beleaguered sector.

The review of the above mentioned scholars opinion are highlighted as follows:

a) The growing rate of b ink frauds are a reflection of the society in which we live.

b) Frauds are perpetrated by outsiders and often times with the active connivance of bank staff.
c) Lack of adherence to routine and other laid down regulations contributes to the upsurge of fraud in banks.
d) Apathy and slow judicial process in the hands of law enforcement agents is a contributing factor towards bank fraud.
e) Fraud could lead to bank failure and also destroy the economy of a nation.

2.2. FORMS AND NATURE OF BANK FRAUD

Alashi S. O. (1994) defined fraud as an act of dishonesty deceit and imposture. He stated further that according to Kirk Patrick (1985), a person who pretends to be something that he is not is fraudster, a snare, a deceptive trick, a cheat and a swindler. By extension, fraud will include embezzlement, theft or any attempt to steal or unlawfully obtain, misuse or harm the asset of the bank (Bank Administration Institution 1989). In addition, he stressed that fraud can be committed by employers, customers or other operating independently or in conjunction with other inside or outside the bank.

Uwe I. U. (1988) opined that fraud is an action or behaviour by which one person or a group of persons intend to gain a dishonest advantage over another.

It is an intentional perversion of truth in order to induce another to part with anything or value or to surrender a legal right. It involves falsification of documents, forgery counterfeiting and out-right theft.

2.2.1. TYPES OF BANK FRAUD

The list of fraudulent methods is inexhaustive as new methods are devised with time. It is worthwhile for bank managers to be familiar with a comprehensive list if different methods used in committing fraud even though some of them may not be directly applicable to their banks now.

a) FORGED CHEQUES

These are by far the commonest source of loss to banks and their customers. They occur mainly on company's accounts, and are invariably perpetrated by staff within the company, who have access to the company's cheque book. Usually they collude with dishonest staff of the paying bank.

b) CORPORATE FRAUD

This arises when the bank itself or the executive management becomes an instrument of fraud. This is usually the most serious type of fraud and the one that causes collapse of banks. In its extreme form, it usually result in losses to outside parties. An example is "Forum Business Finance (nicknamed) " Finance House Frauds") They accepted deposits from public, largely induced by offering excessively favourable rate of interest and then used the deposits themselves to make the inevitable shortfall when meeting interest rate expectations.

c. MONEY LAUNDERING FRAUD

This is a means to conceal the existence 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.

d) **ADVANCE FEE FRAUD ("419")**

This mostly involves an agent approaching a bank, a company or even an individual with an offer to, access large funds at below market interest rates often for long term. The purported sources of such funds are not specifically identified as the only way to have access to it is through the agent who must receive a fee or commission "in advance". As soon as the agent collects the fee, he disappear and the loan/ facility never come 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 fraudulent practice.

Meanwhile when the deal fails and the fees paid in advance are lost, the victims do not normally report the losses to the appropriate authorities. Advance fee fraud can be very dangerous especially those that are international in nature as banks can suffer significant losses and find recovery and legal redress quite difficult.

e) **ACCOUNT OPENING FRAUD**

This is a case where a deposit is made usually through cheques and subsequent cashing of the fraudulent cheque follows. It usually starts when a person not known to the bank asks to open up a transactions account, such as current and savings account with false identification but unknown to the bank. The person opens the account with a small initial deposit of cash or cheque. Generally, within few days, the person will deposit a number of bad cheques and obtain cash in return either by chasing the fraudulent items outright or by withdrawing cash as soon as funds are available.

The bad cheques may be large overdrafts drawn on other banks or drawn on the bank accounts that are closed or never existed, stolen, counterfeited, forged or otherwise fraudulent, or non-existent empty envelopes deposited in Automated Teller Machine (A. T. M.)

f) **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 process and telex. Fraudulent money transfers may result from a request created solely for the purpose of committing a fraud or the alteration of a genuine fund transfer request. A genuine request can be altered by changing the amount of the transfer.

The fraud typically involves a non-repetitive, three-person transaction. The perpetrator will obtain the particulars of the account (especially inactive large balance accounts) and names of bank personnel. This information is then used to alter legitimate money transfer in favour of a party, usually an accomplice.

g) **LOANS FRAUD**

Loans and other forms of credit extensions to business and individual customers constitute traditional functions of banks. 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 may occur through credit extended to non-borrowing customers who had executed credit ceiling. The fraudulent aspect of this class is that there is an intent to conceal from the head office inspectorate staff on routine check to deceive them with plausible but falsified statements, documents, documents etc. Discounting of dud instruments also falls within this class fraud.

Some perpetrators of credit frauds go to the extent of diverting credit facility approved for one customer to the credit of another who often is unrelated to the first customer. In other words, a credit facility for a customer 'A' yet to be drawn down is diverted for the use of customer 'B'.

In some cases drafts and certified cheques sold against insufficient funds may be concealed in suspense account instead of debiting the account of the purchaser. Other category of loan fraud include;

i) **Deceptive Customer:**

False financial statements, pretence of credit worthiness and false guarantee.

ii) **False Collateral:**

Non-extent, over valued multiple-pledged, stolen or counterfeit.

iii) **Corrupt Bank Officer (s):**

Improper loans to insider, friends/relatives, improper loans benefiting, hidden financial interest of officer, kickbacks to bank officers, embezzlement of loan proceeds or loan payments.

iv) Improper use of loan proceed other than stated business.

h) **Clearing Fraud**

Most clearing frauds hinge on supervision of an instrument so that at the expiration of the clearing period applicable to the instrument the collecting bank will give value as though the paying bank had confirmed the instrument to be good for payment. Clearing cheques can also be substituted to enable the fraudster divert payment to a wrong beneficiary.

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

i) **Cheque Fraud**

Payment mechanism in modern day economy is not complete without the mentioning of cheques. Cheque fraud is now common, involving millions of Naira annually. Cheques are used by different types of people and ownership types vary from personal cheques, business cheques, government, travellers etc. All these are vulnerable to fraudulent uses. The most common of cheque frauds includes stolen, forged, counterfeited or alterated cheques.

The banks, when issuing cheques to their customers should educate them on the usage, the vulnerabilities, their duties and possible liabilities that could result from negligence on the part of the customer. With the MICR cheques now in use in most Nigerian banks, the cases of cheque frauds especially forged cheques should decrease drastically if not fully stopped.

j) **Cheque Kiting**

Cheque kiting can be defined as a method whereby apparent balances are built-up in one or more bank accounts, based on uncollected cheques drawn against similar accounts in other, sometimes distant banks. It is the deliberate floating of funds between two or more accounts. According to the controller of current policy guidelines for National Bank Directors, USA, cheque kiting is a method whereby a depositor utilize the time required for cheques to be cleared to obtain an unauthorized loan without any interest charged" Cheque kiting has been in existence almost since the invention of modern day cheque banking. But the highest level of this fraud within Nigerian banks in the last seven years is quite worrisome.

Cheque kiting is much of a threat to international banking as it is to domestic banking. The distress in most Nigerian banks cannot be analysed without the webs of cheque kiting being unravelled first. A lot of cheques are floated without the proper balances to back them up and these are condoned because of the competitive edge the banks want to have in pulling customers over.

Especially the corporate customers which are having and dealing in fake huge balances. Their potential loss can be great as shown in a Hong Kong cheque kiting case.

This cheque kiting case amounted to over 20 billion dollars. A Hong Kong bank was said to suffer a loss of $153 million and was rescued by the government at an undisclosed cost. The bad cheques also led to the failure of another Hong Kong bank and seriously affected other local deposit taking companies. This multi-billion dollar scheme caused financial regulators in Hong Kong to revisit their banking laws.

It should be noted, at this point, that the same reason why cheque kiting is condoned is the same reason why money laundering fraud is condoned. Banks are desperate to attract high deposit based customers. This put them in vulnerable positions and eventual prey to fraudsters.

d) **Computer Fraud**

Computer fraud can remain undetected for long time. It 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 tampered with to gain access to an account or even give credit to an account for which the funds were not originally intended.

