Issues of fraud control measures in the Nigerian banking sector

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Abstract

The purpose of the present study is to appraise the fraud control measures in the Nigerian Banking sector and find out the way forward to reduce it. The study concludes that the banks would have grown faster if the bank worker had allowed the initiatives to be freely used without interference coupled with good usage of internal control and whistle-blowing strategies. The study recommends that management of commercial banks should investigate their internal and external factors that threaten the success of implementation of the policies.

Keywords: *Banking, Fraud, Internal Control, Whistle-blowing, Nigeria*

JEL Classification: *G21*

Introduction

The Nigerian banking sector has become a soft target for fraudsters, from both within and outsiders, who have getting away with large amount of cash daily; weekly; monthly; quarterly and annually **(Emma *et al.* 2019).** Any business organization that desires consistent growth, overall corporate well being and strong comparative abilities normally adopt many measures to achieves its goal **(Anyim, 2018).** One of the measures usually business organizations especially banks adopt is fraud control. **Offiong *et al.* (2016)** assert that bank fraud is the act of using potential illegal mean to obtained money, properties or other house owned or held by financial institution, or to obtained money from a depositors by fraudulently posing as being a bank or other standard bank. While the specific components of particular banking fraud laws are vary in between jurisdictions. Bank fraud may also be considered as white color crime. The origin of bank failure can be traced back to 1980s bank failure and crises were alarming. However, with the coming of electronic banking system introduce by Central Bank of Nigeria (CBN) in the 20th centuary has helped in curbing up incidence of fraud in banking transactions, some of the various payment system introduced by CBN includes the Bank customer biometric verification number (BVN), Treasury single account (TSA); agency banking and electronic dividend payment project with the security and exchange commission (SEC) **(Udo, 2016)**.

Conceptual Framework

The research uses the following conceptual model to show the variables and measure in the study:

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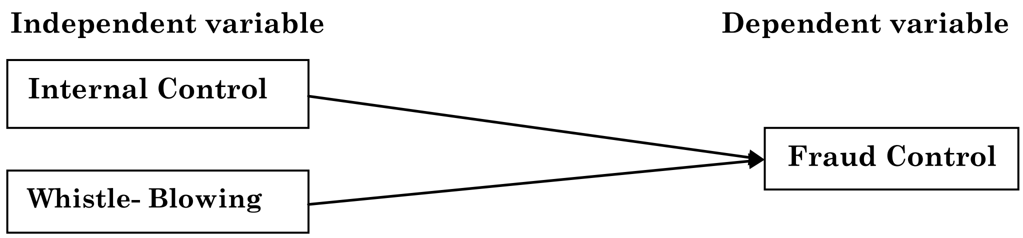


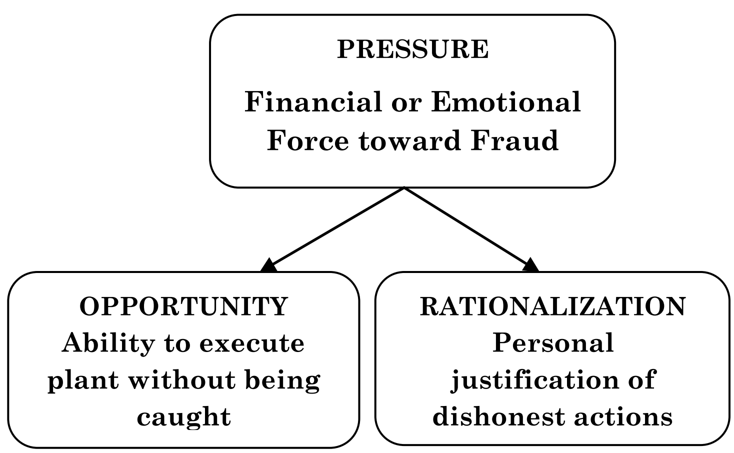
Source: Author's Compilation

Theoretical Framework

The study adopts the theory of Donald Cressey (1971) because it is one of the most cited theories in the literature of financial fraud. The theory has been considered as a classical theory designed to the propensities for fraud as a triangle of perceived opportunities, perceived pressure, and perceived rationalization. That is every fraud executor is confronted with some kind of pressure or "need" pressure that motivate individual to commit fraud are financial pressures and work related pressures and other pressure such as frustration with the nature of work or even challenge to beat the system. However, **Abdullahi & Mansur (2015)** posit that the possibility to commit fraud is possible when employee have access to assets and information that allow them to both commit and conceal the fraud. Opportunities are provided by a week internal control environment, lack of efficient internal control procedure, failure to enforce internal control mechanism and various factors such as apathy, ignorance, lack of stringent punishment etc.

