

AN EXAMINATION OF FRAUD DETECTING TECHNIQUES
USED IN THE
NIGERIAN BANKING INDUSTRY:

A CASE STUDY OF SELECTED BANKS IN KANO METROPOLIS.

BY

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BEING A THESIS SUBMITTED TO THE POSTGRADUATE SCHOOL IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION (MBA)

DEPARTMENT OF BUSINESS ADMINISTRATION
FACULTY OF ADMINISTRATION
AHMADU BELLO UNIVERSITY
ZARIA
NIGERIA.

OCTOBER, 2006

DEDICATION

With much gratitude to Almighty Allah (SWT) for sparing my life to see this day, I dedicate this whole work of study – this project to the **ENTIRE MEMBERS OF MY FAMILY. “THE SAMAILA MAMMANS”** whose love and guidance has put me in this present position. They stood by me and I stood tall! What more should I ask for? Allah (SWT) has been so good to me. ALHAMDULILLAH.

And to my beloved husband **MURTALA DATTI ABUBAKAR**, and my dearest son **AMIR M. ABUBAKAR**.

DECLARATION

I hereby declare that this project titled “ An examination of fraud detecting techniques used in the Nigerian Banking Industry: A survey of commercial Banks in Kano Metropolis” for the award of the Degree for Master of Business Administration (MBA) of Ahmadu Bello University Zaria, to the best of my knowledge is a product of my research work.

All sources of information used for this write-up are clearly acknowledged by means of references. At the time of writing this project, no other person was writing on this same topic, thus, the researcher takes full responsibility for any error committed and or omissions.

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DATE: _____

CERTIFICATION

This is to certify that this project titled "An Examination of Fraud Detecting Techniques Used in the Nigerian Banking Industry: A case study of selected Banks in Kano Metropolis" written by SAMA'ILA, Hafsat Mamman meets the regulations governing the award of the degree of Master of Business Administration (MBA) of Ahmadu Bello University, Zaria and it is therefore approved for its contributions to knowledge, and literary presentation.

Mal. Bello Sabo

Chairman, Supervisory Committee

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Head of Department

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Dean, Postgraduate School

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Date

ACKNOWLEDGEMENT

My sincere and utmost gratitude goes to Almighty Allah (SWT) on whose favor and blessings, I have completed this study at Ahmadu Bello University, Zaria.

Foremost, I must express my appreciation to Mallam BELLO SABO my supervisor, whose enthusiasm for this work, encouragement, support and constructive criticisms made even the most difficult challenge feasible. His orderly mind, consistently and systematic approach helped me to present this material in the most organized fashion.

To my parents ALHAJI SAMA'ILA MAMMAN and HAJIYA HALIMA S. MAMMAN, there are no words that can express my heart felt gratitude for laying down a solid foundation for my education and ensuring that my dream of being well educated turns into a reality. Special thanks to both of you for your love, blessings, support and prayers.

I am greatly indebted to my dearest loving and caring husband MURTALA DATTI ABUBAKAR for his tolerance, advice guidance and consistent support throughout my stay in ABU, Zaria. Sweetie, you are ONE IN A MILLION.

To my siblings Lubabatu, Fadila, Amina, Isa, Aliyu and sweet Muhammad, who as always were by my side, there are NO WORDS ENOUGH TO THANK YOU ALL.

As usual, the role of the library has no doubt helped tremendously in providing a very sound theoretical footing to this research work. Special appreciation goes to the Departmental Librarian Mallam Inuwa Abdullahi (shadow) who contribute on numerous levels when the research work was being compiled.

I don't think words are enough to thank my friends and classmates who really stood by me in times of rain and sunshine. Special thanks to Maimuna Aliyu shika, and the entire ALIYU SHIKA FAMILY. I am indeed very grateful for everything.

I would like to thank all my colleagues who were very understanding and supportive during the course of my study.

And to all friends and relations whose names have not been mentioned, but have in one way or the other helped in my career advancement, I say A MILLION THANKS to you all. I am very grateful to everyone, who in his or her own way contributed to my successful stay in this school and their project. May Allah (SWT) reward you all abundantly- Ameen!

ABSTRACT

This research is focused on fraud detecting methods used in the Nigerian Banking Industry. The main objectives of the study is to identify the various means of defrauding Banks, to identify the causes of frauds in Banks, to determine the effects, magnitude and frequencies of fraud in Banks, and to suggest measures that can be taken to prevent and or control fraud in the Banking sector.

In a bid to effectively carry out this study, some Banks were randomly selected in Kano metropolis namely First Bank Plc, Union Bank Plc, United Bank for Africa, Afri Bank Plc and Zenith Bank Plc.

Two methods of data collection were used for this study. The primary source of data included questionnaires and direct observation on some of the activities of the members of staff of the Banks and their customers. The Secondary source of data included text books, internet, financial times, Banks annual report of fraudulent theft, alert journals, annual reports of Central Bank of Nigeria, and Nigerian Deposit Insurance Corporation.

From the analysis of the data collected, it was discovered that ineffective and inefficient control was the major cause of fraud in the Nigerian Banking sector.

The data also revealed that fraud contributes significantly to the distress in the Nigerian Banking industry. I recommend that effective and efficient management team must be put in place in order to minimize fraud in the Nigerian Banking sector.

TABLE OF CONTENTS

Title page	i
Dedication	ii
Declaration	iii
Certification	iv
Acknowledgement	v
Abstract	viii
Table of contents	x
1.0 CHAPTER ONE - (INTRODUCTION)	
1.1 BACKGROUND OF THE STUDY	1
1.2 STATEMENT OF THE PROBLEM	4
1.3 HYPOTHESIS	5
1.4 SCOPE OF THE STUDY	6
1.5 LIMITATIONS OF THE STUDY	6
1.6 OBJECTIVES OF THE STUDY	8
1.7 JUSTIFICATION OF THE STUDY	8
1.8 DEFINITION OF TERMS	9
REFERENCES	11
2.0 CHAPTER TWO - (LITERATURE REVIEW)	
2.1 THEORETICAL AND CONCEPTUAL FRAMEWORK	12
2.2 NATURE AND TYPES OF FRAUD IN BANKS	14
2.3 CAUSES OF FRAUD IN NIGERIAN BANKS	24
2.4 TECHNIQUES OF DETECTING FRAUD IN BANKS	31
2.5 MEASURES FOR CURBING FRAUDS IN BANKS	33
2.6 EFFECTS OF FRAUD ON COMMERCIAL BANKS IN KANO METROPOLIS	38
REFERENCES	41

3.0	CHAPTER THREE - (RESEARCH METHODOLOGY)	
3.1	INTRODUCTION	42
3.2	RESEARCH DESIGN	43
3.3	DATA REQUIRED FOR THE STUDY	51
3.4	METHODS OF DATA COLLECTION	52
3.5	POPULATION	58
3.6	SAMPLE SIZE	59
3.7	METHODS OF DATA ANALYSIS	59
3.8	SUMMARY	60
	REFERENCES	61
4.0	CHAPTER FOUR (DATA PRESENTATION, ANALYSIS AND THE FINDINGS)	
4.1	INTRODUCTION	62
4.2	DATA PRESENTATION AND ANALYSIS	62
4.2.2	PRESENTATION OF RESPONDENTS RESPONSES TO QUESTIONNAIRE	68
4.3	TEST OF HYPOTHESIS	74
4.4	PRESENTATION AND ANALYSIS OF SECONDARY DATA	84
	REFERENCES	92
5.0	CHAPTER FIVE - (SUMMARY, CONCLUSION, RECOMMENDATIONS)	
5.1	SUMMARY	93
5.2	CONCLUSION	95
5.3	RECOMMENDATIONS	97
	BIBLIOGRAPHY	99
	APPENDICES	103
	LIST OF TABLES	107

LIST OF TABLES

PERSONALITY PROFILE OF RESPONDENTS

TABLE	4:10	64
TABLE	4:20	65
TABLE	4:30 AND 4:40	66
TABLE	4:50	67
TABLE	4:60	68

BANK STAFF/CUSTOMERS REPONSES TO QUESTIONNAIRE

TABLE	4:70 AND 4:80	69
TABLE	4:90 AND 4:10	70
TABLE	4:11 AND 4:12	71
TABLE	4:13 AND 4:14	72
TABLE	4:15 AND 4:16	73
TABLE	4:17	74
TABLE	4:18	75
TABLE	4:19 AND 4:20	77
TABLE	4:21	80
TABLE	4:22	81
TABLE	4:23	82
TABLE	4:24	84
TABLE	4:25	86
TABLE	4:26	87
TABLE	4:27	90

LIST OF CHARTS

FIGURE	4:1	79
FIGURE	4:2	83
FIGURE	4:3	85
FIGURE	4:4	86

CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND OF THE STUDY

There is a genuine fear that the increasing wave of bank fraud is causing a lot of havoc in our financial systems. This is because the bank fraud has eaten deep into every aspect of the banking system to the extent that many banks have lost the confidence of their customers.

Adewumi et'al (1986) defined fraud as "Deceit or trickery deliberately practiced in order to gain some advantages dishonestly" For an action to constitute fraud therefore, there must be dishonest intention, and the action must be intended to benefit perpetrator to the detriment of another person.

Oxford Advance Learners Dictionary of Current English defines fraud as "Criminal deception". According to Udok (1992), fraud is concerned with the activities of those who seek to divert to their pockets the fruits of others handwork. In general, fraud could be said to mean any activity that amounts to unfair dealing. In legal parlance, fraud has been defined as the act of depriving a person dishonestly of something, which is, or of something to which he is, or might be entitled but for the perpetration of fraud.

Fraud in banks are not new, they are as old as the industry itself. However, like in the greater societies, it has become one of the most hard to manage

problems of modern day banking. While the concern of the banking community is growing day by day and management vigilance is improving with the help of computerization amongst others. It is pertinent that millions of naira is still being lost to fraud on daily basis.

While some of the frauds are the handwork of outsiders, others are perpetrated by the staff and sometimes management of the banks concerned. The most significant percentage of fraud is done by fraudsters in collaboration with bank staff. As a result of this, very serious economic crimes, some staff in the industry have either been dismissed, or have their appointment terminated or prematurely retired. This means that some experienced staff in the sector are lost due to their involvement in fraud. The involvement of some bank executives in large scale fraud is now a source of serious concern in the industry.

Following the liberalization of the financial sector which was part of the structural Adjustment programmes (SAP) introduced in 1986, the banking industry has witnessed tremendous institutional growth. According to Ebhodagbe (1997), the number of banks increased from 15 in 1970, to 115 in 1996. As it is said in economics, numbers give rise to competition. But along with this institutional growth and competition was the growth of fraud, corrupt practices and mismanagements. This problem became alarming between 1992- 1995 with the

unprecedented upsurge in bank fraud particularly the new generation banks. Various types of fraud have been carried out in the banking industry and tried in courts and bank malpractice tribunals. But the fact still remains that these acts have led to unhealthiness, technical insolvency of banks, erosion of public confidence and massive distress etc in the Nigeria banking industry.

Financial analysts see fraud as leakage in the economic system because frauds obtained through these means are rarely invested back into the system.

Fraud cut across all sectors of the economy and the size of an enterprise usually determines the volume of fraud perpetrated. Equally, problems of inadequate manpower and manpower training, poor internal control system, inadequate incentives and unsuitable legal framework for dealing with offenders contribute to the perpetration of fraud.

In addition to these, the lack of commitment on the part of the staff and the employment policies of some banks tend to make fraud attractive.

The high rate of fraud in banks is clearly Unacceptable. Something drastic must be done to urgently stem the tide in view of its image implications for the banking industry and the crises of confidence, which it could cause among bank customers.

1.2 **STATEMENT OF THE PROBLEM**

The monumental growth and transformation witnessed by the Nigerian banking industry brought with it some sharp practices which metamorphosed into wide spread fraud which is contrary to the desire of any economy. Considering the Nigerian experience in recent past, where fraud, corruption failures and distress have become the order of the day, the question that comes to ones mind is: can we leave this crucial sector\industry to the idea and behaviors of the operators? In order to prevent a collapse of the payment mechanism, encourage monetary stability, ensure an efficient and competitive financial system, protect customers' interest and ensure a safe and sound banking industry, government has taken steps to regulate the banking industry and various banks have sent their staff on a variety of training to enable them provide better services. But despite all these, operators and staff of the banking industry however, engage in activities that are contrary to the objectives and ethics of banking. The problem here includes: what are these activities? Who are the perpetrators? What are the reasons why such acts exist, and what can be done to minimize, if not eradicate them? It is so for many reasons a matter of growing concern the increasing incidence of fraud in the banking industry. The concern is that over the last decade or so, fraud and irrregularities have assumed an alarming dimension in terms of magnitude, sophistication, audacity and damaging propensity. Fraud results in Unwarranted losses for the bank and

very importantly, fraud literally clips off a bit of the public's confidence in the orthodox financial institution that banks are, and delay the full development of banking habits in the citizens and in extreme cases leads to the complete failure of the bank. A more growing concern of recent is the categories of staff involved in fraud. More and more of the middle and senior/management staff of banks are increasingly being attracted by the lure of fraud, and the successful prevention of a specific fraud, gives rise to a more complex one by the perpetrators.