2.3 CAUSES OF BANK FRAUD

In order to be able to propose remedies for eliminating frauds in banks, it is useful to identify the commonest causes of bank fraud. The causes of fraud are usually grouped into two major classes, these are institutional factors and environmental/societal 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 the environment/society on the banking industry.

2.3.1 INSTITUTIONAL CAUSES OF FRAUD

Different authors are unanimous in their identification of the following institutional causes of fraud:

i) **VOLUME OF WORK**

The amount of work done by bank officials could be so heavy that frauds could easily pass undetected in time by such officials.

ii) **NUMBER OF STAFF**

Where an official supervises quite a number of staff, there is a high likelihood that fraud could go undetected.

iii) **NATURE OF SERVICES**

Frauds may be caused especially in banks where documents of value liquid assets which are the major stock in trade are exposed to an undisciplined staff.

iv) **BANKING EXPERIENCE OF STAFF**

All things being equal, fraud in banks occur with higher frequency among staff with little experience in banking practice. The more the experience, the less the likelihood that fraud would pass undetected unless with active support of an experienced staff. Where the more experienced bankers are involved in fraud, they are more likely to swindle larger sums of money than the less experienced staff.

v) **INADEQUACY/ LACK OF STAFF TRAINING**

This could affect the morally weak as well as the morally robust staff in various ways. Lack of knowledge of the forms and ways of dealing with fraudulent practices in banks could affect an otherwise honest staff in apprehending and avoiding the wiles of bank fraudsters.

vi) **POOR MANAGEMENT**

Banks with poor management record higher incidence of all sorts of fraud than banks with effective management. Poor management gives rise to ineffective and poor control system, indiscipline of staff and thus creates environment where fraud flourishes.

vii) **STAFF NEGLIGENCE**

In certain cases, staff negligence could give rise to the perpetration of fraud in banks. Negligence itself is a product of other factors, including poor supervision, lack of technical knowledge, apathy, pressure et cetera.

viii) **Poor Recruitment System**

Poor recruitment system, where cognate experience, relevant technical knowledge, competence, character and other sterling qualities are sacrificed at the alter of mediocrity constitutes an important facilitator for 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) **FRUSTRATION**

Management practices, when negative to the aspirations and development of staff, could result in the generality of staff being frustrated. Frustration in turn breeds fraudulent practice in banks.

xi) **INADEQUATE INFRASTRUCTURE**

Poor communication system, power breakdown which result in a backlog of unbalanced posting, congested office space, etcetera, are some factors that encourage the perpetration of bank frauds.

xii) **NEGLIGENCE OF CUSTOMERS**

Traditionally, it is the negligence on the part of customers that provides ample opportunities to bank staff to perpetrate frauds. Negligence of customers takes various forms, consisting of errors that might have been genuine but which are open to abuse, distortions and defalcations by unscrupulous staff both within the bank and outside the bank in the employ of customers.

2.3.2 ENVIRONMENTAL FACTORS FACILITATING FRAUDS

The environmental/ societal factors have been identified as follows:

a) **SOCIETAL VALUES**

It can be argued that the main cause of fraud in banks in Nigeria is traceable to the general dishonesty in the society. Misplacement of societal values, the unquestioning attitude of society towards the source of wealth, the rising societal expectations from bank staff and the subsequent desire by the staff to live to such expectation are also contributory factors to fraud.

b) **LAW ENFORCEMENT AGENTS**

Inability of law enforcement agents to detect fraud and prosecute fraudsters with despatch encourages underworld men to target banks for all forms of devious and violent attacks.

c) **LACK OF EFFECTIVE DETERRENT/ PUNISHMENT**

Although this is a moot point, it is argued in some quarters that lack of effective deterrent such as punishment could be a factor that contributes to the unabated perpetration of fraud in banks.

d) **PERSONALITY PROFILE OF FRAUDSTERS**

Most individuals with inordinate ambitions and without conscience are prone to fraudulent acts. Such individuals are bent on making money by hook or 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.

e) **FEAR OF NEGATIVE PUBLICITY**

Many banks fail to report fraud cases to the appropriate authorities as they believe that doing so will give unnecessary negative publicity to the banks, this attitude encourages individuals with inordinate ambition to defraud the banks, they reason correctly that the banks may not prosecute.

f) **DOWN TURN IN OUR ECONOMY AND POLITICAL INSTABILITY**

"For the past ten years, our economic development had witnessed serious set back" Olufidipe E. O. (1991).

Nwankwo G. O. (1991) also argued that social and economic conditions also play a part in causing the perpetration of fraud. Unemployment, widespread poverty, the extended family system and widening social and economic inequalities are all contributory factors. Various government policies to revamp the economy, though appeared laudable, were all frustrated at the implementation stage because some of the people responsible for implementing them are fraudulent. Consequently, both the political and economic situation in the country declined from bad to worse with the Naira witnessing an unprecedented devaluation of 1300% within 5 years. Devil then found job for idle hands with words like "419", cocaine pushing, arson in Government establishment finance departments and million Naira bank fraud becoming regular features of our newspaper headlines.

g) **INEFFECTIVE JUDICIAL SYSTEM**

The judicial system in Nigeria has been infiltrated by the same virus that is eating up the rest of the society, this is a very unfortunate situation because if the only legal means of seeking redress is blocked, the individual in the society will by and large lack the much needed mutual trust and take laws into their bands, this also encourages the criminals to continue in their ways of life. We all know that when an officer is not well punished for his offence, others look at this as a precedent. The untold followership of this step cannot be quantified. Thank God for the failed Banks (Recovery of Debts) and Financial Malpractices in Banks Decree 18 of 1994. This has really gone a long way in re-instating sanity back into the system, but a lot still has to be done.

2.4. EFFECTS OF FRAUDS ON THE NIGERIAN BANKING SYSTEM

The extent of damages done to the financial sector and the economy at large as a result of fraud perpetrations and insider credit abuse in financial institutions cannot be recounted. It is appropriate to have a feel of the extent of loss through bank frauds in Nigerian in order to appreciate the havoc the cankerworm has been wrecking on the economy.

Evidence recounted from bank returns to Nigeria Deposit Insurence Corporation (NDIC) on fraud and forgeries in commercial and merchant banks reveal that the phenomenon has been on the upward trend in the banking system. This alarming situation points to the fact that our financial system is riddled with frauds. The subject has accordingly gained the increasing attention of the government, monetary and supervisory authorities in view of the fact that frauds result in huge financial losses to the financial institutions and their customers. The depletion of shareholders fund and capital base and loss of confidence in the financial system may ultimately precipitate in the failure of the sector.

Another effect of this fraudulent practices and insiders credit abuse is clearly reflected in the level of distress in banks. As at the last time information was made known by CBN, the following seventeen (17) banks were declared as distress. These are:- Progress Bank, North South Bank, Abacus Merchant Bank, Nigeria Universal Bank, Lobi Bank, Premier Commercial Bank, Amicable Bank, Merchant Bank of Africa, Ivory Merchant Bank. Others are Century Merchant Bank, Group Merchant Bank, Prime Merchant Bank, Victory Merchant Bank, Great Merchant Bank, Credit Merchant of Nigeria, First African Trust Bank.

These banks overdrew their balances at the CBN to the tune of N17 billion. This is the height of managerial indiscretion. That CBN could allow such an atrocity to be perpetrated against it is a case that needs revisiting. The claim was that the clearing house rules were abused. A reform was then called for the clearing house where only twelve (12) banks were to clear cheques for others at the Lagos Clearing House. They were also to pay a certain sum of money into an account with the CBN to serve as the deposit against their clearing positions. The total liabilities of these seventeen (17) banks stood at ₦27.7 billion, of this, ₦2 billion were owed to depositors and ₦4.0 billion to Nigerian Deposit Insurance Corporation (NDIC). However, investigation was conducted by the National Economic Intelligence Committee (NEIC) and the result had since been submitted to the head of state. The outcome is however being expected.