Fraud Triangle:

A framework for high risk fraud situations



Source: Author's Compilation

Review of Literature

Nwanko (2013) ascertained the relationship between ATM fraud, forged cheques, clearing cheque fraud and bank performance. The finding reveals that there was significant impact of fraud on the performance commercial banks in Nigeria.

Offiog *et al.* (2016) examined banking sector fraud in Nigeria from a period of 1994 to 2013 using causative factors and suggested mitigating measures and found that number of fraud cases and the amount of fraud losses are significant.

Adetiloye *et al.*(2016) studied on fraud prevention and internal controls in the Nigerian banking system and found that that internal control on its own was effective against fraud but not all staff was committed to it.

Emma *et al.* (2019) advocated that an ugly aspect of the scenario is the frequencies, complexities and magnitude of frauds. As business and society become more enlightened and complex, the methods of perpetrating fraud become more sophisticate.

Nigerian Deposit Insurance Corporation (2016) asserted that there was gross mismanagement and unethical practices uncovered by CBN examiners among other factors. Consequently, some banks in liquidation granted facilities to owners directors of some banks ranging from 20% to 100% and this accounted for the greatest affliction of bank failure in Nigeria in the 90s.

Research Methodology

Population of the study area

Populations of this study comprises of all ten selected commercial banks which were randomly selected in North east Nigeria. The banks are: UBA, Zenith Bank, Unity Bank, FCMB, Access bank, GT bank, Jaiz bank, Union bank, Sterling bank.

Data source and Sample size

The present study is based on primary data from a person of age 18 and above through the structured questionnaire. Out of the 30 questionnaire administered, 27 were properly filled up and returned.

Scale of Measurement: The present study uses five points scale of measurement, *namely,* SD=Strongly Disagree; D=Disagree; UN=Undecided; A=Agree; SA=Strongly Agree.

Results and Discussion

Table 1: Cronbach's Alpha Coefficient α for Study Constructs

<table>
<tr><th>Construct</th><th>Sub Construct</th><th>No. of items</th><th>Cronbach's Alpha α</th></tr>
<tr><td rowspan="3">Internal control system</td><td>Internal control enable top management to become aware in time, of fraud related challenge in the bank.</td><td>5</td><td rowspan="3">.920</td></tr>
<tr><td>There are top management officials who partner with fraudsters to make internal control efforts useless.</td><td>6</td></tr>
<tr><td>Colliding with bank customer by fraudulent bank staff is the major courses of fraud in Nigeria banks.</td><td>5</td></tr>
<tr><td rowspan="2">Whistle-blowing</td><td>Whistle- blowing has proved very effective in recent times on issue of fraud control</td><td>8</td><td rowspan="2">.953</td></tr>
<tr><td>Some Whistle-blowing are victimized and harassed by some fraudster in the banking industry</td><td>9</td></tr>
</table>

Source: Field Survey

Table 2: Descriptive Statistics

S.No	Statement	N	Min	Max	Mean	Std. Dev
1	The flowing are consider as the causes of fraud perpetrated in banks, greediness, over ambitious, economic downturn.	30	4.00	5.00	3.670	0.774
2	Many fraudulent bank workers make serious effort to deceive the customers	30	1.00	5.00	3.37	0.46
3	Many fraudulent bank workers make serious effort to deceive the customers	30	1.00	5.00	3.93	0.87
4	Banks always improved their software security against fraud	30	2.00	5.00	3.63	0.659
5	Internal control enable top management to become aware of time, of fraud related challenges in the bank	30	4.00	5.00	4.26	1.13
6	There are top management officials who partner with fraudster to make internal control effort useless	30	4.00	5.00	4.00	0.931
7	Whistle-blowing has proved very effective in recent times on issue of fraud control in the Nigerian banks.	30	4.00	5.00	3.63	01.40
8	Some whistle-blower were victimized and harassed by some fraudsters in the banking industries in Nigeria	30	4.00	5.00	3.48	0.87