1.3 HYPOTHESIS

Hypothesis refers to an experimental statement, tentative in nature, showing the relationship between two or more variables. It is open to test and can be accepted or rejected depending on whether it agrees or disagrees with the statistical test.

The study will test the validity of the following hypothesis

1. Ho: The quality of employees does not affect number of fraud in the banking industry
H1: The quality of employees affects fraud in the banking industry.
2. Ho: Lack of motivation is responsible for frauds in the banks.
H1: Motivation discourages fraud in banks.

1.4 SCOPE OF THE STUDY

The study centers on fraud in the Nigerian banking industry with a keen interest on commercial banks in Kano metropolis. It recorded cases of fraud in the Nigerian banking industry, what constitute fraud, causes of fraud, most common types of fraud, their effects on the banking industry, fraud detecting methods and recommendations for controlling and prevention of frauds in the Nigeria banking industry.

1.5 LIMITATIONS OF THE STUDY

Limitations are those factors inherent in research study that might have affected the process of data collection for this research work.

One of the major limitations is the organizations Unwillingness to give out necessary data that will have assisted in the conduct of this research work effectively. Reports from the Nigerian deposit Insurance Corporation on cases incomplete. Also, the information obtained from the known members of staff-retired or dismissed, during the period with in which the fraud cases of fraud filed by various banks were in most cases incomplete. Also, the information obtained from the known members of staff of the banks was given on the condition of anonymity because of the sensitive nature of the research topic. Likewise, the researcher could not reach old members of staff-Retired or dismissed, during the period within the fraud cases were perpetrated to tell

their own part of the story, and what could have been the cause or the motivating factor for their fraudulent acts.

Another limitation is the current harsh economic conditions in the country. Time was another factor which limited the coverage of the scope of this study adequately. All these factors prevented the researcher from going round as many banks as possible in order to survey large quantity opinion on the research topic.

The findings therefore, from this study are based on information that is obtained from commercial banks in Kano metropolis. The findings have been generalized on all banking systems in Nigeria.

1.6 OBJECTIVES OF THE STUDY

The purpose of this research is to critically examine fraud detection techniques used in the Nigeria banking industry, using banks in Kano metropolis as case study.

Specifically, the objectives include:

- a. To understand the nature of fraud in the Nigeria banking industry.
- b. To identify and look into the cause of fraud in the Nigerian banking industry.
- c. To analyze the extent and effects of fraud on the banking industry and economy in general.
- d. To proffer ways of detecting, preventing and controlling fraud in banks.

- e. To review existing literatures on fraud, as well as irregularities in banks.

1.7 JUSTIFICATION OF THE STUDY

The study will be useful to the general public because the banking industry touches the life of everyone in an economy. Banks all over the world have contributed immensely to the economic growth and development of nations. As such, problems such as fraud which can hinder the smooth operations of the banking industry should be viewed with all seriousness in order not to intercept or destroy the rate of development.

The efficiency of the banking industry is a necessity for the proper working of a nation. Thus, this study would be of great use to authorities concerned with banking operations, managements, staff customers and prospective investors in the industry. In Nigeria, bank fraud has assumed a frightening scale and sophistication consequent upon the general economic depression of the last decade and the continuing travails of the banking sector in the wake of government frantic policy experimentation. The study will therefore identify the various means (Theft, embezzlement, forgeries etc) employed in defrauding banks. It will also identify the cause of fraud in banks which may be institutional and societal i.e. factors traceable to the internal and external environments of banks respectively.

The study will also identify the various types of fraud and forgeries (ranging from misappropriation of money, goods or other resources belonging to the employers, forging signatures of important officials and falsification of records and accounts) perpetrated in banks.

DEFINITION OF TERMS.

1. BANK:

An organization that provides various financial service, for example keeping or lending money.

2. FRAUD.

Any act of deceiving in order to make money or obtain goods

3. COMMERCIAL BANK

Banks that concentrate on cash deposits and transfer of service to the general public, offer to be fraud on the high streets.

5. ERRORS

Mistake or something done wrongly

6. DUD CHEQUE

A forged or worthless cheque.

7 PERPETRATOR

A person who commits the act of fraud

8 CHEQUE KITTING

Method where a depositor utilized the time required for cheque to clear to obtain an authorized loan without interest charge.

9 CALL OVER

A system of check and balance in banking operations

10. COLLUSION

The act of fraud perpetrated with the connivance of different people.

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CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 THEORETICAL & CONCEPTUAL FRAMEWORK

Bank frauds all over the world were perpetrated essentially for selfish economic benefits. According to the dictionary of banking by John (1999), fraud is defined as "an act or a cause of deception deliberately practiced to gain an unlawful or unfair advantage to the detriment of another". Any act of unfair dealing whether against the bank by its customers or against the customers by a bank (including its officers), or against the bank by its officers is regarded as fraud. Mr. Layiwola Ashadele (1993), views fraud by extension to include embezzlement, theft or any attempt to steal or unlawfully obtain, misuse or cause harm to the assets of a bank. Bank fraud can be committed by bank customers' bank staff, or a combination of staff and customers or third parties.

Attempts have been made by various writers to weave various factors into compressive theories of fraud and criminal behaviors. Babatunde (1987) propounded that, the motivation of fraudulent behaviors derives from a number of causes. They could be poor management and internal control, poor banking experience of staff, poor recruitment system, frustration of staff, and greediness.

Greed as a motivation factor concerns the drive to be fraudulent, to acquire gains far beyond one's income for immediate or long term needs.

Adewunmi (1986) identified socio – economic lapses in the society as a misplacement of societal values and the Un- questioning attitude of society toward the sources of wealth, the rising expectation from bank staff and the

subsequent desire of the staff to live up to such expectation as a contributory factor to fraud.

2.1.1 **ORIGIN OF FRAUD.**

It is very difficult to trace the original of fraud. However, in the case of fraud perpetration, Adewole (1990) opines that any minor mistake by an individual which is not detected in time, or at all makes such an individual to think that the success of such mistakes may be taken advantages of and may proceed to enact more mistakes, this time, deliberately so as to test the system's check and balance.

He stresses that where a deliberate mistake is made and is successful, the individual takes benefit of it for selfish end. He refers to this behavior as fraud, since it is now a deliberate action aimed at dishonestly enriching the individual. The next logical step for such an individual is definitely to continue with such errors, until he eventually graduates to a hardened fraudster.

It can therefore be deduced that the genesis of fraud is traceable to the committal or minor, undetected mistakes, which are consequently capitalized upon by individuals intending to defraud.

2.2 Nature and types of fraud in banks

Frauds in the banking industry vary widely in the nature, character and method of perpetration. While some authorities (such as committee of chief inspectors of banks and Sydney(1995) prefer to group fraud according to the perpetrators, Adewumi (1986), Adekanye (1986) and bankers Administration institute prefer to classify fraud based on the methods used. On the basis of perpetrators, bank fraud may be classified into three broad categories namely:

- A Internal fraud
- B External fraud
- C Mixed fraud

Internal fraud are those committed by members of staff, external fraud are committed by persons and customers outside the bank, while mixed fraud involves outsiders colliding with bank staff.

Shongotola (1994) cautions that the Nigerian banking industry has become not just a battle front with a clear- cut firing line between banks and the fraudsters but a veritable minefield in which some banks and their top management staff are in secret league with the enemy.

Categorization on the basis of methods of perpetration is the most common form of classification employed by banks. Here, the list of types of fraud is

inexhaustible as new methods are devised with time. However, we are able to identify the following:

- 1 Outright theft and embezzlement
2. Defalcation
- 3 Forgeries and insider abuse
- 4 Suppression
- 5 Fraudulent substitution
- 6 Tampering with reserves.
- 7 Payment against unlearned effects
- 8 Unauthorized lending.
- 9 Lending to "ghost" borrowers
- 10 Kite flying and cross firing.
- 11 Unofficial borrowing.
- 12 Foreign exchange malpractice.
- 13 Impersonation.
- 14 Teeming and leading.
- 15 Fake payments.
- 16 False proceeds of collection.
- 17 "Influence of evil forces"
- 18 False declaration of cash shortages
- 19 Fraudulent use of bank document.
- 20 Fictitious account

- 21 Ledger cards manipulation.
- 22 Misuse of suspense accounts.
- 23 Manipulation of vouchers.
- 24 Inflation of statistical data.
- 25 Duplication of cheque books, drafts, stamps etc.
- 26 Over/ under valuation of properties.
- 27 Interception of clearing cheques.
- 28 Interception and switching of telex messages.
- 29 Fictitious contracts.
- 30 Laundering
- 31 Computer frauds.

However, the Bank Administration institute identify the following as the most important and common types of bank fraud: Advanced fee fraud (419), cheque kitting; Account opening fraud; letter of credit fraud; money transfer fraud, counterfeit securities; cheque fraud ; money laundering fraud; clearing fraud, computer fraud and Telex fraud.

The computerization of banking operations has concentrated most of the activities of fraudsters in computers and accounting system.

1. COMPUTER FRAUD.

In recent times computers fraud is not only zooming up in value, but is becoming more sophisticated. Computer fraud has started to move away from a technological variety of book keeping fraud to more sophisticated nefarious activity. There is a shift in computer fraud from people merely manipulating input data to people with access to the system and technology hackers, "Buffing" operators and analysts, using it to divert large sum of money on a one off basis.

Application packages are corrupted or broken into through remote sensor. Floppy disks are stolen and the information therein is copied or destroyed.

The computer related frauds in the banking system occur mainly through the collaboration of experienced bank staff that has the requisite expertise to forge or doctor the computer input, in other to perpetrate fraud. Sometimes, wrong data is fed into the computer and these results in the computer producing wrong balance or crediting dormant or fictitious accounts with funds, which are later withdrawn by an outside accomplice or bank staff. The following are the most common computer fraud-

- a. **Hacking fraud**. This occurs when programs are transferred from one computer to another so as to cause obstructions as a means of transferring money out. This type of fraud causes damage to the computer disks.
- b. **Salami fraud**. Salami is the name of a type of food in some European countries, which is usually sliced into small pieces. This name was chosen as a

result of the ways in which this type of fraud is been carried out. It slices off little amounts of money at a time. The sum of money may be little but as it is repeated, it provides large amount of money to the fraudster.

- c. **Trojan Horse Fraud**. A programmer may defraud a bank if he gains control in to a special section. For instance, a programmer can create condition that whenever a particular name is seen, certain transfer should be made. This kind of computer fraud is committed with the sole intention of transferring money from one account to another.
- d. **Time Bomb Fraud**. This type of fraud occurs when a programmer gains access to the source code of a banking application. He could create a condition that if a particular name fails to appear on the payroll, it means that the staff has been transferred, and as a result his salary could be diverted.

2 **ACCOUNT FRAUDS.**

According to Karwai (2002:65-66) accounts which provide fertile ground for bank frauds include:

- a. **Fictitious accounts:** Bank staff open and operate fictitious accounts. They normally do this with fraudulent motives such as kite flying, unauthorized lending and diversion of foreign exchange.
- b. **Account- opening fraud:** This includes the deposit and subsequent cashing of fraudulent cheques. It usually occurs when a person not known to a bank opens a transaction in account with false identification unknown to the bank.

The aim of this is to deposit a small initial amount and subsequently cash fraudulent cheques.

c. **Ledger manipulation:** This fraud occurs when an employee of a bank inflates the balance in the account of a particular customer. The employee will then inform the customer who will quietly withdraw the money

d. **Unreconciled accounts:** According to Olufidipe (1994) startling frauds have been perpetrated through unreconciled accounts such as:

- Central bank clearing accounts.
- Local bank clearing accounts.
- Inter- bank/ head office account.

e. **Manipulation of suspense accounts:** Suspense accounts can be manipulated in the following ways:

- Unauthorized entries into the accounts.
- Manipulation of outstanding items in the accounts
- Lack of tracing and reversing items on they account.

f. **ADVANCED FEE FRAUD**

An acronym (419) is synonymous with advanced fee fraud, a name taken from the police number attached to the criminal offence. This involves an agent or agents who approached(s) banks, companies or individuals with an offer to large funds at below marked interest rate for long terms. Such agents(s) receive(s) a fee or commissioning advance. But as soon as the agent receives this fee or commission, i he disappears into thin air and such money or the so called funds will never be

retrieved. Banks desperate for funds especially distressed banks easily fall victims of this type of fraud.

4. **CHEQUE FRAUD:**

This involves the altering of writings, either names or figures on cheques to the prejudice of another persons right or intention with the aim of conferring on the forger, some benefits or rights, which he is not entitled. Cheque frauds are usually in collaboration with bank staff for a share of the amount involved. Common types of cheques include personal, business, government, travelers, certified, drafts and cheques which are stolen, forged, counterfeited or altered.