In the same bid, the Central Bank of Nigeria (CBN) has taken up the assets and liabilities of National Bank of Nigeria (NBN), African-Continental Bank (ACB), new Nigerian Bank (NNB), Co-operative and Commerce Bank(CCB), Pan African Bank, Mercantile Bank at ₦1 each and offered them for sale. Interest were initially shown in some of the banks but CBN claimed that the bidding is not encouraging and has decided that if Pan African Bank and Mercantile Bank cannot get good offer, they will be liquidated. However, the following banks have been liquidated. These are:

Alpha Merchant Bank, Financial Merchant Bank, United Commercial Bank, Republic Bank and Kapital Merchant Bank.

Bank of the North (BON) has also been claimed to be under the same condition of stress but the CBN claimed it has taken the posture of stay action because of the publicised restructuring and recapitalzation to be done by the bank (BON). Following these, the former Managing Director in person of mallam Shehu has been replaced with Alhaji Muhammed Bulama; but how much this effort will yield is the question yet to be answered.

In fact with all these anomalies in the banking sub-sector, one would not but wonder where the investing public will put their trust and how conducive the climate is for genuine foreign investors.

22.4.1 **EFFECTS ON BANKING**

a) Due to frauds, the banking involved could be pushed to a distressed position and if this trend is not checked on time, it might even lead to liquidation of the institution, this is not healthy for the workers and the proprietors of the bank who may end up loosing their stakes in the economy.

b) Since so much money has been lost to fraud and forgeries on the part of the bank, it results to reduction in the level of resources available to run its operations - which reduces the banks ability to make more profit. This surely reduces the return on shareholders funds.

c) Fraud destroys a bank's reputation, in which customers' confidence in the bank could be totally eroded leading to serious reductions in patronage.

d) Experienced staff may be lost due to involvement in fraud. It also weakens the bank's ability to compete favourably with other financial institutions.

2.4..2 **EFFECTS ON CUSTOMERS/PUBLIC**

a) The customers who have deposit in the bank will obviously face a hectic time if the bank goes into liquidation. This is simply due to the fact that the bank is going into liquidation for its inability to honour its obligation in respect of the liabilities in its portfolio.

b) Customers may loose their money to these fraudsters because the money is not easily recoverable. Besides, they are denied the services of experienced officials who might have been dismissed for involvement practices.

c) Fraudulent act might lead to long time processing of cheque thereby wasting the customer's time. Meanwhile the staff are always afraid of being connected with fraud cases; their works are carried out at a slower pace or carefully and this results to loss of time by customers and unnecessary delay in processing cheque and other documents.

2.4.3 **EFFECTS ON GOVERNMENT POLICIES**

The moment the banking sector fails as a result of frauds and the public loose confidence, the next thing that happens is that the gripe of the government over the economy of the nation fails since the authorities would not be able to determine the amount of money in circulation with ease. Unfortunately, this is a major instrument in controlling the economy.

2.4.4 **Effects on the economy**

The economy will obviously experience a sharp turn of events from bad to worse and in that trend;

a) The pace of growth in the economy will be seriously slowed down because of lack of funding for otherwise viable projects. In the same vein, extensive trade and industrialization will be slowed down if not made impossible due to the simple fact that resources to be used judiciously have been embezzled and therefore scarcity of resources will hinder trade and industrialization of the country.

b) The Federal Government's efforts at improving and increasing the banking habit of the populace will be jeopardized and so the much executed " Rural Banking System" and other schemes will not be able to achieve its goals.

c) Capital formation will be low and this will lead to low investment and low productivity and thus a reduction in the level of income of individuals and the gross national product (GNP) in general.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

The chapter aims at informing and guiding the reader on the method used in carrying out this research work. Since the study is mainly empirical in nature, efforts were made to provide a comprehensive picture of the nature, causes and extent of the fraudulent practices in the Nigerian banking industry using mainly secondary data as efforts made in getting primary data proved fruitless.

3.2 AREA OF STUDY

The principal area of study is the Federal Republic of Nigeria since bank fraud cut across the length and breath of the country.

Meanwhile in the area of study, by the end of the year, 1997 forty- seven banks (both merchant and commercial) were distressed (due to being defrauded one way or the other), thirteen out of them were technically insolvent, while the license of five had already been withdrawn.

3.3 SAMPLING PROCEDURE

A sample of six failed banks of both commercial and merchant banking status was obtained at random and analysed indepth. The firms ranged in sizes of asset value from about N457 million to N2.4 billion.

3.4 **METHOD OF DATA COLLECTION**

This research is located into the historical type of research framework. The method was opted for because it is unrealistic to restate the event in a form of experience so as to record happenings. It was impossible to have access to official document or files and even to administer questionaire as most banks shy away from the threat of negative publicity and that of the corporate image of their various organisations. Therefore data were mainly obtained through the following sources:

i) Publications and records of the official liquidators (NDIC) and publications of the central Bank of Nigeria (CBN) as well as publications (yearly and quarterly) of some major banks; like First Bank, Union Bank of Nigeria (Union Digest), Chartered Institute of Bankers (CIB) quarterly journals.

ii) Restricted interviews were granted (both personally and on the telephone) by operators in the Deposit Insurance Company and the banking industry.

3.5 **Method of data Analysis**

Samples were randomly chosen and analysed through the use of tables, percentages and discussions.

CHAPTER FOUR

Data Presentation and Analysis

4.1. *Introduction*

The fear is now rife that the increasing wave of frauds and forgeries in our banks in recent years, if not arrested, might pose certain threats to the stability and survival of individual banks and the performance of the industry as a whole. For one thing frauds result in huge financial losses to banks and their customers, the depletion of shareholders' funds and banks' capital base as well as loss of confidence in banks. For another, the incidence of fraud and forgeries could lead to the closure of some affected banks as had happened in some part of the world.

The subject is therefore a special concern to the monetary and supervisory authorities who are concerned about the safety of individual banks and the soundness of the banking system. Accordingly, sections 39 and 40 of the NDIC Decree No. 22 of 1988 placed on the insured banks in Nigeria, the responsibility of rendering to the corporation, monthly returns of frauds, forgeries or outright theft occurring during such months and of notifying the corporation of any staff dismissed, terminated or advised to retire on the ground of fraud. The question, is how many banks appreciate the importance of this statutory requirement both for themselves and the industry as a whole? How encouraging are banks in this regard? How many banks appreciate the extent to which frauds and forgeries affect the safety of, and confidence imposed in their institutions.

Although it is generally believed that frauds have been increasing despite the control measures put in place by banks, perhaps a brief statement on the topic might be necessary to put banks on more alert, this might stimulate banks to consider ways and means of making the control measures more effective.

The enormity of the problem is illustrated in the returns submitted by banks to the NDIC on fraud and forgeries during the second quarter of every year, that is, from April to June. Against the 1990 to 1996 returns, we have juxtaposed in some tables the returns for the same period(s) for ease of comparison, the general nature of these frauds and forgeries as well as the number and category of bank staff involved are also highlighted for clarity and understanding purpose(s).

4.2. ***<u>Presentation, Analysis and Interpretation of Data</u>***

All data collected were tabulated and analysed using enumeration statistics. This involves the use of percentages, averages and prescriptive method in the analysis. The use of this method of data analysis was justified because in the first instance, information relating to fraud in banks are treated as being very confidential. This is because they constitute a very sensitive and controversial area of banking operations. Therefore information relating to bank fraud are not made available easily irrespective of the purpose for which it is intended.

On that note, the data used in the analysis and interpretation of this study were gathered through interview questions designed and administered. These sources were meant to augment the information gathered from primary and secondary sources of data. Information gathered are presented in tabular form and briefly discussed and interpreted accordingly for the purpose of academic conveniences. Also, percentages are given as computed. The response are hereby analysed and interpreted as follows:

Table 4.1.