5. **SELF DEALING**

This refers to a situation where insiders or bank staff put self-interest above those of the bank. This can be manifested by granting of loans to ones self or related businesses at preferential terms, kick backs from customers in return for granting loans or low interests on loans, embezzlement and conversion of bank money for personal use, unwarranted fringe benefits et

6. **COUNTERFEIT SECURITIES**

Modern photographic and printing machines have greatly aided in producing forged securities and money. Such documents, money and securities may be total counterfeit or may be genuine documents that are copied, forged or altered as to the amount, payout date, payee or terms of payments.

Counterfeit items such as Treasury bill, bonds, cashier cheque, bank acceptances, altered forms, certificates of deposits etc. would be presented to banks for redemption and when the proceeds are drawn, the presenter would disappear before the instruments are found to be counterfeits.

7. **LOAN FRAUDS AND POSTING OF FICTITIOUS CREDITS**

Loan frauds may take the form of outright grants to unintended and unqualified borrower, who aided by a bank official makes false declaration to defraud the bank and in the long run; such loans are given the status of “bad debts or doubtful debts”. In some cases, credit facilities approved for a particular customer may be applied to the credit of another. Other categories include deceptive customer using false financial statements reference of credit worthiness and false guarantees false collaterals – non existence, over valued multiple pledge, stolen etc.

8. **MONEY LAUNDERING FRAUD**

This is a means to conceal the existence, sources or use of illegally obtained money by converting such cash into untraceable transactions in banks. Money in these kinds of frauds are usually obtained from drugs, smuggling etc. money laundering can undermine the financial system by arbitrarily inflating and deflating the money supply and thus, disrupting resource allocation. As such, banks are advised to avoid handling such frauds.

9. **CHEQUE KITING**

Kitting is defined by the US controller of the currency's policy guidelines for national bank directors as "A method where a depositor utilizes the time required for cheques to be cleared to obtain an unauthorized loan with out any interest charge". It involves the unauthorized use by depositors of uncollected funds in their accounts. Uncollected funds are cheque lodgments accepted by a bank for which it cannot fully guarantee collect ability until the institution on which the cheque was drawn has determined that funds are available to cover the item. Funds are usually made available before actual collection of customers' cheques in order to attract customers' especially in business accounts.

10 **FRAUDULENT TRANSFERS AND WITHDRAWALS**

This occurs when an account is opened with fictitious names, usually with the collaboration of bank staff. Money is then transferred into and withdraws from such accounts. Fraudulent transfers can also be in the form of altering a genuine transfer request by changing the beneficiary's name, account number or amount of transfer. Withdraws may also be made from dormant accounts.

11. **MALPRACTICE IN FOREIGN EXCHANGE OPERATION**

This include selling of foreign exchange at a premium which is usually more than the percentage mark – up stipulated by the central Bank of Nigeria. Illegal transfers of foreign exchange by banks, which is personally utilized by banks boards and management teams. Also, bank funds from FEM (foreign exchange

Mkts) are usually used by bank directors for private purpose that are not allowed officially. In addition is the sale of repatriated foreign exchange in black markets.

12 **CLEARING FRAUD**

Most clearing fraud and corrupt practices hinge on supervisor of an instrument until the expiration of the clearing period applicable to the instrument, then the collecting bank had value as though the payment bank had confirmed the instrument good for payment.

2.3 **CAUSES OF FRAUD IN NIGERIAN BANKS.**

Identification of causes of bank fraud is very difficult. Modern day bank fraud usually involve complex web of conspiracy and deception that often mask the actual cause. This probably explains why it took the bank of England, the federal reserved Board, the two most Sophisticated sovereign central Banks in the world, and price water house, one of the most re known accounting firms in the world, about ten years to come to grips with the fact that Bank of credit and commercial international (B.C.C.I) was involved in fraudulent activities.

Many authors have tried to identify as many causes of bank fraud as they can. For instance, Alashi (1994) identified fifteen institutional causes and five environmental / societal causes.

Adeyemi (1986) identify six main causes while Olufidipe (1994) identified five causes.

However, the under listed causes, which are by no means exhaustive, are the commonest causes of bank fraud in Nigeria. They are divided into two:

1. The institutional factors.
2. The environmental \ society factors-

The institutional factors are those traceable to the internal environment of a bank, while the environmental \ factors are those which result from the influence of the environment \ society in the banking industry.

Various authors seem to be unanimous in analyzing many institutional causes of bank fraud and they include the following;

1. BAD MANAGEMENT

Experience has shown that banks with bad management record have higher incidence of fraud than banks with efficient management. Poor management in terms of inadequate control, incompetence, bad planning, inadequate supervision, poor judgment, ineptitude, lack of co-ordination, poor delegation of authority and corruption create an environment for frauds to flourish.

There are four types of management which, as quoted by Alashi (2002) undermine the health of our Banks.

- a. **Technical Mismanagement:** (involving inadequate and poor policies and strategic planning, weak and ineffective internal control system, and mismatching of assets and liabilities).
- b. **Cosmetic Mismanagement :**(it consists of hiding facts to buy time and stay afloat such as employing "SWAP" or "back- to- back" transaction to boast liquidity, it is usually a derivative of technical management).
- c. **Desperate management:** (Is a condition where bankers see themselves in danger and try to speculate either through continual liability rollover-inter-bank takings – or paying above the market interest rates for deposits).
- d. **Fraud:** (The management extends loans under suspicious circumstances and wanton violation of credit policies).

2. **RECRUITMENT SYSTEM**

Bad recruitment policy, where relevant technical knowledge, competence, character and other sterling qualities are thrown to the dogs, facilitates fraud in banks.

The recruitment system in bank nowadays is based on connections or "whom you know" syndrome. Where cognate experience, relevant technical knowledge, competence character and other good qualities are sacrificed at the alter of non-performance which facilitates fraud and corruption.

3 **FRUSTRATION**

Frustration occurs whenever an individual is unable to satisfy his needs (Karwai, 2002). Frustration is caused by two factors: Environmental and

Personal. Environmental factors can be job-related or goal blocking. Personal factors are the weakness of a person resulting from over estimation of his capabilities. These frustration breeds fraudulent practices in banks.

4. STAFF NEGLIGENCE

In some circumstances, staff negligence could give rise to the perpetration of fraudulent activities in banks. Negligence can be a product of

Several factors, such as bad supervision, lack of technical knowledge, apathy, pressure and lack of cognate experience.

5. SUSTENANCE OF LOSS "SYNDROME"

Many fraudulent bank staff perpetrate bank fraud because they believe that since banks declare huge profits annually, they could

Accommodate "some financial losses".

6. INTERNAL CONTROL

Lack of, or poor application of internal control mechanism create an environment for fraudulent inclined staff and other outsiders to commit fraud.

7. USE OF SOPHISTICATED ACCOUNTING SYSTEM.

Where sophisticated accounting machines are in use and are manned by inadequately equipped staff errors could rise, and thus lead to the production of unreliable records. In the hands of dishonest staff, sophisticated accounting machines could be employed to deliberately omit entries, substitute improper

calculations and posting, manipulate documents, substitute fictitious documents and alter genuine ones.

8. NEGLIGENCE BY CUSTOMERS.

Normally, it is the negligence of costumers that provides ample opportunities to staff of banks to commit frauds. This negligence may take many forms. Some customers send huge amount in "Ghana-must-go" with bank teller to bank cashier, instructing them to "complete the transactions". This attitude cajoles the cashiers and other bank staff to commit "errors" that might have been genuine but which are open to abuse.

9. POOR SECURITY ARRANGEMENTS FOR DOCUMENTS.

If free access is often gained to documents like cheques books, drafts, specimen signature cards etc... which are the tools used for frauds, it becomes very easy to defraud in banks.

10 BANKING EXPERIENCE OF STAFF.

All things being equal, the more experienced a staff is, the less the chance of fraud passing through him undetected, unless he is a part of it, or involved in the act. i.e. fraud occurs with higher frequency among staff with little experience and banking knowledge. But where professionally qualified bankers are involved, the amount of fraud is reduced.

11. VOLUME OF WORK AND NUMBER OF STAFF

In a situation where by an average bank worker handles a large volume of work that is beyond his ability, it may result in efficiency which may result in or

encourage fraud. Most banks or their branches are under-staffed. This makes a single staff to handle much work if not all aspect of a very sensitive transaction which in normal circumstance is suppose to be handled by more than one staff. Over loading individuals with work leads to lack of checks and balances as well as perfunctory performance of jobs. When the staff is over stretched, he will be unable to work at an appropriate level of efficiency and may be prey to perpetrators of fraud and less vigilant to irregularities committed to defraud banks.

12. DELAY IN PROCURING DOCUMENTS.

Poor communication system, power failure which results in a back log of unbalanced posting, congested office space etc are some of other factors which encourage the perpetrations of fraud in banks.

13. LACK OF CO-OPERATION AMONG BANKS

Banks in the country operate as individuals rather than in concert with one another. A customer who defrauds a bank as well as a result of lack of co-operation among banks may consequently turn to another as a prized customer who may eventually wreck havoc on his unsuspecting bank.

14. ENVIRONMENTAL OR SOCIETAL CAUSES

Adewumi (1998) contends "the bank is not an island. It is as well affected by elements in the immediate and remote environments". He further cautions that "if the whole society, of which the bank is a part, is morally bankrupt, it will be difficult, if not impossible to expect the banks to be insulated from the

effects of such moral decadence". Therefore, it could be argued that the high propensity to perpetrate bank fraud in Nigeria is a direct product of our materialistic society. The get-rich-quick syndrome propels bankers towards bank fraud. Other environmental factors include:

1. **GENERAL LUST FOR AFFLUENCE.**

It has been noted that our society has become one where most people want to be rich over night by hook or by crook. Such people dismiss morality as an unnecessary prerequisite for virtuous life. To them, the end justifies the means.

2. **OUR VALUE SYSTEM.**

The manner in which some people "worship" "wealthy" people in our society, without caring about their source of wealth, and the rising societal expectation from bankers and the subsequent desire to live up to such expectation are contributory catalyst for bank fraud.

3. **ECONOMIC DOWN-TURN**

For the past few years, Nigerian Economy has witnessed an unprecedented evaluation of its currency and excessive biting inflation. Consequently, both the political and economic situations declined from bad to worse with graduates roaming the streets in search of employment. Workers' take-home salary does not take them home safely, while purchasing power tends to decline drastically with concomitant reduction in the standard of living. This situation pushes some bank staff to commit fraud.

4. LACK OF EFFECTIVE PUNISHMENT

Delays in prosecution of fraud cases and lack of heavy punishments are factors that contribute to unabating perpetration of bank fraud in Nigeria financial system. For instance, it is much easier to send someone who steals a goat to prison than to prosecute a bank manager who "steals" N100 million.

5. FEAR OF NEGATIVE PUBLICITY

The failure of banks to report fraud cases to the relevant authorities, because of fear of negative publicity, encourages fraudsters to defraud banks. They believe that the affected bank will not prosecute them.

6. ENCOURAGEMENT OF BANK STAFF.

The encouragement of bank staff by outsiders and syndicates is a growing source of fraud in banks. These outsiders have two irresistible inducements to offer to the insiders. Firstly, they are told that the whole exercise carries no risk as far as they are concerned.

Secondly, big monetary reward awaits them. The idea of making money by investing nothing and risking nothing are irresistible to the potential fraudster.

2.4 TECHNIQUES OF DETECTING FRAUD IN BANKS

To counter this malady, bank management has to institute functional system of internal control so as to detect causes of fraud and where they are likely to

occur. However, according to Idah (2004:33-34) such detecting techniques include the following:

1. Establishing a system of checking cashier both on regular or unprogrammed basis. Experience has shown that surprise visits in the books and the files of accountants and cashier reveals a lot.
2. Bank management should establish a system of call-over reconciliation and the balancing of accounts at the branch and inter-branch head office level. This will expose any corrupt practice that may result in fraud and be quickly prevented.
3. Management should ensure that proper books of accounts are kept at all time by various sections and that customers receive their statement of accounts regularly and on timely basis.
4. Bank inspectors should establish a system of stock taking of security items and cash in vaults. There should be regular and unscheduled check of security items and cash by managers in charge of treasury operations. This will expose any theft of cash, cheques etc. That is used in perpetrating fraud.
5. Regular reconciliation of inter-bank accounts inter banking clearance accounts, effective and prompt follow up and clearance of outstanding items.

6. Prompt and regular inspection of bank branches by inspections. These will enable the bank to promptly discover any corrupt practice or fraud and prevent them before they are accomplished by their perpetrators.

2.5 MEASURES FOR CURBING FRAUD IN BANKS

So far, the prevention and control of bank fraud have been a collaborative effort involving the banks, government and its agencies and the general public.

The banks ability to prevent and control fraud depends on the quality of its staff and the effectiveness of internal control place.

Wolff (1986) defines internal control system as:

The whole system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise in order and efficient manner, ensure adherence to management policies, safeguard assets and secure as far as possible the completeness and accuracy of the record.

The responsibility of establishing and maintaining an adequate system of internal control lies with the banks management, through issuing code of conduct to employees and monitoring new legal requirements and operating procedures to ensure that the organizational methods meets modern requirements.

The human resources and the internal control systems, on which the efficiency and security of the bank rest, are closely monitored by the management. The usual measures, which ensure timely prevention and control of bank frauds, are categorized by Shongotola (1994) as:

1. Personnel controls
2. Administrative controls
3. Accounting controls
4. Financial controls
5. Inventory controls
6. Process controls.

Personnel control include proper recruitment and proper disengagement procedures, posting and placement, job rotations enforced holidays and annual vacations and training programmes.

Administrative controls include segregation of duties; security devises e.g. Regis cope cameras passwords etc. and franking machines.

Accounting controls include data validation prompt posting of transactions, balancing of accounts, reconciliation and proper identification of authorization and approaches.

Financial controls include cash limits signing power and specialized stationer.

Inventory controls include physical checks and counts and bin cards, stock receipt notes, stock issued voucher etc.

Process control includes input/output and program controls.

Although all the controls are used in every aspect of bank operations as fraud antidotes or prevention techniques, special attention is given to the accounting controls as their proper application is very vital to the system's efficiency and effectiveness against bank frauds. Banks financial operations are reviewed at regular intervals by means of interim account and report. Shongotola (1994) summarizes how frauds are prevented and controlled in the following words:

.... If every voucher is properly checked and due approval confirmed, if proper postings are made and posted entries promptly called over, if balancing and reconciliation exercise are regularly performed, if figures are measured against projections\ standards and variances are analyzed, if statistics are monitored and appropriate returns are sent and received on time, the possibility of fraud occurrences or non – detection would be quite remote.

Bank managers pay particular attention to means of payment and customers accounts. There are rules for cash movement such as physical checks and balancing of cash, agreeing the vault book With Billion officers cash control book, paying surprise visits to cashiers and daily exchanges of tills and till books. Special attention is also paid to the non- cash payment instruments such as cheques, bankers payment etc. when it comes to clearing, care is taken to prevent substitution, loss or destruction of clearing documents. Apart from

some cases of defalcation and direct theft, most bank frauds are committed on or through accounts. That is why customers' accounts are monitored from the time of opening them to the time they will be closed down.

Government has promulgated appropriate statutes and established relevant institutions that will ensure that incidence of frauds in banks and other financial institutions are eliminated. These statutes include the CBN DECREE, BOFI DECREE NDIC DECREE, CAM DECREE, SEC DECREE, FMBN DECREE and the money laundering Decree. The institutions (SEC), Nigerian Deposits Insurance Corporation (NDIC), the central Bank of Nigeria (CBN) and the national drugs law Enforcement Agency (NDLEA). All these statutes and infrastructure are put in place to ensure safe and sound banking operations and good financial system.

The effort of members of the public in preventing and controlling bank fraud has not been encouraging. This may be due to slow and tortuous legal process or sheer ignorance of how the fraud is perpetuated.

Other measures of controlling and preventing fraud in banks include the provision by the government of infrastructure necessary for smooth operations to promptly expose fraudulent moves, for example roads, telephone, the police personnel should be properly trained on basic banking principles and practices

and adequately provided with necessary infrastructure like cars, telephones etc. to ensure efficiency.

The customers should give banks maximum co-operation by complying with laid down rules and regulations in all operations and promptly exposing and fraudulent staff or customer.

The general public should put into motion the machinery to shun ill-gotten wealth.

Finally the bank management should ensure that the staffs of the inspection department are people of proven integrity, long years of experience and competence. Bank Staff should adhere to all rules and regulations, perform their jobs competently and familiarize themselves with the ethics of the banking profession and also promptly expose any customer or non – customer that tries to lure them into committing fraud.

2.6 EFFECTS OF FRAUD ON COMMERCIAL BANKS IN KANO METROPOLIS

According to Idah (2004:36-39) Fraud has a lot of consequence which bear directly on the system an indirectly on the community. The effect of fraud in the banking industry are felt by all, if not as a customer, then, as a citizen of

nation. The effect of fraud has a chain reaction on the community as a whole because this industry constitutes a vital position in a community. Thus, its success or failure goes a long way to determine the success of the community.

Economists and professional bankers regard fraud as a leakage in the system since funds siphoned through such means are directed from economic and investive ventures to lodgments underground or into unproductive means.

Fraud is a major cause of bank failure in Kano metropolis. The amount of money lost to fraudsters is large; such amounts taken out of the coffers of banks do not generate any income for banks, but rather result to bank solvency and liquidity problem.

Commercial banks depend on people's funds which have been entrusted to them because depositors have confidence in them as financial institutions. But due to fraud, this confidence is greatly reduced and as such customers have been forced to withdraw their deposits and resort to other means of keeping their money without going to banks. This consequently discourages banking habits in Kano metropolis.

The success or failure of any community is a function of the level of performance of the banking industry. Banks virtually finance various gigantic

projects in both private and public sectors of the economy, from the areas of manufacturing mining, construction, agriculture, international trade, to states and local governments. Therefore, fraud practiced in the banking industry could retard economic progress in Kano.

Fraud could lead to financial distress and influence or distort various government economic policies, since the commercial banks and the entire banking industry help in the transmission of government policies. When this occurs, it portrays a serious danger to Kano government economic Policies.

The consequences of fraud in the banking industry are dimensional, as it might affect bank staff. Apart from reducing bank staff strength by way of terminations or suspensions, these notorious activities increases the operational cost of banks to the detriment of the whole system as loss of funds through these activities affect staff welfare, salaries, training allowances and general working conditions etc. consequently, resources that would otherwise have been utilized for the above would be used in checking, detecting and preventing fraud.

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CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter presents the framework by which the data was collected and the techniques for analyzing the data collected.

As a matter of fact, it is pertinent for one to know the scope or nature of anything he/she wants to do if he must excel. It is therefore necessary for a researcher to know what research entails before venturing into the research process and procedures.

Research is an important tool for advancing knowledge, for promoting processes and for enabling man to relate more effectively to his environment, to accomplish his purposes and to resolve his conflicts.

Research is the process of wiring at dependable solutions to problems through planned and systematic collection, analysis and interpretation of data. It is a tool for advancing knowledge and promoting processes.

For one to successfully conduct a research, he/she ought to know various research methods available. Doing so usually guide and put him/her on tract in selecting a method that is most appropriate to his research topic. Thus, this chapter is designed to critically and explicitly examine fraud-detecting

techniques used in the Nigerian banking industry with specific reference to commercial banks in kano metropolis.

3.2 RESEARCH DESIGN

Research can be classified in terms of their purpose as well as by the research strategy used.

The classification based on purpose most often used is in (3) three holds, one of exploratory, descriptive and explanatory.

In the same way, one can employ methods or strategies such as experiment, survey, case study, historical and field study methods in carrying out a research work.

However the historical and survey methods were employed. This is further buttressed by the fact that the study was based on the past and present occurrence of fraud in the banking sector with special emphasis on the commercial banks in Kano metropolis.

The review of these sources of data had been carefully carried out to obtain useful information before the commencement of analysis and evaluation; certain data have been presented in statistical tables and simple percentages.

A - EXPLORATORY RESEARCH

A research could be conducted to explore by gaining more insight into a topic, to provide the beginning familiarity with that topic.

This purpose is typical when a researcher is examining a new interest or when the subject matter of study is itself relatively new and unstudied.

Exploratory studies are most typically done for here (3) reasons:

- (i) Simply to satisfy the researchers curiosity and desire for better understanding.
- (ii) To test the flexibility of undertaking a more careful study
- (iii) To develop methods to be employed in a more careful study.

B. DESCRIPTIVE RESEARCH

A major purpose or goal of much social scientific research is to describe situations or events. The researcher observes and describes what was observed.

For description to be considered useful for research purpose, it must satisfy the criteria for exhaustiveness and mutual exclusiveness.

i. EXHAUSTIVENESS

Exhaustiveness is achieved when all the important elements in the study are identified and a place found for each in the system of classification.

ii. MUTUAL EXCLUSIVENESS

This occurs when each item is identified with adequate method of measuring it e.g.

- a. Real meaning
- b. Nominal definition
- c. Operational definition

C. **EXPLANATORY RESEARCH**

Another purpose of social scientific research is to explain things. A researcher has an explanatory goal if he/she wishes to know why. The researcher tries to demonstrate relationship between specific causes and effects. In other words, the researcher should be able to provide some information with some certainty about what variable influence or affects other variables.

D. **EXPERIMENTAL RESEARCH**

The classical method of the physical sciences is the experiment. Most physical science researchers aim to set up a situation in which all the variables can be controlled or varied at will. By varying this one, an experiment involves monitoring changes in the "output". The relationship between:

- i. Taking action
- ii. Observing the consequences can be carefully studied and documented.

In essence, the researcher seeks to vary one of several independent variables, whilst measuring the effects on the dependent variable, keeping intervening variables constant.

Experiments are especially well suited to research projects involving relatively limited and well defined concepts and propositions.

Experimentation is a particularly desirable method where research questions take the form of hypothesis which states that "if (a) then (b) follows" rather than those hypothesis that seek to describe a phenomenon or where the primary aim of the research is to develop or verify theory. It is appropriate for hypotheses testing. It is better used for explanatory than descriptive purposes.

TYPES OF EXPERIMENTS

1. LABORATORY EXPERIMENT

In which the researchers is able to closely control the conditions under which observations are made. The aim is to control as many as possible of the influential independent variables not pertinent to the immediate research problem. Laboratory experiments are useful when it is not possible to test hypotheses in real – life settings.

2. FIELD EXPERIMENT

Where attempts are made to study the problem in its real setting, and to minimize the influence of seemingly unconnected facts or variables. The use of experimental and close groups is the most common approach to controlling a field experiment.

As with the true experiment, the experimental groups consist of a group of people subjected to the same treatment.

The control group most is sufficiently similar to the experimental group to allow comparisons to be drawn between the two.

E. SURVEY METHOD

This is the most widely used method in social sciences. Survey consist of methods of gathering data from usually large number of respondents who themselves constitute a sample by asking people questions., the purpose of a survey is not the collection of data parse, but the discovery of meaning in the data collected, so that facts and events can be better understood, interpreted and explained.

Surveys are based on a very simple procedure. If we wish to know what people think about certain things, we must ask them; i.e. it involves collecting data through asking people questions either in self administered questionnaires or through interviews.

Surveys are based on a very simple procedure. If we wish to know what people think about certain things, we must ask them i.e. It involves collecting data through asking people questions either in self administered questionnaire or through interviews.

Surveys may be used for descriptive, explanatory and exploratory purposes. They are chiefly used in studies that have individual people as the units of analysis.

Although this method can be used for other units of analysis, such as group interactions, it is necessary that some individual persons are used as respondents or informants. Survey research is probably the best method available to the social scientists in collecting original data for describing a population too large to observe directly using research instruments like questionnaire, interviews etc.

F. **CASE STUDY METHOD**

The term "case study" usually refers to as fairly intensive examination of single units, such as a person, a small group of people or indeed a single company.

Case studies involve measuring and studying what is there, and how it got there. In this sense, it is historical. It can enable us to explore, unravel, and understand problems, issues and relationships. It cannot however allow us to

generalize i.e. to argue that from one case study, the results, findings or theory developed apply to other similar case studies.

The case study may be unique and therefore not representative of other instances. Case studies may be used for exploratory studies and testing for hypothesis.

ADVANTAGES

1. A major advantage of the case study method is that it enables such information to be gathered on a large number of variables from which potentially useful hypotheses can be formulated.
2. It enhances the validity of the findings.

DISADVANTAGES

1. Owing to the single or in some cases a number of cases examined, this does not allow us to generalize or establish the reliability of the findings.
2. It is also inefficient in research situations which are already well structured i.e. where important variables have been identified. Where this is the case, other methods should be used.
3. It is a time – consuming approach: The case study method is extremely useful in exploratory studies where our main interest is in developing a rich variety of suggestions.

G- **HISTORICAL RESEARCH**

Time plays a number of roles in the design and execution of research, quite aside from the time it takes to do the research. In some sense, all research is historical i.e. it is impossible to analyze data at exactly the same time as it is collected, and interpretation is based on past.

The historical method of research is concerned with being able to understand and explain the present, and predict the future, through an evaluation of available records of past events.

It may take one of the two forms: it may be concerned with a historical problem in management, or it may be a historical approach to the management problem.

Where historical problems are concerned, the investigator faces particular problems. A key problem is separating facts from opinion or myths. When the problem under investigation is more recent, then data and facts may be available, but may not be collected in the form needed to the problem.

H- **FIELD STUDY**

Here attempts are made to study the problems in its real settings, to minimize the influences of seemingly unconnected facts or variables. The use of

experimental and control groups is the most common approach to controlling a field experiment.