What are the common sources ~~of fraud to the Banks~~ and customers?

REPONSES	RESPONDENTS	PERCENTAGE (%)
Stealing	9	22.5
Dishonesty	10	25.0
Deceit	6	15.0
All of the above	15	37.0
TOTAL	40	100.0

SOURCE: The questionnaire

From the above table, 9 people which represent 22.5& agreed that frauds are directly associated with stealing, 10 and 6 stated response rate of 25% and 15% in favour of dishonesty and deceit respectively, while 37.5% are of the opinion that fraud are a combination of all the factors.

Table 4.2.

What are the various types of Bank Fraud known to you?

RESPONSES	RESPONDENTS	PERCENTAGE (%)
Conventional Frauds	11	27.5
Documentary Frauds	17	42.5
Specialised Frauds	8	20.0
Automated Frauds	4	10.0
TOTAL	40	100.0

SOURCE: The questionnaire

From the table, eleven (11) people equivalent to 27.5% stated various forms of conventional frauds, 42.4% for documentary frauds, 20% for specialised fraud and 10% for automated frauds.

Table 4.3

Who are those principally involved in Bank Frauds?

RESPONSES	RESPONDENTS	PERCENTAGE (%)
Bank Staff	26	65
Bank Customers	14	25
Non-customers	4	10
Non-staff	0	0
TOTAL	40	100

SOURCE: The questionnaire

From the above table, we could observe that 65% of the respondents believe that of all the perpetrators of bank frauds, the bank staff are the most guilty, while 25% agreed that bank

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TOTAL	40	100

SOURCE: The questionnaire

From the above table, we could observe that 65% of the respondents believe that of all the perpetrators of bank frauds, the bank staff are the most guilty, while 25% agreed that bank customers are the principal perpetrators, only 10% agreed that those who are neither staff nor customers could commit bank frauds.

Table 4.4

Can fraud succeed without the active participation or collaboration of bank employees?

RESPONSES	RESPONDENTS	PERCENTAGE (%)
With Bank Staff	10	25
Without Bank Staff	10	75
TOTAL	20	100

SOURCE: The questionnaire

75% of the respondents here were of the opinion that fraud cannot succeed without the active participation of bank employees, while 25% have the opinion that fraud can still be carried out with active participation of bank employees.

Table 4.5

What percentage of the budgeted annual running cost of bank is spend on prevention and detection of fraud?

RESPONSES	RESPONDENTS	PERCENTAGE (%)
40%	23	57.5
50%	17	42.5
70%	-	-
TOTAL	40	100.0

SOURCE: The questionnaire

From table 4.5 above, 57.5% of the respondents agreed that banks spend about 30% of their annual running cost on the prevention and detection of frauds, 42.5% agreed on 50% while non agreed on 70%.

Table 4.6.

Do you consider the management control measures and staff punishment meted out to fraudsters adequate?

RESPONSES	**RESPONDENTS**	**PERCENTAGE (&)**
Yes	14	35
No	22	55
I don't know	4	10
TOTAL	40	100

SOURCE: The questionnaire

From the table, 35% of the respondents are of the opinion that management control measures are adequate, 55% majority responded negatively, while 10% do not know whether the control measures are adequate or not.

Table 4.7.

What percentage of fraud incidence are reported to the general public?

RESPONSES	RESPONDENTS	PERCENTAGE (&)
20%	25	62.5
30%	9	22.5
60%	6	15.0
80%	-	-
TOTAL	40	100.0

SOURCE: The questionnaire

It is clear from the above table that only 20% of fraud incidence are reported to the general public. This is affirmed by 62.5% of the respondents. 22.5% are of the opinion that only 30 of fraud cases are reported while 15% agreed that 60% of fraud cases are made known. In fact, none of the respondents suggested a report rate of 80%.

Table 4.8

Why are banks generally sceptical about reporting cases of fraud to the general public?

RESPONSES	RESPONDENTS	PERCENTAGE (&)
Scandalous nature of fraud	10	25
Protection of their corporate image	30	75
TOTAL	40	100.0

SOURCE: The questionnaire

The table above shows that 25% of the respondents believe that scandalous nature of frauds make it difficult for banks to raise alarm whenever there is any case of fraud, while 75% are of the opinion that banks have their corporate image to protect and thus would like to keep the phenomenon to themselves so as not to scare away their customers.

Table 4.9

What do you think are the remedies to the problem of frauds in the Nigeria banking industry?

RESPONSES	**RESPONDEN TS**	**PERCENTAGE (&)**
Proper Internal control System	19	47.5
Proper External Control Checks	**12**	30.0
Change of the Control checks		
Socio-economic and Political system	9	22.5
TOTAL	40	100

SOURCE: The questionnaire

As a remedy to the problems of frauds in our banking industry, 475%o of the respondent were of the view that banks should establish a proper internal control system, 30% agreed to proper external control checks, while 22.5%) advocated for a total change in the socio-economic and political system of Nigeria.

4.3. ***Reported Cases of Frauds in Nigerian Banks***

Many banks shun the practice of reporting fraud to the general public in order to protect their corporate image and goodwill and also to win the confidence of investors and mostly their customers.

Day-in day-out, the amount involved in fraud and forgeries in both merchant and commercial banks is increasing at an alarming rate. The issue is becoming rampant and this is what prompted the Federal Government in taking bold step to sanitise the banking industry by making effective Decree 18 as amended in 1995. On that note, it would in fact be a right step towards a right direction if some fraud cases/incidence are sighted at least to show how deep this cankerworm has eaten into our so much cherished banking sector.

The A.M. News headline of Friday, September 15th, 1995 reported that "Gamji Bank's boss faces ₦57 million fraud charge". The Managing Director of this (Gamji) bank, Mallam Abubakar Bello was accused of unlawfully and dishonestly causing to be transferred into his personal account Llyods Bank, London 17,570 Dollars belonging to the bank, another 25,000 Pounds Sterling and other malpractices set out in the charge sheet. He employed various means including fraudulent tricks and devices and conspiring with others by virtue of his position to siphon large sum of Gamji Bank fund in both local and foreign currencies for his personal benefits. Despite the skills used in the act, he is facing the tribunal with six other executive of liquidated Alpha Merchant Bank. He was charged and arraigned before the Failed Bank Tribunal sitting in Lagos.

Mallam Abubakar, who was also the Chief Executive of the bank (Gamji Bank Nigeria PLC) gave the explanation as he opened his defence to the 22 count charges of dishonestly and unlawfully transferring ₦57,585,226 into his personal account within and outside Nigeria.

He was arraigned before the tribunal on September 14th, and accused of making about 13 different transfers of various amount of the bank totalling ₦57,585,226 to his account between August 1992 and August 1994, dishonestly converting another ₦2.2 million to his personal use as well as being privy to and perpetration of criminal omission and falsification of entries in the book and account of the bank, leading to the loss of ₦57.5 million.

In the legal interpretation of Decree 18, it was stated "a bank officer who is indicted under the decree is liable to imprisonment for a term of five years without any option of fine.

Mallam Abubakar said as Managing Director and Chief Executive, his main function was to run the bank effectively and efficiently and was only required to report to the bank's Board of Directors in case of loans and expenditure over his approval limit. Mallam Bello Abubakar also said he decided to use either his personal account or his company's account rather than the account of other persons for three reasons:

- It had already been discussed at the Board level in 1992 and agreed that he could use S.B.A. Ventures as the link for such payments;

- Such payments were normally confidential in nature; and
- The issue of trust which requires that he should ensure that such payments reaches the right individual or corporations

The case was brought to an end on 14th October when the Chairman of the Tribunal, Justice Roseline Ukeja set free the former Chairman/Managing Director of Gamji ban, Mallam Abubakar Bello. He however has 21 days to repay eight million Naira.