As with the true experiment, the experimental groups consist of a group subjected to treatment. The control group must be sufficiently similar to the experimental group to allow comparisons to be drawn between the two.

3.3 DATA REQUIRED FOR THE STUDY

Before embarking on any kind of research work, the researcher always has at the back of his mind the type of data that would be required to explicitly make his/her (work) study readable and meaningful.

Basically, there are two (2) classes of data for any research work, which are the primary and secondary data sources. In the case of this study, data required will be obtained from the primary and secondary sources of data collection. However, questionnaire, interviews and written documents would be used to gather this data.

3.4 METHODS OF DATA COLLECTION

A combination of qualitative and quantitative research methods have been used in obtaining information from the selected banks for the field study. The methods used in data collection are:

a. **QUESTIONNAIRE**

According to Osuala (2001) a questionnaire is defined as “a list of questions designed for the purpose of collecting data with the view to testing certain hypotheses” A questionnaire on the relevant subject was carefully constructed in order to obtain valid, relevant and standardized information from all sample respondents. It contained a combination of open- ended questions, close ended questions and statistical tables. The questions were used in order to exert some control over the extent to which respondents would answer questions. It was administered to the respondents and responses were received. It has permitted a wide coverage.

b. **PERSONAL INTERVIEW AND OBSERVATION**

After going through the returned questionnaire, it would necessary to obtain further information as some of the answers might not be comprehensive enough, hence the need to adopt the methods of personal interview and observation.

For this research work, the interview would be conducted among the staff of selected banks used for this study.

Interviews as data collection techniques are meetings in which the investigator (Interviewer) directs questions at the subjects (interviewee) and records the obtained responses. These are often face-to-face interactions, although they can as well take place on the phone.

Unlike the questionnaire, the researcher both asks the questions and records the answers. However, when a questionnaire is used to conduct an interview, it is called an interview schedule.

Generally, a successful interview could be predicted on.

- i. Accessibility
- ii. Cognition
- iii. Motivation

Accessibility refers to both accessibility of the respondent to the interviewer, and the accessibility of the required information to the respondents.

Cognition refers to the understanding of the respondent of what is required of him.

Motivation refers to the willingness of the respondent to co-operate and give accurate answers. Often, one researcher is unable to conduct all the interviews necessary for a successful

outcome of the research. In such situation, it becomes necessary for the researcher to recruit assistants, who should possess these characteristics:

- i. Honesty
- ii. Should have interest in research work and interviews
- iii. Ability to record accurate answers.
- iv. Be able to cope with varying situation in an interview.
- v. To remain emotionally detached from the respondents
- vi. Intelligence and educated.

ADVANTAGES

- a. Allow for quicker collection of information
- b. Response rates tends to be higher than in mailed questionnaire
- c. Interviews permit greater flexibility in the process of questioning.
- d. Topics can be introduced a variety of ways and questions can be clarified until the interviewee understands them and respondents have the opportunity to further qualify their response even when these are so called limited choices.
- e. Illiterates and subjects with reading deficiencies can be contacted unlike with a questionnaire.

- f. Validity of responses can be ascertained by the further in-depth probing of responses and by in-analyzing respondents state of nervousness, hesitation etc in responding.
- g. Good for pilot studies.

DISADVANTAGES

- a. Cost: interviews cost more than questionnaires because of greater cost per respondent and limitations of the numbers of persons that can be reached.
- b. The fact that the interviewer may not have established the proper rapport with the respondents. The interpersonal nature of the interview process may some times lead to changes in the attitudes of the respondent. These occur less with the questionnaire.
- c. Training: interviews require training of interviewers, which may be long and expensive.
- d. Possibility of wrong recording of information.
- e. Interviews may take longer time than was envisioned. This may give rise to fatigue and consequently, this may affect the manner questions are administered.

TYPES OF INTERVIEWS

The structure of interviews depends on the questions asked by the interviewer, and the responses. Interviews can either be structured interview or unstructured interview.

a. STRUCTURED INTERVIEW

The prime function of structured interview is standardization of the interview process by means of questionnaire schedule.

The structured interview is used primarily to verify existing theories and hypothesis derived there from. The researcher who employs this tool is usually intent upon testing an existing set of hypothesis, he is less concerned with discoveries per se, and standardization greatly enhances reliability.

Structured interviews also offer advantages in terms of efficiency, in time saving, labor and money by eliminating needless questions. And the more formalized the questions, the similar the coding; computing and tabulation process.

DRAW BACKS

1. The investigators tendency to impose his own categories upon those on respondent.

2. Social actions and human motives are too complex to be comprehended by posing questions in a highly stylized and formal manner.
3. Difficulty in establishing reliability and validity of responses employs depth-interviewing possible in standard interview.

b. **UNSTRUCTURED INTERVIEW**

The term unstructured here does not imply lacking in structure. If the researcher is to sustain his role as a social scientist, he must attempt to structure every interview. He must at minimum clarify his goals.

Unlike the structured interviews, the unstructured interviews assume a variety of forms, which offers a considerable freedom on the questioning procedure. Sometimes the questions and answers tend to be informal so there are no sets of questions.

Interest areas must be identified, and the interviewer has the freedom of framing and asking his questions.

ADVANTAGES

1. Freedom in interview method
2. Reliability and validity can be established through further in-Depth probing of responses.
3. The interviewer has the opportunity to reframe his questions for better understanding and for better response.

4. The structured interview keeps the respondents focused on the subject or areas of interest.

C. **SECONDARY SOURCES OF DATA**

Mc Gowan (1979) defined secondary data as "information collected by other, agencies, but with utility for the research in his studies". In this research, Secondary data consist of information from books and other relevant publications.

3.5 POPULATION

Walpole (1982) defined a population as "the totality of the observations with which a researcher is concerned". In line with this statement, the entire commercial banks operating in Kano metropolis constitute the population of this study.

However, due to some constraints such as time factor, the researcher selected some commercial banks operating in Kano metropolis, and thus generalizes the findings for all commercial banks operating in Kano metropolis.

3.6 SAMPLE SIZE

According to Walpole (1982), sampling is "the method of selecting a portion of population for study". The major function of sampling is to obtain external validity. In addition, sampling entails the practical purpose of making possible

the study of problems which otherwise could not be undertaken due to prohibitions of costs, time, personnel or scope.

Out of the entire population of operating commercial banks in Kano metropolis, Five banks namely first Bank Nigeria Plc, Union Bank Nigeria Plc, UBA Plc, Afri Bank Nig Plc and Zenith bank Nigeria Plc have been randomly selected to be studied.

3.7 METHOD OF DATA ANALYSIS

The aim of the researcher here is to make this work readable by all without impairing the objectives of the study.

Trying to employ simple language and avoid unnecessary details that would affect the understanding of the layman. Statistical techniques were used to make the data collected more generalized. This aspect is very much important and relevant for any research work of this nature. In this study however, the data was analyzed using percentages (%).

3.8 SUMMARY

This chapter has provided explanation on the various methods of data collection and the analysis of the data.

Our research findings are ultimately based on the quality of data collected from this research efforts.

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CHAPTER FOUR

4.0 DATA PRESENTATION, ANALYSIS AND THE FINDINGS

4.1 INTRODUCTION

The magnitude of loss arising from bank fraud is on the increase. The affected banks do not only lose money, but also trained and experienced staff. The categories of staff involved in frauds in banks these days are mostly of middle and senior position and the magnitude of fraud cases are highly increasing in terms of sophistry and huge amount involved.

This chapter will analyze and interpret the findings from the questionnaire, oral interview, and secondary or documentary information.

4.2 DATA PRESENTATION AND ANALYSIS

The analysis and interpretation of the raw data of a research are the means by which the research is answered.

Analysis is defined as “the ordering and breakdown of data into its constituent parts”. It consists of the statistical calculations performed with the raw data to provide answers to questions initiating the research.

The interpretation takes the result of the analysis, makes inference pertinent to the research relations studied, and draws conclusion about these relations.

In analyzing data collected, the researcher has used the percentage (%) response method. Using this method, the researcher has allotted a 100% to every question and has determined what percentage of the 100% the alternatives in every question constitute. The results have been interpreted.

The questionnaire was administered to some staff of selected banks in Kano metropolis, which will serve as a representative of the Nigerian Banking Industry.

A total of 120 questionnaires were issued to the respondents. Out of the 120 questionnaire issued, only 95 were dully filled and returned to the researcher by the respondents. 25 questionnaires were however not returned to the researcher which represents 20.8% of the respondents issued with the questionnaires. Therefore, the 79.2% of the questionnaire which was duly filled and returned to the researcher were used for the presentation and analysis for this research study.

The table below shows the number of questionnaire given or issued out to the respective respondents. The same respondents were also interviewed to obtain other necessary information which was not covered by the questionnaire. This is to balance their views for authenticity.

Table 4.10 Number of Questionnaires issued to respondents.

BANK STAFF/CUSTOMERS	NUMBER OF QUESTIONNAIRES	PERCENTAGE (%)
Number of questionnaires returned	95	79.2
Number of questionnaires not returned	25	20.8
TOTAL	120	100%

SOURCE: Research Questionnaire 2006

Out of the total of 95 questionnaires returned, 65 were from the banks' staff and the remaining 30 were returned by the customers. These are the questionnaires duly analyzed for this research work.

The bank staff were given a greater percentage of the questionnaires because the phenomenon under review is directly associated with them. Hence, they are in best position to provide vital information for a sound representation of the subject matter under review.

The costumers' views more or less constitute a supplementary one, and thus the lower percentage of questionnaire directed at them.

4.2.1 PERSONALITY PROFILE OF RESPONDENTS

A. ANALYSIS OF PERSONALITY PROFILE OF BANK STAFF

TABLE 4.20 Age distribution of respondents

AGE (YEARS)	NO. OF RESPONDENTS	PERCENTAGE (%)
24-34	45	69.2
35-44	12	18.5
45-54	8	12
55 AND ABOVE	0	0
TOTAL	65	100%

SOURCE: Research Questionnaire 2006

Table 4.20 above shows that 69.2% of the bank staff falls within the ages of 24-34. This is because these days, most young graduates prefer to work in the banking sector. 18.5% fall within the ages of 35-44, and 12% fall within the ages of 45-54, while there was none that fall between 55 years and above.

TABLE 4.30 Sex distribution of respondents.

Sex	Number of Respondents	Percentage
Male	39	60
Female	26	40
Total	65	100%

SOURCE: Research Questionnaire 2006

Table 4.30 above shows that 60% of the banks staff is male. This is because men are more likely to withstand the rigor and intensity of the job. On the other hand, only 40% of the staff is female.

TABLE 4.40 Educational Backgrounds of Respondents

Qualification	No of Respondent	Percentage (%)
Diploma	18	28
First Degree/HND	30	46
Masters	10	15
ACIB	7	11
TOTAL	65	100%

SOURCE: Research Questionnaire 2006

Table 4.40 above revealed that 28% of the respondents are Diploma holders, while 46% of the respondents which constitute the highest percentage are either HND holders or First Degree Holders; this is because most banks prefer to recruit first degree holders. 15% of the

respondents are masters' holders while only 11% are members of the chartered Institute of Bankers of Nigeria.

TABLE 4.50 Year of service Distribution of Respondents

Number of Years	No. of Respondents	Percentage (%)
0-3	5	8
4-6	32	49
7-10	18	28
10 years and above	10	15
TOTAL	65	100%

SOURCE: Research Questionnaire 2006

From table 4.50 above, 8% of the respondents spent between 0-3 years in the service of the banking industry, 49% constituting the highest percentage spent between 4-6 years in the service of the industry, 28% spent 7-10 years, while 15% spend 10 years and above in the service of the banking industry.

TABLE 4.60 Current Position of Respondents

Current position	No. of respondents	Percentage (%)
Branch head	10	15
Deputy branch head	7	11
Treasury manager	12	18

Operations staff	20	31
Marketer	16	25
TOTAL	65	100%

SOURCE: Research Questionnaire 2006

Table 4.60 above shows that 15% of the respondents are branch heads, 11% were assistant branch heads, 18% treasury manager, 31% operations staff constituting the highest percentage, and 25% of the respondents were marketing staff of the banks.

4.2.2 PRESENTATION OF RESPONDENTS RESPONSES TO QUESTIONNAIRE (SECTION B)

This section contains the analysis of the questions contained in the questionnaire with the aim of finding out the frequency of fraud, its causes, effect and possible preventive and control measures adopted by the Nigerian Banking industry. These questions are thus summarized and analyzed below:

TABLE 4.70 AWARENESS OF THE MEANING OF FRAUD

RESPONSES	BANK STAFF	BANK COSTUMERS	TOTAL	PERCENT AGE (%)
Yes	65	30	95	100
No	-	-	-	0
TOTAL	65	30	95	100%

SOURCE: Research Questionnaire 2006

From table 4.70 above, it is clear that all the respondents know what fraud is all about.