Although the Tribunal Chairman, Justice Roseline Ukeja held that the prosecution established some of the 23 count charges of stealing-preferred against him, she declined to impose any sentence owing to the "extenuating circumstances" which emerged during the trial.

Besides, she said, since the primary purpose of the Failed Bank and other Financial Malpractices Decree No. 18 of 1994 was debt recovery and Mallam Abubakar had repaid about N37 million of the amount for which he was charged with stealing. It was unnecessary to convict or penalise him.

The Federal Government lawyer has however appealed against the ruling of the Chairman of the Tribunal. The case shall be opened afresh in due course.

Another case of fraud was heard by the Special Benin Zone of the Failed Bank Tribunal. The case was between Alhaji Sufyan Farouk Vs Federal Government. Alhaji Farouk Sufyan was docked for allegedly misappropriating and stealing the sum of ₦382.23 million property belonging to his employer Allied Bank of Nigeria PLC. Alhaji Farouk who pleaded not guilty to the eight count charges was accused of perpetuating threats while he was the Branch Manager of Sabon-Gari Branch of Allied Bank Kano between April 1993 and August 1995 through the use of credit or debit note against other branches enroute his personal salary account.

Also at the Benin Zone of the Special Failed Bank Tribunal was a case between Federal Republic of Niger and Dr. Onwochei Odogwu. The fraudster was charged of misappropriation of substantial amount of money belonging to his employer – Kapital Merchant Bank.

A case of fraud was reported in one of the branches of Afribank Nigeria PLC and the amount involved was about ₦4 million. The fraudster successfully withdrew the amount from the bank by issuing a dud cheque of other banks. The account on which the cheques were issued has been dormant but instead of waiting for the normal statutory date for the cheques to be cleared from the clearing house, the bank officer gave an unauthorised direct credit facility and these cheques were given value, that is, the customers account was credited on the exact date he lodged the cheques. The customer was allowed to cash the value of the cheques immediately since the account has been credited. These cheques were later returned unpaid from the clearing house. The officer on his part then directed that the amount on those cheques should be debited to the customer's account. The team of inspectors got wind of the irregularities and later informed the management.

Another reported case of fraud was that of United Bank For Africa PLC. The amount involved in this case was about ₦3 million. The victim of the fraud was a bank officer who was deceived. The officer in question fell prey to the hand of the fraudster who promised to convert Naira to United States Dollars. The Officer arranged with the customer to overdraw his account to the tune of ₦3 million without any security pledged and also without any application process and approval given in line with the bank procedure. The criminal collected the cash and disappeared into thin air. The cash fraud created a great loss to the bank.

Fraud case was also reported in one of the branches of Intercity Bank involving about 2 million Naira. A draft was issued to a customer who did not have any fund in his account to cover the amount. The draft was presented at the Lagos office for clearing and the branch was contacted and confirmation to pay the draft was fraudulently given.

:. ***Insured Banks Reported Fraud and Forgery Cases***

Examined in this report are the cases of frauds and forgeries in 1995 as reported by Insured Bank in compliance with Section 39 of the NDIC Decree of 1988. The general nature of these frauds and forgeries as well as the number and categories of bank staff involved are also highlighted. Data on reported cases in 1995 are compared to those of 1994 in an effort to show trend in the malpracties.

Fraud and Forgery Cases in Commercial Banks

Table 4.10 presents the amount involved in fraud and forgeries, together with actual/expected loss and the number of commercial banks involved.

Table 4.10

Returns of Commercial Banks on Frauds and Forgeries

QUARTER	YEAR	NO. OF BANKS RENDERING RETURNS	NO. OF BANKS WITH FRAUD CASES	AMOUNT INVOLVED (N'M)	ACTUAL/EXPECTED LOSS (N' M)	PROMOTION OF ACTUAL /EXPECTED LOSS AMOUNT INVOLVED
First	1995	51	30	312.90	52.50	16.81
	1994	47	33	426.30	55.82	15.67
Second	1995	35	29	175.30	35.95	20.50
	1994		36	227.50	227.50	12.04
Third	1995	40	36	240.77	62.74	26.05
	1994	56	38	556.60	48.84	8.77
Fourth	1995	47	32	277.31	75.09	27.09
	1994	49	45	1,445.30	740.46	51.23
TOTAL	1995			1,006.28	226.38	22.49
	1994			2,566.71	883.55	33.26

SOURCE: Bank Returns

From Table 4.10, it can be seen that the total amount involved stood at $41,006.28 in 1995 as compared to N2,655.71 million in 1994. The total actual/expected loss in 1995 was about £4226.38 million whereas the 1994 figure was £4883.55 million. There was therefore significant decline in both total amount involved and actual/expected losses reported in 1995. In fact, in each of the four quarters of 1995, the amounts involved were lower than the figure for the corresponding quarters in 1994. The significant decline in the amounts involved as well as the actual/expected losses can be attributed to the efforts of the implementation of the Decree on the Failed Bank in 1995.

Fraud and Forgery Cases in Merchant Banks

Table 4.11 presents reported cases of fraud and forgeries during 1995 and 1994 in Merchant Banks. As in the case of commercial banks, the number of banks reporting incidence of fraud and forgery declined from 18 in 1994 to 14 in 1995. The reduction in the amount involved from £4743.68 million in 1994 to 5.08 million in 1995 was quite significant. The actual/expected loss similarly declined significantly from *U67A0* million in 1994 to *U2.75* million 1995.

Table 4.11

Returns of Merchant Banks on Frauds and Forgeries

QUARTER	YEAR	NO. OF BANKS RENDERING RETURNS	NO. OF BANKS WITH FRAUD CASES	AMOUNT INVOLVED (N'M)	ACTUAL/EXPECTED LOSS (N' M)	PROMOTION OF ACTUAL /EXPECTED LOSS AMOUNT INVOLVED
First	1995	51	41	0.94	0.00	0.00
	1994	47	43	49.32	31.16	63.17
Second	1995	35	9	1.68	0.78	46.42
	1994		29	0.48	0.00	0.00
Third	1995	40	10	0.51	0.51	3.92
	1994	56	24	29.42	23.40	79.53
Fourth	1995	47	39	1.95	12.54	1.88
	1994	49	36	664.46	2.75	54.13
TOTAL	1995			5,08	2.75	54.13
	1994			743,68	67.10	9.02

SOURCE: Bank Returns

Central Nature of Frauds and Forgeries

Table 4.12 shows the 10 banks with the highest reported fraud and forgery cases in 1995. All the ten banks were commercial banks and this could be attributed to the retail nature of their business and large branch network. The ten banks accounted for 62.34 percent (%) of the total amount involved in 1994, whilst the proportion in 1994 was 67.76 percent.

Table 4.12

Ten Banks with Highest Fraud Cases

Group	1994 Amount Involved (₦')	% Share	1995 Amount Involved (N'M)	% Share
Total for 10 banks	2,303.54	67.76	630.49	52.34
Total for all banks	3,399.39	100.00	1,011.36	100.00

SOURCE: Bank Returns

The most common types of reported fraud and forgery cases during the 1994/1995 financial years were the following:

a) Unauthorised Overdrafts;

b) presentation of forged cheques;

c) posting of fictitious credits;

d) suppression of cheques;

e) fraudulent transfer and withdrawals;

f) abuse of medical scheme

Terminated, Dismissed and Retired Staff on Account of Frauds and Forgeries

Most frauds and forgeries were perpetrated by such core banking staff as: Supervisors, Managers, Officers, Accountants, Clerks and Cashiers. These categories of staff accounted for over 70 percent of those who lost their jobs in the industry during the reporting period for involvement in fraud related crimes.

Table 4.13 shows the number of staff involved in 1994 and 1995.