TABLE 4.80 Awareness of high frequency of fraud in the banking industry

RESPONSES	BANK STAFF	BANK COSTUMERS	TOTAL	PERCENTAGE (%)
STRONGLY AGREE	45	28	73	77
AGREE	15	-	15	16
PARTIALLY AGREE	5	2	7	7
DISAGREE	-	-	-	0
TOTAL	65	30	95	100%

SOURCE: Research Questionnaire 2006

TABLE 4.80 above reveals that 77% of the respondents strongly agree that fraud is rampant in the banking industry, 16% agree to this fact, while only 7% partially disagree. However, there was no disagreement.

TABLE 4.90 NUMBERS OF TIMES DEFRAUDED

S

RESPONSES	BANK STAFF	BANK COSTUMERS	TOTAL	PERCENT AGE (%)
ONCE	20	12	32	34
TWICE	8	2	10	11
MANY TIMES	-	8	8	8
NOT AT ALL	37	8	45	47
TOTAL	65	30	95	100%

Research Questionnaire 2006

From Table 4.90 above, 34% of the respondents said their bank has been defrauded once only, 11% admitted that their bank has been defrauded twice, 8% of the respondents agreed that their bank has been defrauded several times, while 47% of the respondents which constitute the greatest

percentage said to the best of their knowledge, their bank has never been defrauded.

Table 4.10 TYPES OF FRAUD IN EXISTENCE

RESPONSES	BANK STAFF	BANK COSTUMERS	TOTAL	PERCENTAGE (%)
ONE	3	3	6	6
BETWEEN 2 &	2	8	10	11
BETWEEN 6	17	14	31	33
NUMEROUS	43	2	45	47
NO IDEA	-	3	3	3
TOTAL	65	30	95	100%

SOURCE: Research Questionnaire 2006

From table 4.10 above, 6% of the respondents admitted they are aware of only one type of fraud, 11% of them said they know up to five types of fraud, 33% said that they know up to ten types of fraud, 47% said they know so many types of fraud and only 3% are ignorant of any type of fraud in existence.

TABLE 4.11 INEFFECTIVE AND INEFFICIENT CONTROL SYSTEMS IS THE MAJOR CAUSE OF FRAUD IN BANKS.

RESPONSES	BANK STAFF	BANK COSTUMERS	TOTAL	PERCENTAGE (%)
STRONGLY AGREE	46	14	60	63
AGREE	17	8	25	27
PARTIALLY AGREED	2	6	8	8
DISAGREE	-	2	2	2
TOTAL	65	30	95	100%

SOURCE: Research Questionnaire 2006

From Table 4.11, it is clear that 63% of the respondents strongly agreed that ineffective and inefficient control system is the major cause of fraud in

the Banking Sector, 27% agreed, 8% partially agreed and only 2% of respondents disagreed

TABLE 4.12 FRAUDS IS THE ULTIMATE CAUSE OF BANK DISTRESS

RESPONSES	BANK STAFF	BANK COSTUMERS	TOTAL	PERCENTAGE (%)
STRONGLY AGREE	35	10	45	47
AGREE	15	6	21	22
PARTIALLY AGREED	11	10	21	22
DISAGREE	4	4	8	9
TOTAL	65	30	95	100%

SOURCE: Research Questionnaire 2006

From the above, 47% of the respondents strongly agree that fraud is the ultimate cause of fraud in banks, while 22% both agree and partially agree that fraud is the ultimate cause of fraud in banks, while only 9% totally disagreed that fraud causes bank distress.

TABLE 4.13 POOR SALARIES AND CONDITION OF SERVICE IS A SIGNIFICANT CAUSE OF BANK FRAUD.

RESPONSES	BANK STAFF	BANK COSTUMERS	TOTAL	PERCENTAGE (%)
YES	65	26	91	96
NO	-	4	4	4
TOTAL	65	30	95	100%

SOURCE: Research Questionnaire 2006

From TABLE 4.13 above, it can be seen that 96% of the respondents accept that poor salaries and conditions of service is a significant cause of bank fraud. However only 4% the respondents are of the contrary.

TABLE 4.14 GOOD RECRUITING POLICES AND PROCEDURES IS AN EFFECTIVE FRAUD PREVENTIVE MEASURE

RESPONSES	BANK STAFF	BANK COSTUMERS	TOTAL	PERCENTAGE (%)
YES	57	24	81	85
NO	8	6	14	15
TOTAL	65	30	95	100%

SOURCE: Research Questionnaire 2006

From table 4. 14 above, it can be seen that 85% of the respondents agree that good recruitment policies and procedures can go a long way in preventing fraud, however 15% of them disagree.

TABLE 4.15 IMPORTANCE OF AN EFFECTIVE AND EFFICIENT MANAGEMENT TEAM ON FRAUD MINIMIZATION.

RESPONSES	BANK STAFF	BANK COSTUMERS	TOTAL	PERCENTAGE (%)
YES	60	22	82	86
NO	5	8	13	14
TOTAL	65	30	95	100%

SOURCE: Research Questionnaire 2006

From Table 4.15 it can seem that 86% of the respondents accept the view that the existence of an effective and efficient management can help in minimizing fraudulent practices in the banking sector. However, 14% had a different view.

TABLE 4.16 PREVAILING MORAL DECADENCE IS THE GRASS ROOT OF FRAUD IN THE BANKS

RESPONSES	BANK STAFF	BANK COSTUMERS	TOTAL	PERCENTAGE (%)
STRONGLY AGREE	41	13	54	57
AGREE	10	8	18	19
PARTIALLY AGREED	8	5	13	14
DISAGREE	6	4	10	10
TOTAL	65	30	95	100%

SOURCE: Research Questionnaire 2006

From Table 4.16 above, it can be seen that 57% of the respondents strongly agree that the prevailing moral decadence is the grass root of frauds in banks however 19% only agreed, 14% partially agree while only 10% disagree to that assertion.

TABLE 4.17 THE IMPACT OF FRUSTRATION ON THE PERPETUATION OF FRAUD

RESPONSES	BANK STAFF	BANK COSTUMERS	TOTAL	PERCENTAGE (%)
YES	45	10	55	58
NO	20	20	40	42
TOTAL	65	30	95	100%

SOURCE: Research Questionnaire 2006

From table 4.17 above, 58% of the respondents accept the view that frustration can lead people to perpetrate fraud. However 42% of the respondents disagree with this view.

4.2 TEST OF HYPOTHESIS

Here we shall test the two hypothesis stated in chapter one using Chi-square method. The Chi-square, denoted by the Greek letter X^2 , is frequently used in testing hypothesis concerning the difference between set of observed frequencies of a sample and corresponding set of expected or theoretical frequencies. A chi-square is a sample statistics.

It is computed as follows

$$X^2 = \frac{\sum (O - E)^2}{E}$$

E

Where E = summation

O = observed frequency

E = Expected frequency

The term observed frequency is the direct response from the respondents, while expected frequency is the theoretical frequency result, which shows how the observe frequency should have been.

The expected frequency is calculated directly from the observed frequency using the formula below.

$$\text{Expected frequency} = \frac{\text{Row total} \times \text{Column total}}{\text{Grand Total}}$$

However, these tests would be carried out at 5% level of significance. Finally, a brief summary of the results will be stated at the end of each test.

4.3.1 FIRST STATEMENT OF HYPOTHESIS

Hi: The quality of employees affects number of frauds in the banking industry.

Ho: The quality of employees does not affect fraud in the Banking industry.

SOLUTION:

As a basis for testing the first hypothesis,

Table 4.15 will be analyzed.

TABLE 4.18 OBSERVED FREQUENCY TABLE

RESPONSES	BANK STAFF	BANK COSTUMERS	TOTAL
YES	60	22	86

NO	5	8	14
TOTAL	65	30	100%

SOURCE: Research Questionnaire 2006

STEP I: COMPUTATION OF EXPECTED FREQUENCY

The expected frequency of the above observed frequency table is calculated thus:

$$EF = \frac{RT \times CT}{GT}$$

Where EF = Expected frequency

RT = Row Total

CT = Column Total

GT = Grand Total

$$EFR_1C_1 = \frac{82 \times 65}{95} = \frac{5330}{95} = 56.0$$

$$EFR_2C_1 = \frac{13 \times 65}{95} = \frac{845}{95} = 8.9$$

$$EFR_1C_2 = \frac{82 \times 30}{95} = \frac{2460}{95} = 25.9$$

$$E_{FR_2C_2} = \frac{13 \times 30}{95} = 3.9 = 4.0$$

TABLE 4.19 EXPECTED FREQUENCY TABLE

RESPONSES	BANK STAFF	BANK COSTUMERS	TOTAL
YES	56.0	25.9	82
NO	8.9	4.0	13
TOTAL	65	30	100%

Source: Research questionnaire 2006

STEP II COMPUTATION OF X²

The value of X² can be ascertained using the formula below

$$X^2 = \sum \frac{(O - E)^2}{E}$$

- Where
- E = Summation sign
 - O = Observed frequency
 - E = Expected frequency

TABLE 4.20 COMPUTATION OF THE VALUE OF X²

O	E	O - E	(O - E) ²	$\frac{(O - E)^2}{E}$

60	56.0	4	16	0.28
22	25.9	(4)	16	0.61
5	8.9	(4)	16	1.79
8	4.0	4	16	4
95	95	0	64	

From the table above, the value of X^2 is 6.68

STEP III COMPUTATION OF THE DEGREE OF FREEDOM

The degree of freedom can be calculated thus:

$$V = (r - 1) (C - 1)$$

Where V = Degree of freedom

r = Number of rows

C = Number of columns

$$V = (2 - 1) (C - 1)$$

$$V = 1 \times 1$$

$$V = 1$$

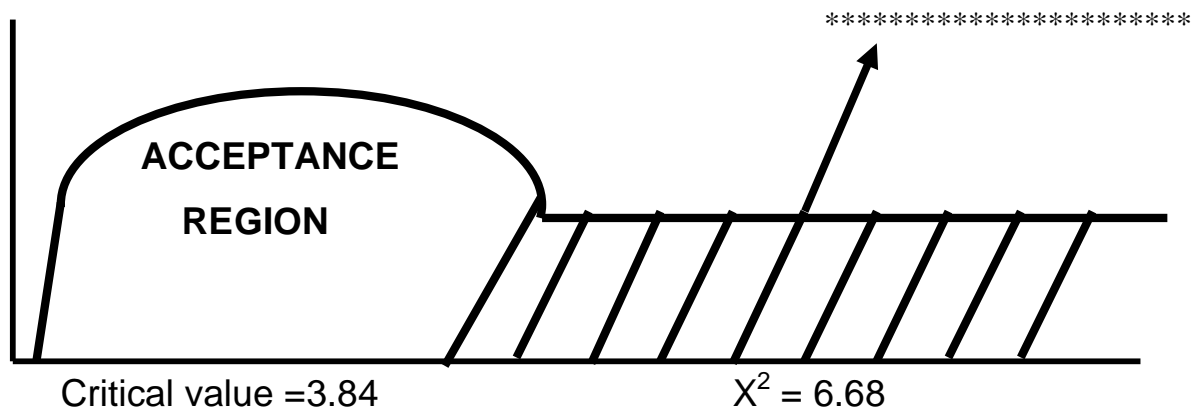
STEP IV: DETERMINATION OF CRITICAL VALUE

Since we are using 5% level of significant and our degree of freedom is 1, then from the chi-squared table, the critical point at 5% level of significant when there are 3 degrees of freedom is 3.84.

STEP V : INTERPRETATION

Since the value of X^2 is 6.68 and the critical value is 3.84, then the value of X^2 can be said to be greater than critical value i.e. $X_0^2 > X_t^2$

FIGURE 4.10 **DIAGRAM SHOWING BOTH ACCEPTANCE AND REJECTION REGION ON A CURVE**



STEP VI: DECISION RULE/DRAWING CONCLUSION

The decision rule is that when the value of X^2 calculated is less than the critical value, the null hypothesis (H_0) should be accepted. However, if the value of X^2 calculated is greater than the critical value, the null hypothesis (H_0) should be rejected and the alternate hypothesis (H^1) should be accepted. Hence, we reject the null (H^0) hypothesis which states that the quality of employees does not affect fraud in the banking industry and accept the alternate hypothesis (H^1), which states that “The quality of employees affects the number of frauds in the banking industry.

4:3:2 SECOND STATEMENT OF HYPOTHESIS

H⁰: Lack of motivation is responsible for frauds in the banking industry.

H¹: Motivation discourages frauds in banks.

SOLUTION: In order to provide a basis for testing the second hypothesis, table 4:11 will be analyzed.

TABLE 4:21 OBSERVED FREQUENCY TABLE

RESPONSES	BANK STAFF	BANK CUSTOMER	TOTAL
Strongly Agree	46	14	60
Agree	17	8	27
Partially Agree	2	6	8
Disagree	-	2	2
Total	65	30	100%

Source: Research Questionnaire 2006.

STEP I: Computation of Expected Frequency.