Table 4.13

Members of Staff Involved in Fraud **and** Forgeries in Banks

	1994		1995	
Rank	**Number**	%	**Number**	%
Supervisor and Managers	211	28.6	151	24.16
Officers, Accounts and Executive Assistants	144	19.5	142	22.72
Clerks and Cashiers	220	29.9	172	27.52
Typists, Technicians and Stenographers	24	3.3	18	2.88
Messengers, Drivers, Cleaners, Security Guards and Stewards	108	14.7	123	19.68
Temporary Staff	**2**	0.3	**16**	2.56
Uncategorised Staff	28	3.7	3	0.48
TOTAL	737	100	625	100

SOURCE: Bank Returns

Table 4.13 shows that a total of 625 staff of Insured Banks were involved in fraud and forgeries during 1995 while the figure for 1994 was 737. In both years, Clerks and Cashiers were responsible for the highest number of reported cases, followed by Supervisors and Managers.

4.5. *Managing Fraud in The Nigerian Banking Industry*

Rightly, the incidence of frauds in the Nigerian banking industry deserves the co-ordination of all well meaning citizens of the country. Considering the fiduciary nature of banking and the expectations of banks as instruments for facilitating rapid social and economic development of the country, it behoves all patriotic citizens to expect and insist that like Ceaser's wife, bank

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employees must be above board. It is axiomatic from foregoing that a major causative factor of bank frauds is the level of probity that prevails in the society at large, the expected value system where, wealth is glorified irrespective of its source and some peculiar prevailing characteristics of the society's social arrangement.

A clear understanding of what is meant by fraud management appears necessary so as to give meaning and effect to the discussion here. Frequent and/or repeated occurrence of fraud and forgery in banks lead to bank distress and bank distress occurs when a bank or some banks in the system experience illiquidity or insolvency, resulting in a situation where depositors fear the loss of their deposit and consequent breakdown of contractual obligations.

Management of fraud in banks implies restructuring which, according to ANDREW SHENG (1995), essentially involves all activities (of a bank) directed towards detection, investigation, prevention and control of fraud in order to achieve decency and restore investors' as well as customers confidence in the bank as well as the system/industry in its entirety. These activities shall be treated in detail.

Management or restructuring of fraud in the banking industry is therefore embarked upon by banks and regulatory authorities to restore public confidence in the banking system, preserve the sanctity of the social contract, and provide an opportunity to build a banking system that can better provide the efficient services necessary to enhance the development of the economy. Let it be emphasised that management of fraud also includes measures such as improvement of bank accounting standards, portfolio audits and diagnostic studies of ailing banks, greater bank financial disclosure, reform of banking laws and regulations and upgrading of bank supervisor capacity especially in off-site surveillance and on-site examination.

4.51. ***Fraud Detection Measures***

The magnitude of fraud is of course, not known since much of it is not discovered or detected and not all the detected are published. No where is fraud more serious than in banking. It is the biggest single cause of bank failures. Fraud is an international phenomenon. In Nigeria, fraud is endemic, but while the effort at reducing this "cankerworm is also supposed to be global endeavour, a lot of factors (mentioned earlier) have continued to work against the success of such efforts.

Of course, fraud, in its varied forms, can be very costly since enormous financial losses may be suffered by individuals, corporations and banks. More significantly, getting legal and recovery redress can be most difficult. It has added difficulty when the scope is international in nature, law enforcement agencies are unwilling to engage in time consuming and expensive investigations unless there is a good chance to bring the witnesses and victims to trial.

However, the following detection measures have been described as vital by bankers and financial experts, to eliminate or reduce the incidence of fraud and forgeries in our banks.

- Establish a system of checking cashiers both on regular basis and on unprogrammed basis. Bank inspectors could carry out surprise checks on the books of cashiers in addition to the regular office checks carried out by their supervisor.
- Establish a system of call overs, reconciliation and balancing of accounts at branch, inter-branch and head office levels.
- Ensure that statements of accounts are periodically submitted to customers. In any case, customers should be accorded the privilege to call for their statements of account for verification at any time without necessarily waiting for the periodic arrangement for rendition of statements.
- Bank inspectors should establish a system of stock taking of security items and cash in vaults. Senior Managers in charge of treasury operations should in addition carry out both planned and surprise checks for security items and cash in the vaults using the system of dual control to achieve this.
- It is virtually important to operate proper books of accounts to record transaction vouchers against which the stock taking of cash in the vault and cashier's tills are reconciled.
- Logging of expectations, that is,
  - a) Out of sequence, out of priority and aborted runs and entries.
  - b) Transactions that ate too high, too low, too many, too far, too unusual (odd times, odd places, odd people).
  - c) Attempted access beyond authorisation level.
  - d) Repeated improper attempts to gain access (wrong identification, wrong password).

4.5.2. ***Central Prevention and Control Measures***

Various opportunities abound for the fraudsters. One of such opportunities is that fraud is a big business. People are simply discovering and being more aware that fraud is an easy way of making money. For the successful fraudster, the reward can be enormous and the risks small. Even if caught, the chances of being publicly punished is minimal and the punishment is usually much lighter than the punishment meted out to ordinary robbers.

Among the solutions that I have proffered include the examination of prevent and control strategies.

To prevent frauds, every bank must maintain efficient internal control systems in order to safeguard resources, check the accuracy and reliability of accounting data, promise operational efficiency, and assure adherence to corporate policies.

The following prevention and control measures are vital to the corporate existence of a bank:

a) There must be separation of duties throughout the organisation to ensure that no single individual has sole control over transaction. For examples the physical handling of a transaction must be separated from its recording and supervision. A cashier must not post ledger records and so on.

b) Branch operations are monitored on a continuous basis to ensure the adequacy of administrative and accounting controls and currency of related written policies and procedures.

c) Every bank must establish internal audit function which we all know as the inspection duties. The inspection department regularly audits the various units of the bank to ensure that record keeping controls are being practical and to evaluate the efficacy of internal control systems. Apart from internal auditing, provision must also be made for independent external auditing function to express professional opinion as to the integrity and reliability of financial statements.

Bank inspectors are expected to play a very significant role in preventing fraud in banks. One of their main responsibilities is to review, evaluate and report on the adequacy of internal controls. Other suggestions for preventing bank frauds includes:

i) Bank staff should be properly screened before being employed. Satisfactory references must always be obtained. The present practice whereby names of terminated or dismissed bank staff are circulated among banks will go a long way to reduce incidence of bank fraud. The institute of Bankers should also have this list, which should be checked before registering a student while blacklisting the others. As stated earlier on, no fraud can be successfully executed without the active collaboration of a bank staff. Therefore it is not out of place to observe the life style of bank staff as this may be the key to possible involvement in some malpractices.

ii) All banks should introduce strict disciplinary actions which would serve as deterrents to other staff whenever malpractices are proved against such staff.

iii) Police personnel should be trained in basic banking principles and practices through manuals and formal instructions in the Police College and at the Financial Institutions Training Centre (FITC).

iv) Chief Inspectors of Commercial Banks must endeavour to work hand in hand with the Police during investigation of frauds which must be handled promptly.

v) The Banking Act of 1969 should be amended to allow individual banks to prosecute cases of forgery or fraud privately. Alternatively, provision should be made for a special court to try bank fraud and defalcations. In addition, stiffer penalty should be stipulated for all bank fraud and forgeries by bank staff and customers.

vi) Staff should be rotated periodically and should not be left on one function for too long a period in order to forestall the possibility of exploring existing operational loopholes and shortcomings for personal gain.

vii) Dormant accounts should be secluded from other accounts and any operation on them should raise suspicion and must be with the authority of the Branch Manager or Branch Accountant.

viii) Appointment of officers as against supervisiors to man rural branches in order to reduce the increasing trend of fraud at these branches must be considered.

ix) Although, the degree of fraud perpetrated by swapping of cheques and altering presentation forms et cetera has reduced, security boxes currently in use are not fool proof. To stem the cause of fraudulent activities through the clearing system therefore, banks should consider using officers for clearing house operations as against the present system of using clerks.

x) The list of customers whole accounts are used for frauds should be circulated to other banks. The responsibility should be that of the branch in which the account is maintained to report to its head officer which will then circulate the information to all licensed banks. Regular rotation of foreign exchange malpractices. More precaution must be exercised over foreign exchange documentation and in the processing of foreign exchange application.

xi) Cash Officers should be sure of the need of cash by the cashiers before making the money available. Receiving and payment of cash should be divorced form each other. Use of close circuit television in big branches to monitor the movement of staff and customers. Establishment of control checks for the purpose of registering all payment and receipt prior to movement to cashiers' enclosure.

xii) Security men should ensure that only people who have genuine business to transact in the banks are allowed into the banking hall. Regular follow-up of outstanding items in inter-branch reconciliation to prevent perpetration of fraud through the system. The following other accounts must be reconciled regularly all outstanding items must be followed up closely and forged and at no point in time must a blank cheque be signed by customers.

4.5.4 ***Roles Of Bank Itself In Preventing Fraud***

Since banks are the most affected party of fraudulent activities, efforts should be made to ensure that some operational devices and management control are exercised to reduce (to the barest minimum) if not eradicated (completely) frauds in the banking industry. Possible solutions to bank fraud by banks are as follows:

a) **Internal Auditing**

Bank inspection department or internal auditing department should be more alive to responsibilities and carry out thorough examination of the books of account of branches with a view to forestalling or detecting any fraudulent practices. Where lapses are noted, serious disciplinary measures should not be spared.

b) **Internal Circular**

Circulation of information internally from the Head Office in cases of fraud happening somewhere else should be circulated to each branch of different banks and the type of penalties. This will serve as an example to the branch bankers and its staff and thereby create in them a sort of fear of the consequences of indulging in fraudulent acts.

c) **Monitoring of staff**

Superior bank officers should identify those members of their staff who are often involved in dealing with financial problems which in most cases lead to financial embarrassment or handicap. Such situations, where not properly diagnosed, have been the major source of many fraudulent acts by such member of staff.

d) **Electronic Media Campaign**

Banks should as a matter of necessity be using the electronic media and even the newspapers to warn their staff of the consequences of one's involvement in fraud and the reward that awaits anybody who discloses any attempt of fraud. For instance radio, television and telex messages can be used to make all these campaign.

e) **Experienced and Skilled Staff**

Experience, which they say, is the master edge should be taken into consideration when assigning jobs to bank staff. Experienced bankers will be able to handle delicate and difficult area than newly employed officers. Moreover, skilled and experienced staff should be made to head strategic positions to ensure checks and balances within the organisation.

f) **Training of Staff**

In-house on-the-job training of staff both junior and senior should be accelerated. Staff should be made to realise the danger of colluding with customers, currency traffickers **in** relation to the security or their own continued employment and future prospects when frauds to occur.

g) **Compliance With The Laid Down Working Regulations**

Efforts should be made by banks to ensure that laid down procedures for the issuance of cheque books, reference of cash, cheques, issuance of drafts and account payable cheques are all strictly complied with thereby leaving little or no room for fraudulent opportunities.

a) Staff should be rotated periodically and should not be left on one job for too long.

b) Intimacy between staff and customers should be maintained at professional distance.

4.5.6. ***Management's Responsibilities at Fraud Prevention and Control***

It is being realistic to state that it is more impossible to completely prevent fraud. This is because fraud will continue to occur in our materialistic and morally decaying societies. The attainable goal that bank management must seek is to minimise fraud.

In doing this, management must seek and use preventive rather than the curative approach. This is to say, the prevention of fraud is much preferred to its detection and the "avoidance of loss is better than its recovery".

For these, management's responsibilities at fraud prevention efforts should include:

- Employment procedures should be followed as laid down in the rules and regulations governing recruitment to avoid frauds.
- Employees should have their annual vacations at least once in a year.

- Dual control should be maintained at all times on all assets as far as possible.
- Verification of jobs by superior officers should be a part and parcel of internal control measures.
- Managers should be practical in their efforts to control fraud by carrying snap checks on staff unannounced and periodically.
- Life styles of employees should be monitored as these could lead to temptations to steal.

4.5.6. ***Roles of Government and its Agencies in Preventing/Controlling Fraud***

It should be obvious from the catalogue of causes, nature and types of fraud that have been given that their prevention and control should be a collaborative effort involving government and its agencies, the operations, that is, financial institutions, management and staff and the general public. While the major task here is to articulate the role of government and its agencies in this respect, it should be emphasised that the classic rule of banking "Know Your Customer" is the key to preventing and controlling frauds. It is pertinent to submit that the role of government and its agencies is more of curative whereas the financial institutions and members of the public have dual role of preventing and curbing frauds.

The Government

The role of government in the prevention and control of frauds in banks and other financial institutions is a Herculean task bordered mainly on ensuring a disciplined society, promulgating of appropriate statutes, establishing relevant institutions and ensuring enforcement of various legal provisions.

The War Against Indiscipline and Corruption (WAIC) launched by government, if well prosecuted and faithfully implemented would go a long way in preventing and controlling frauds in our society. This deduction is based on the realisations that indiscipline breeds all sorts of vices including frauds. Also indiscipline and corruption in the society create false value systems and tended to encourage others to want to be like others. People get involved in unorthodox means of making wealth including fraudulent practices. The WAIC programme of the government should therefore be seen as an effort of the government to prevent and control frauds in the country.

It is a common saying that where there is no law, there is no offence. In recognition of this, the government put in place relevant statutes to ensure safe and sound practices in the Nigerian-Financial system. These includes CBN, BOFI DECREE, NAIC DECREE, FMBN DECREE, STOCK EXCHANGE DECREE, PEOPLES BANK DECREE and INSURANCE DECREE.

To further give effect to its resolve to rid the financial institution of frauds, the government constituted the "NATIONAL COMMITTEE ON MALPRACTICE IN BANKS AND OTHER FINANCIAL INSTITUTIONS" in 1990. The committee seemed to have addressed the issues very appropriately and had recommended to government the need to promulgate a special law on frauds and malpractice in banks and other financial institutions.

The government equally put in place necessary infrastructure that will ensure that incidence of frauds in the financial system is abated. It is for this and many other reasons that we have the CBN, NDIC, SEC, Police, Judiciary among others. These government agencies in their various activities have been preventing and controlling frauds. On the enforcement of these various legislation to curb frauds in the financial institutions, we have the Ministry of Justice, the Police and the Judiciary. It will also suffice to add what is required mainly from the judiciary is prompt, fair and evenly handed justice .

The Central Bank of Nigeria (CBN)/Nigeria Deposit Insurance Corporation (NDIC)

The object of frauds in the financial system is of special concern to the monetary and supervisory authorities, particularly the CBN and NDIC. These government agencies are concerned about the safety of individual institutions and soundness of the banking system. Most especially the NDIC is specifically charged with the responsibility of protecting depositors.

According to sections 39 and 40 of the NDIC Decree No. 22 of 1988 placed on the insured banks in Nigeria, the responsibility of rendering to the corporation monthly returns on frauds, forgeries or outright theft occurring during such month and notifying the corporation of any staff dismissed, terminated or advised to retire on grounds of fraud in banks.

The Prudential Guidelines/Regulations of the CBN/NDIC to banks are also aimed at preventing and controlling frauds. For example, the conditions in the prudential guidelines for licensed banks that all banks should review their credit portfolio quarterly would help early detection of any acts of frauds, forgeries and financial malpractice relating to loans and advances granted under suspicious circumstances.

The CBN and NDIC examiners supervise banks not only to ensure that they are operating according to the rules and regulations of the industry and that they are healthy, but also to prevent and detect frauds.

In this respect, the agencies have powers to deal with members of a bank board and management who are found to have engaged in financial malpractice, or have condoned such offences of other erring staff. In effect, examination recommendations emanating all seriousness by the banks and must receive the backing of the board of directors, management and shareholders of the affected banks.