The expected values of the observed table above are calculated thus:

$$EF: = \frac{RT \times CT}{GT}$$

Where E = Expected Frequency
RT = Row Total
CT = Column Total
GT = Grand total

$$EFR, G = \frac{60 \times 65}{95} = \frac{3900}{95} = 41.1$$

$$EFR^2 C^1 = \frac{25 \times 65}{95} = \frac{1625}{95} = 17$$

$$EFR_3 C_1 = \frac{8 \times 65}{95} = \frac{520}{95} = 5.5$$

$$\begin{aligned}
 & \qquad \qquad \qquad 95 \qquad \qquad \qquad 95 \\
 \text{EFR}_4 \text{ C}_1 &= \frac{2 \times 65}{95} = \frac{130}{95} = 1.4 \\
 \text{EFR}_1 \text{ C}_2 &= \frac{60 \times 30}{95} = \frac{1800}{95} = 18.9 \\
 \text{EFR}_2 \text{ C}_2 &= \frac{25 \times 30}{95} = \frac{750}{95} = 7.9 \\
 \text{EFR}_3 \text{ C}_2 &= \frac{8 \times 30}{95} = \frac{240}{95} = 2.5 \\
 \text{EFR}_4 \text{ C}_2 &= \frac{2 \times 30}{95} = \frac{60}{95} = 0.63
 \end{aligned}$$

TABLE 4:22 EXPECTED VALUE TABLE

RESPONSES	BANK STAFF	BANK CUSTOMER	TOTAL
Strongly Agree	41.1	18.9	60
Agree	17	7.9	24.9
Partially Agree	5.5	2.5	8
Disagree	1.4	0.63	2.03
Total	65	30	100%

Source: Research Questionnaire 2006.

STEP II: computation of X^2

$$X^2 = \sum \frac{(O - E)^2}{E}$$

Where \sum = Summation sign

O = observation frequency

TABLE 4:23 COMPUTATION OF THE VALUE OF X²

O	E	O-E	(O-E)²	(O-E)²/e
46	41.1	4.9	24	0.58
16	18.9	(4.9)	24	1.27
17	17	0	0	0
8	7.9	0.	0	0
2	5.5	(3.5)	12.25	2.22
6	2.5	3.5	12.25	4.9
-	1.4	(1.4)	1.96	1.4
2	0.63	1.4	1.96	3.11
95	95	0	76.42	13.48

From the table above, the value of X² is 13.48

STEP III COMPUTATION OF THE DEGREE OF FREEDOM

The degree of freedom can be calculated thus:

$$V = (r-1) (l-1)$$

Where= V= Degree of Freedom

r= Number of Freedom

c= number of columns

$$V= (2 -1) (4-1)$$

$$V= 1 \times 3$$

$$V= 3$$

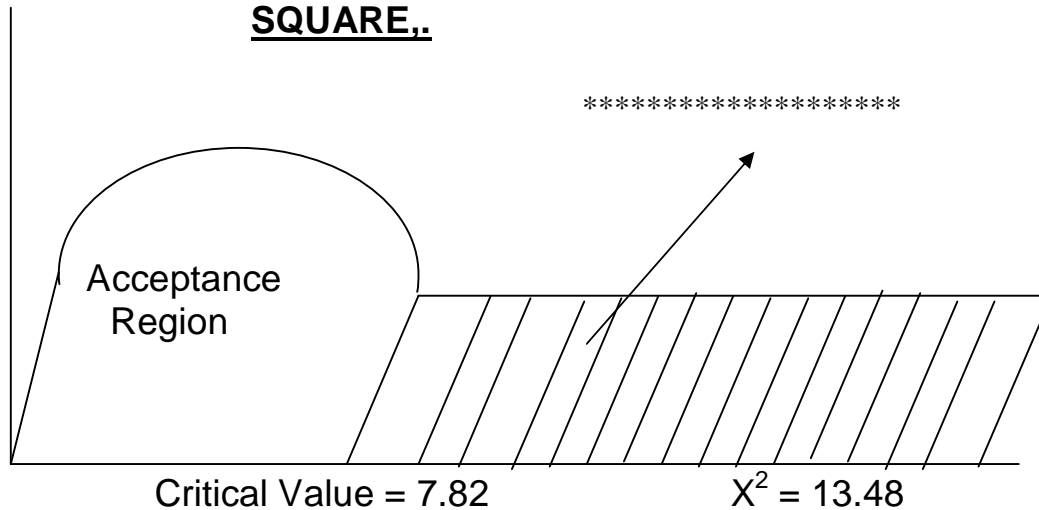
STEP IV: DETERMINATION OF CRITICAL VALUE:

Since we are using 5% level of significance, and our degree of freedom is 3, then from chi-square at 5% level of significance when there is 3 degrees of freedom is 7.82.

STEP V: INTERPRETATION

Since the value of X^2 calculated is 13.48 and the critical value is 7.82 then the value of X^2 can be said to be greater than the critical value i.e. $X^2_o > X^2_t$

FIGURE 4:2 ACCEPTANCE AND REJECTION REGION OF CHI-SQUARE.



STEP VI DRAWING CONCLUSION

The decision rule is that when the value of X^2 is less than the critical value, the null hypothesis (H^0) should be accepted. However, if the value of X^2 is greater than the critical value, the null hypothesis (H^0) should be rejected and the alternate hypothesis (H^1) should be accepted.

However it can be seen that the computed value of X^2 is which 13.48 is is greater than the critical value which is 7.8, also from the curve, it can be seen that the computed value of X^2 falls within the rejection region.

Therefore, we reject the null hypothesis (H_o) which states that lack of motivation is responsible for frauds in the banking sector, and accept that motivation discourage frauds in the banks.

4:4 PRESENTATION AND ANALYSIS OF SECONDARY DATA

In keeping with the requirements of section 39 and 40 of the NDIC. Act No 22 of 1988 (as amended), banks render monthly returns on frauds and forgeries, and also notify the corporation about terminations, dismissals and retirements of staff. These are the data I shall be presenting and analyzing under this heading. However, due to my inability to get the most recent NDIC annual report (i.e. 2005 annual report), I shall base my data up to 2004.

Table 4:24 RETURNS OF INSURED BANKS ON FRAUD AND FORGERIES (2003 AND 2004)

QUARTER	YEAR	AVERAGE NO OF BANKS RENDERING RETURNS	TOTAL NO OF FRAUD CASES	TOTAL AMOUNT INVOLVED (N,M)	TOTAL EXPECTED LOSS (N.M)	PROPORTION OF EXPECTED LOSS TO AMOUNT INVOLVED (%)
1 ST	2004	78	235	989.69	238.06	24.05
2 ND	2003	79	238	2,144.68	104.72	4.89
	2004	70	247	2,477.01	511.17	20.64
		311.54	25.51			
3 RD	2004	84	366	3,133.99	524.16	16.72
	2003	81	263	1,146.65	213.39	18.61
4 th	2004	76	285	1,709.14	531.06	31.07
	2003	76	131	4,870.89	227.81	4.67
Average/Total	2004	77	1,133	8,309.83	1,804.45	21.71
	2003	79	850	9,383.67	857.46	9.13

Source: Bank returns.

Table 4:24 above shows the number of insured banks that reported cases of frauds and forgeries, the number of fraud cases, and the amount involved and the expected loss.

As shown in the table, the average number of reporting banks during the year stood at 77 as against 79 in the previous year. Reported cases of fraud increased very significantly from 850 in 2003 to 1,133 in 2004 depicting about 33.29% increase. In spite of the increase however, the total amount involved decreased from N9.383 billion in 2003 to N8.309 billion in 2004, representing a decrease of about 11.44%. The expected loss was estimated at N1, 804.448 million as at December 2004 compared to N857.46 billion in 2003.

The proportion of expected loss to the amount involved increased significantly to 21.71 percent as at end of 2004 from 9.13 percent in 2003.

FIGURE 4.3 AMOUNT INVOLVED IN FRAUD AND FORGERIES (N'M)

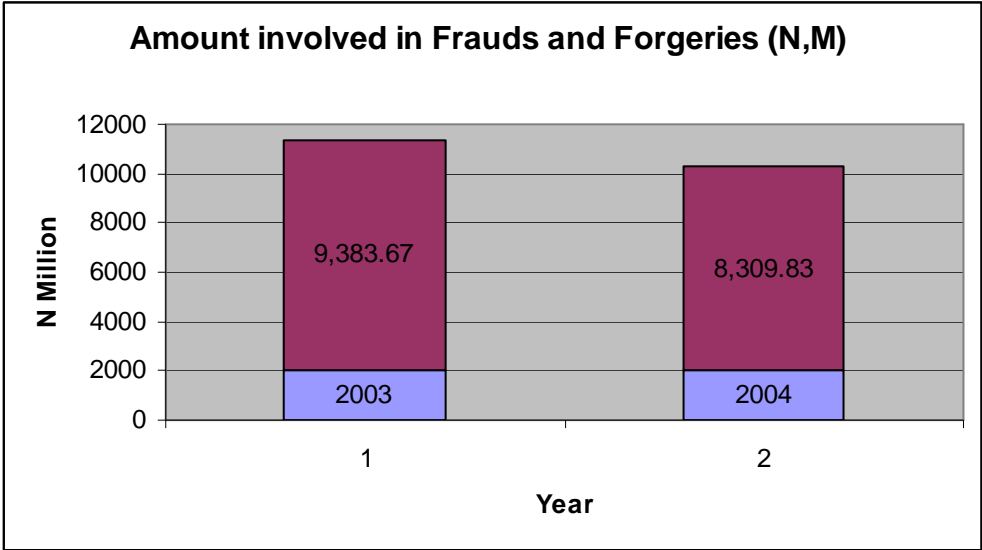
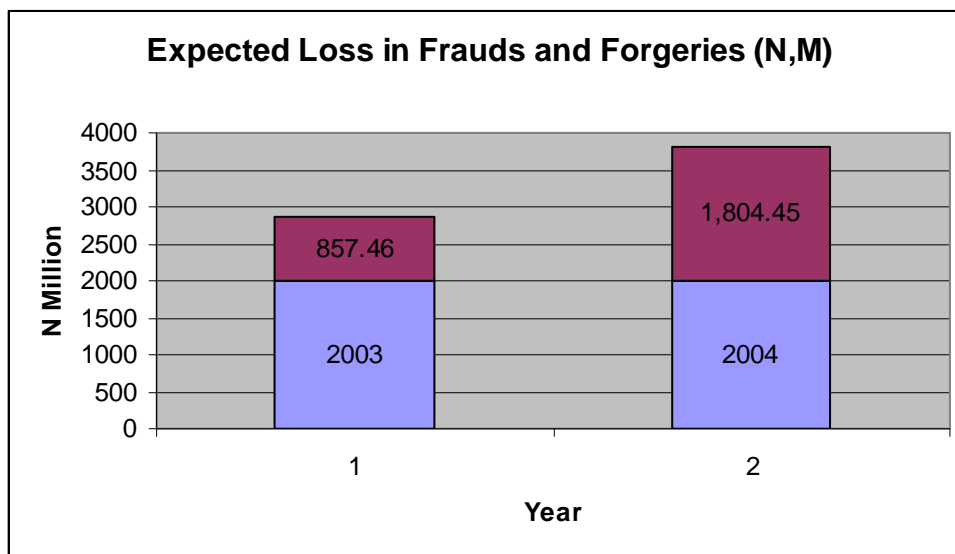


FIGURE 4.4. EXPECTED LOSS IN FRAUDS AND FORGERIES (N'M)



INCIDENCE AND TYPE OF FRAUD AND FORGERIES REPORTED

The ten (10) banks with the highest number of reported fraud cases as presented in Table 4.25 were responsible for 85.88% of the total amount involved in 2004. The table shows that in absolute terms, the total amount involved which stood at N8, 309.67 million in 2004, was much lower than that of 2003 and 2002.

TABLE 4.25

TEN BANKS WITH HIGHEST FRAUD CASES

2002			2003		2004	
GROUP	AMOUNT INVOLVED (N'M)	% SHARE	AMOUNT INVOLVED (N'M)	% SHARE	AMOUNT INVOLVED (N'M)	% SHARE
TOTAL FOR 10 BANKS	11,481.06	88.9	8,635.38	92.02	7,136.26	85.88
TOTAL FOR ALL BANKS	12,919.55	100.00	9,383.67	100.0	8,309.83	100.00

Source: Bank Returns

An analysis of the types of frauds and forgeries perpetrated showed that the commonest types were the following.

- (a) Presentation of forged cheques
- (b) Granting of unauthorized credits
- (c) Posting of fictitious credits
- (d) Fraudulent transfers / withdrawals
- (e) Cheque and cash defalcation
- (f) Loss of money to armed robbers, and
- (g) Ought right theft of money.

The frequency, amount involved and expected losses are presented in Table 4.26 Below.