There is also the statutory requirement for banks and other financial institutions to employ external auditors to check their books and affairs. For banks not to exercise undue influence on external auditors, their appointment and termination is subjected to the approval of the CBN.

Other Government Agencies

The agencies in this category include the Securities and Exchange Commission (SEC) for capital market operators, Federal Mortgage

Bank of Nigeria (FMBN) for Primary Mortgage Institutions. National Board for Community Banks (NBCB) Community Banks and National Insurance Supervisory Board (NISB) for Insurance Companies. All these government agencies supervise the relevant financial institutions for their safety and soundness and equally curtail frauds in those institutions.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. <u>SUMMARY OF FINDINGS</u>

Attempt has been made through this paper to identify various types and causes of bank fraud in Nigeria and its effects on individuals, banking institutions and the nations at large.

It has been observed that the present high rate of fraud is the direct effect of our societal setting especially where wealth is glorified irrespective of its source.

It was also observed that the needed moral justification of the average Nigerians are some of the factors fuelling the incidence of fraud in our society.

Lack of effective internal control system and poor recruitment procedure forms part of the factors that aid the incidence of fraud and forgery in our banking industry. It was evidence that most successful frauds carried out either in commercial or merchant banks or even at the Central Bank has the active participation of bank staff.

The study also revealed that the lukewarm attitude of our law enforcement agents, the snail-paced and mild punishment meted out to fraudsters are itself fraud inducing.

It was further observed that lack of cooperation among members of security agent and the staff of the bank especially in the area of status inquiry and information and investigation are also contributive factors to bank frauds.

Lack of effective security system in our banks was also identified as a factor leading to some if not most of the fraudulent practices in our banks. Meanwhile, as it has been previously stated, the main objective of carrying out his research work, among others, is to contribute meaningfully to the growth and development of various facets of the banking and financial industry and the national economy as a whole. To achieve this goal, structured interview techniques were used to aid the gathering of relevant and useful data, which were collated before arriving at meaningful findings.

The first hypothesis has been affirmed in Table 5.1 and 5.2 where it is analytically clear that fraud leads to unwarranted losses to both the bank and the customers as well as the investors.

As regards the second hypothesis, the analysis in Table 5.3 and 5.4 proved that more than 75% of bank frauds succeeds with active connivance or collaboration with bank staff.

The third hypothesis has also been affirmed. The analysis in Table 5.7 gave credit to the popular belief that management control measures in Nigeria are not without loopholes. On the other hand the stiff punishment that are meant to serve as deterrent to fraudsters have ironically turned to a source of motivation with its damaging consequences uncurbed.

The fourth hypothesis has also been affirmed as analysed in Table 5.5 This is evidenced by the fact that about 30% of the budgeted annual running cost of banks are spent on prevention and detecting frauds. This rate is high enough to contribute to the improvement of banking services to the customers but which is lavished in an attempt to cure our society from an incurable disease.

The fifth and the last hypothesis has also been proved as analysis in Tables 5.8 and 5.9 that banks are generally skeptical about reporting cases of frauds to the general public and that about 20% of the said incidence are reported to the public.

The inference drawn from this analysis is that the tools used to perpetrate fraud are diversified and the experience of the fraudster are more enriched with each reported attempt to defraud.

This further affirms the theory that there is a natural relationship between existence, growth and sophistication of crime and the socio-economic development and complexity of every society.

5.2 CONCLUSION

The above Summary of findings are by no means exhaustive, but they can be regarded as general guidelines which have relevance to contemporary Nigerian problems.

Evidence from recent bank returns to NDIC regarding frauds and forgeries in commercial and merchant banks reveal that the phenomenon has been on the upward trend despite the control measures put in place by individual banks. The subject has accordingly gained the increasing attention of the monetary and supervisory authorities in view of the fact that frauds result in huge losses to banks and their consumers, the depletion of shareholders' fund and banks capital base, and loss of confidence in banks which may ultimately precipitate bank failure.

From an overview of the whole sequence of events in the paper, the causes of frauds in our banking industry could be traced to the institutional framework of the banking sub-sector and the environmental influences on the staff, the customer, and other members of the community. The regulatory framework set-up within and outside the sector to control the activities of the financial sector is enough to guide participants in the field.

The newly promulgated failed Bank Decree and other allied Decrees have been turning up some cheering news. Dr. Walter Ofonagoro, sometime disclosed that ₦7.6 billion was recovered within two months. This we believe, testifies to the effectiveness of the application of this decree by the Tribunals. According to Ofonagoro, ₦15.3 billion was fraudulently appropriated by Managing Directors and Chief Eexecutive of failed banks who either participated in or condoned the looting. With the recovery of almost half of the stolen amount, the impression is given that the War Against Fraud and Embezzlement at least in the distressed finance houses, is being won. Yet there is a palpable evidence that while success is being achieved in the banking sectors, the society is still enmeshed in the murky waters of mismanagement, corruption and fraud. The society needs more than just the constituted hands to tidy up the filth. As rightly observed by the former Nigeria head of State, late General Sani Abacha the colossal waste of public funds and assets through mismanagement, fraud embezzlement and other white-collar crime have contributed in no small measure to the poor state of our economy and social service.

The real problem in this sectors could be traced to that of leadership in the right places. The problems of this sector vis-a-vis this nation could be solved, when we have a good leader matched with the necessary skills, the resources will be well harnessed, aspiration will be well directed and guided.

Imagine the Managing Director of a financial institution throwing parties and inviting musicians to sing his praises. What precedent are we laying and where dose it take us.

The past events in the sector (banking) have all pointed to a bleak future but this is being arrested with all hands on deck.

The government determination to fight white-collar crimes such as fraud, mismanagement et-cetera resulted in the establishment of failed bank tribunals. The agencies involved must play their role effectively. Bank management too should respect the procedure they have laid down in doing things.

However, while decrees and other draconian administrative measures may yield positive results in a short time, they do not adequately address the problem in the long-run. The society must re-appraise its values and change for the better.

5.3. RECOMMENDATIONS

The consequences of fraud in banks are very grave, to counter this malady, the writer has recommended the following measures:

- Effective management control system in our banks. This involves the whole system of controls, financial and otherwise establishment by management in order to carry on the business of an organisation in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of the records. This could be in form of internal checks or internal audit or inspection within the organisation.
- The detection and prevention (management) of fraud should be a collaborative effort between banks, their customers, the public and the government alongside relevant agencies.
- Strategies for avoiding defects in the initial loan and security documentation and perfection must be adopted.
- Efficient internal record-keeping and management control should be emphasized.
- There should be options for dealing with unrealistic laws, regulations and enforcing procedures.
- The judicial attitude to debt recovery cases must change.
- Operational procedures must be strictly adhered to.

  Sourcing of funds must be done with caution.

  In view of the dynamic economic needs and its funding, both long-term and medium term, the capitalization of banks should be increased to accommodate the shortfalls in terms of the value of the Naira and to cushion the banks position in respect of losses incurred.

  The prudential guidelines for licensed banks that all banks should review their credit portfolio quarterly would help in early detection of any acts of fraud/forgery and financial malpractice and therefore should be taken seriously.

- There is also the need for increased rate of honesty in banks, faithfulness of customers and government readiness to curb anything or any act that can lead to fraud in terms of their policies.

In all, the most appropriate way forward is for all parties concerned to contribute to a favourable banking environment. In this regard, the operators should adhere strictly to the rules of the game, the regulatory/supervisory authorities should enhance the supervisory capacity while the government should put in place enabling legal, macro-economic and political framework.

All these are necessary since it is often said that prevention of fraud is preferred to its detection and the avoidance of loss is better than its recovery. In fact the devastating effect of frauds on the banking system and the nation's economy is much and it is necessary to see how this menace (fraud) can at least be restrained from eating deeper into the fabrics of the society.

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