TABLE: 4.26 TYPES AND MAJOR FRAUDS AND FORGERIES IN 2004

General Nature of Fraud	Frequency of Occurrences	Amount Involved		Expected Loss	
		₦' M	%	₦ 'M	%
Granting of Unauthorized Loans /Overdraft	25	702.97	11.32	59.15	3.28
Presentation of Forged cheques	368	1,759.90	28.33	547.02	30.31
Posting of fictitious	58	311.10	5.01	88.75	4.92

General Nature of Fraud	Frequency of Occurrences	Amount Involved		Expected Loss	
		₦' M	%	₦' M	%
credit					
Loss of money to armed robbers	55	333.87	5.37	296.39	16.42
Fraudulent transfers and withdrawals	309	2,382.48	38.36	560.45	31.06
Outright theft	49	188.45	3.03	45.56	2.52
Suppression of cash /cheques	201	532.57	8.57	207.10	11.48
TOTAL	1,065	6,211.34	100.00	1,804.42	100.00

Source: Bank returns

Table: 4.26 above indicates that **fraudulent transfer and withdrawals**, which took second position in terms of frequency of occurrence, constituted the largest proportion with regard to the amount involved in fraud cases and expected loss in 2004 as was the case in 2003.

The picture was however, different in 2003 when **presentation of forged cheques** occupied the first position in absolute amount and loss expected.

Furthermore, similar to the 2003 experience, presentation of forged cheques occupied the second position both in terms of the amount involved (28.33%) and the executed loss (30.31%) in 2004.

Also, consistent with the trend in 2002 and 2003, these two types of fraud that is : fraudulent transfer was withdrawals and presentation of forged cheques were jointly responsible for about 66.69% of the total amount involved in major fraud cases and about 61.37% of the total expected loss in 2004.

Granting of unauthorized loans /Overdraft (11.32%) **and suppression of cash /cheques** (8.57%) occupied third and fourth positions, respectively as regards total amount involved in reported cases of frauds and forgeries whereas, **loss of money to armed robbers** (5.37%) and **postings of fictitious credit** (5.01%) occupied the fifth and sixth positions in terms of total amount involved in reported cases of fraud, whilst **positing of fictitious credit** (4.92%) and **Granting of unauthorized loans /overdraft** (3.28%) came fifth and sixth in terms of total expected loss respectively . finally, **outright theft** took the seventh position both in terms of total amount involved in reported cases of frauds and forgeries (3.30%) and total expected loss (2.52%).

BANK STAFF INVOLVEMENT IN FRAUD AND FORGERIES.

Table: 4.26 Shows the rank and number of banks' staff involved in frauds and forgeries in 2004, an increase of about 46.7% when compared with the previous year's level. That means that higher number of staff perpetrated frauds and forgeries during the period under review. Of the total core operations staff such as supervisors. Officers, Accountants, Managers, Executive Assistants, clerks and cashiers totaling 347, accounted for about 90.60 percent, an increase of 4.76 percent points relative to the 2003 level.

TABLE 4.27

BANKS' STAFF INVOLVEMENT IN FRAUD AND FORGERIES.

RANK	2002		2003		2004	
	NUMBER	%	NUMBER	%	NUMBER	%
Supervisors and Managers	16	18.80	25	23.58	157	40.99
Officers, Accountant and Executive Assistants	48	56.50	41	38.68	129	33.68
Clerks and	13	15.30	25	23.58	61	15.93

	2002		2003		2004	
RANK	NUMBER	%	NUMBER	%	NUMBER	%
Cashiers						
Typists, Technicians and stenographers	-	-	-	-	18	4.70
Messengers, Drivers, Learners, Security guards and Stewards	4	4.70	7	6.60	15	3.92
Temporary Staff	4	4.70	8	7.55	3	0.78
TOTAL	85	100.00	106	100.00	383	100

Source: Bank Returns

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CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

The frequent cases of fraud in our society attracted the writing of this study. The research as such is designed to aid the general public and the Banking community in particular to know what fraud is and how it can be detected, as well the penalties of any fraudulent act.

Fraud as witnessed in recent times has resulted in the collapse of many banks, in most cases leaving the investors of such bank losing their money. This raises the question of how reliable are banks to trust ones money with them, the ethics of banking profession which is honesty, reliability and competence are far fading away. It is disheartening to note that the successful prevention of a particular fraud give rise to a more complex and sophisticated one by the perpetrators and the category of staff involved are increasingly those of higher rank. This brings a great concern to the society, the government and the bank itself. Giving the pivotal roles banks play in the nation's economy, it is therefore critical for measures to be taken to prevent the occurrence of fraud and irregularities in our banks. The prevention of theft is better than its recovery. Following this saying, it is high time drastic measures are taken to recultrate the

damaged confidence people have in banks and the Banking profession. In this regard, the government established INDIC and CBN to regulate and supervise the banking industry.

The major challenges facing the Banking industry are the task of restoring financial sector distress, restoring public confidence, enlarging and modernizing its payment system, as well as solving the constraints hindering its performance to play its role of intermediation, and effectively contribute to the quest of rapid growth and development of the country.

The prospects of the Banking industry will be bright with private and foreign ownership of banks, competition which will enhance effectiveness and efficiency. However, these are only possible when the industry is properly sanitized.

Chapter two traced the origin of fraud, as well as the nature and types of frauds in banks. It presents arguments and views as advanced by scholars and researchers who undertook similar study as part of the literature review. Also, the causes of fraud in Nigerian banks were examined to find out the extent in which the menace affects the Banking industry. The chapter also goes further to promulgate techniques of

detecting frauds in banks, measures for curbing frauds in banks as well as the effects of frauds on commercial banks in Kano metropolis.

Chapter three depicts the research methods used for the study. Chapter four was primarily concerned with an analysis of the data collected as responses to questions asked bank staff and customers through questionnaires and interviews during the course of research. It has shown that the Banking industry is generally experiencing fraud.

Chapter Five concludes by summarizing what the whole research entails, and some suggestions were made for improvements and further research.

5.2 CONCLUSION

In view of the craze for money in Nigeria, misplaced value judgment and prevailing harsh economic environment, big time frauds are on the increase and the banks are losing amounts running into millions of naira to fraudsters almost everyday. The study has revealed that:

Frustration of old staff by the management of some old generation banks is the greatest cause of fraud and corruption practice in such banks.

Inexperienced staffs are been preferred for promotion because of paper qualification and this has created loopholes for perpetration of frauds.

Among the methods used in defrauding banks, fraudulent rising of debt / credit note and suppression of debit notes rank highest.

Unauthorized lending by branch management is also a frequent type of fraud in banks.

In most cases, when the fraud are detected early, amount already drawn are usually difficult to recover. Experience has shown that even when banks inspectors discover fraud and there is a possibility of recovering some of the money, the co-operation of the police has not been encouraging. Also, banks do not make adequate provision for reward to fraud revealers. Poor management in terms of inadequate supervision, inadequate control and favoritisms are the significant causes of fraud.

Likewise, adequate rewarding of fraud revealers, adequate managerial supervision and regular check and balances of account are ranked high as the most effective preventive measures against fraud.

Similarly, a very important factor in fraud prevention is the frequent checking of cashier's record, sound employment policy, proper training of bank staff and monitoring of lending limits.

5.3 RECOMMENDATIONS

Having considered the nature, causes, types, detecting methods, measures for controlling and the effects of frauds, the frequency and level of frauds can therefore be minimized if the recommendations given below are strictly adhered to.

1. The staff should be properly screened before they are employed and satisfactory references must always be obtained. Names of terminated or dismissed staff of banks should be circulated among banks. The institute of bankers should also give such a list, which it should check before registering a student, while black listing those who have been involved in fraud before.
2. Police personnel should be trained in basic banking principles and practices through manuals and formal institutions in Police College and at the financial training centre.

3. The Banking act of 1969, for instance should be amended to allow individual banks to prosecute cases of forgery and fraud privately. Alternatively, provision should be made for special court to try frauds and defalcation. For example, the failed bank tribunal. In addition, stiffer penalties should be prescribed for all bank fraud by bank staff and customers.
4. Staff should be rotated periodically and should not be allowed on one function for long a period in order to avoid the possibility of exploring existing operational loopholes and short comings for personal gains.
5. It is recommended that banks should watch out for the printing of bank stationeries and carving of bank rubber stamps. Such forged papers and stamps are used by unscrupulous people to prepare forged letters of credit and other international trade instruments which are circulated all over the world with a view of obtaining goods worth millions of Naira under false pretence.
6. The Federal High Court should be given adequate powers to speedily handle offences related to bank frauds and impose heavily penalties on those convicted.

7. The establishment of audit committee in all financial institutions to make staff members independent of external influence.
8. Sound management through effective checks and balance systems. Management information systems and review procedures.
9. Quarterly meetings of the members of the board of Directors and the specific bank public Accountants, its principal Financial Officers (Accounting) and the chief auditor are recommended. The principal function here is to review the audit plans and scope of examination of both independent auditors and the bank internal audit dimension.
10. Most importantly, the idea to defraud can vanish if the punishments for fraudulent activities are adequate. Generally, the highest level of punishment given to fraudsters is few years of prison terms, and some even go free with the money or properties.

This level of punishments is not sufficient to serve as a deterrent to others. Part of the punishments should include the total recovery of the money stolen either in cash or in kind. In addition to that, the Nigerian

Government in particular should publish a magazine wholly and exclusively to report fraudsters. In line with that, every state should have a special programmes, say some hours every week to televise and broadcast pictures and respectively of fraudulent individuals. This will reduce the cases of fraud to the bearest minimum.

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PENDIX A

Department of Business
Administration,
Faculty of Administration,
Ahmadu Bello University, Zaria,
Kaduna State

Dear respondents,

QUESTIONNAIRE ON FRAUD DETECTING TECHNIQUES USED IN THE NIGERIAN BANKING INDUSTRY: A CASE STUDY OF SELECTED BANKS IN KANO METROPOLIS.

This questionnaire has been designed to obtain information for a project on the above subject matter.

This is done in partial fulfillment of the requirements for the award of degree of Masters of Business Administration (MBA) of Ahmadu Bello University Zaria.

It will be appreciated if you respond to these questions sincerely and objectively. Be assured that all information given shall be treated with utmost confidentiality and anonymity. It will also be used for research purpose only.

Your prompt response to this questionnaire will be highly appreciated.

Thank you for your anticipated cooperation.

Yours sincerely,

SAMAILA HAFSAT MAMMAN

QUESTIONNAIRE FOR BANK STAFF/CUSTOMER

Guideline: please tick the appropriate answer.

SECTION A – PERSONALITY PROFILE OF RESPONDENTS.

1) Age

- | | | |
|-----------------|---|---|
| a) 24 – 34 | [|] |
| b) 35 – 44 | [|] |
| c) 45 – 54 | [|] |
| d) 55 and above | [|] |

2. Sex

- | | | |
|-----------|---|---|
| a) Male | [|] |
| b) Female | [|] |

3. What is your educational background?

- | | | |
|------------------|---|---|
| a) Diploma (OND) | [|] |
| b) First Degree | [|] |
| c) Masters | [|] |
| d) ACIB | [|] |

4. How many years did you spend in the service of this Bank?

- a) 0 – 3 years []
- b) 4 – 9 years []
- c) 10 years and above []

5. What is your current position?

- a) Branch Manager []
- b) Deputy Branch Manager []
- c) Treasury Manager []
- d) Operations Manager []
- e) Marketer []

SECTION B

INSTRUCTION: PLEASE TICK THE APPROPRIATE ANSWER

1. Do you know what fraud is all about?

- a) Yes []
- b) No []

2. To what extent do you agree that fraud is rampant in the banking industry?

- a) Strongly agree []
- b) Agree []
- c) Partially disagree []
- d) Disagree []

3. How many times has your Bank been defrauded?

- a) Zero time []
- b) Once []
- c) Twice []
- d) Many times []

4. To the best of your knowledge, how many types of fraud are in existence?

- a) One type []

- b) Between 2 and 5 []
- c) Between 6 and 10 []
- d) Numerous types []

5. To what extent do you agree that ineffective and inefficient control system is the major cause of fraud in the banking sector?

- a) Strongly agree []
- b) Agree []
- c) Partially agree []
- d) Disagree []

6. To what extent do you agree that fraud is the ultimate cause of Bank distress?

- a) Strongly agree []
- b) Agree []
- c) Partially agree []
- d) Disagree []

7. Is it true that poor salaries and condition of service is a significant cause of Bank distress?

- a) Yes []
- b) No []

8. Can good recruitment policies and procedures be an effective and efficient fraud preventive measure?

- a) Yes []
- b) No []

9. To what extent do you believe that the existence of an effective and efficient management team help to minimize fraud?

- a) Strongly agree []
- b) Agree []
- c) Partially agree []
- d) Disagree []

10. To what extent do you believe that the prevailing moral decadence is the grass root cause of fraud?

- a) Strongly agree []
- b) Agree []

- c) Partially agree []
- d) Disagree []

11. Is it true that frustration could lead people to commit fraud?

- a) Yes []
- b) No []