Source: Field survey

Table 3: Respondents responses on the relationship between greedy staff and fraud perpetration

(*What are the causes of fraud perpetrated in banks?)*

Sl No.	Investigative Statement	SD	D	UN	A	SA	Mean	Std. Dev
1	Greediness, Over Ambitious, Economic Downturn are the causes of fraud perpetrated in banks	5	2	4	6	10	3.67	0.77
2	Many fraudulent bank workers make serious effort to deceive the customers	2	1	4	8	12	3.37	0.46

Source: Field survey

Table 3 shows that there is a very strong agreement among the respondents' on the relationship between greedy staff and fraud perpetration in the Nigerian commercial banks. This result indicate that this factor contribute seriously to the rate of fraud in the Nigerian commercial banks with mean of 3.67 and standard deviation of 0.77. It is also evident from the table that majority of the respondents agreed on the statement that many fraudulent staff make serious effort to deceive the customer with a mean of 3.37 and standard deviation of 0.47.

Table 4: Respondents responses on the relationship between the effectiveness and fraud control measures

(*How effective is the various fraud control measures imposed by the banks?)*

Sl No.	Investigative Statement	SD	D	UN	A	SA	Mean	Std. Dev
1	The fraud control measures imposed by the banks is very effective	3	3	12	6	5	3.93	0.874
2	Banks always improve their software security against fraud	2	1	4	9	11	3.63	0.659

Source: Field survey

Table 4 discloses a neutral perception of the respondents on the relationship between effectiveness and fraud control measures. It can be observed from the table that majority of the respondents were of the neutral view that measures imposed by the bank are neither effective nor ineffective as they are always under the threat both from within and outside resulting mean responses of 3.93 with standard deviation of 0.874. On the other side, majority of the respondents strongly agreed banks improve their software security in order to curtail fraudulent practices among the staffs resulting mean responses of 3.63 with standard deviation of 0.659.

Table 5: Respondents responses on the relationship between internal control and fraud control on Nigerian banks

(*How does internal control affect fraud control in the Nigerian banks?)*

Sl No.	Investigative Statement	SD	D	UN	A	SA	Mean	Std. Dev
1	Internal control enable top management to become aware of time, of fraud related challenges in the bank	2	1	1	13	10	4.26	1.13
2	There are top management officials who partner with fraudster to make internal control effort useless	1	3	2	8	13	4.00	0.931

Source: Field survey

Table 5 above presents respondents responses on the relationship between internal control and effect on Nigerian banks. The table depicts that majority of the respondents have agreed that internal control enables the top management to become aware of time, fraud related challenges in the bank which is accounted for grand mean of the responses of 4.26 with standard deviation of 1.13. Furthermore, majority of the respondents are of the view that top management collaborate with fraudsters that makes internal control system weak resulting mean responses of 4 with standard deviation of 0.931.

Table 6: Respondents responses on the relationship between whistle-blowing and fraud control in the Nigerian banks

(What are the relationship between whistle-blowing and fraud control in the Nigerian banks?)

Sl No.	Investigative Statement	SD	D	UN	A	SA	Mean	Std. Dev
1	Whistle-blowing has proved very effective in recent times on issue of fraud control in the Nigerian banks.	2	5	2	7	11	3.63	1.4
2	Some whistle-blower were victimized and harassed by some fraudsters in the banking industries in Nigeria.	6	2	1	8	10	3.48	0.87

Source: Field survey

Table 6 above provides respondents responses on the relationship between whistle blowing and fraud control in the Nigerian banks. The table shows that majority of the respondents have strongly agreed to the statement that Whistle-blowing is very effective in recent times on issue of fraud control in the Nigerian banks and this result has accounted mean responses of 6.63 with standard deviation of 1.4. Besides, majority of the respondents have also strongly agreed that some fraudsters in the banking industries in Nigeria have victimized and harassed some whistle-blowers resulting mean score of 3.48 with standard deviation of 0.87.

Table 7: Correlation analysis between greedy bank staff and fraud perpetrators in the Nigerian banks

(H_{01}: There is no significant relationship between greedy bank staff and fraud perpetrated in the bank)

Items	Mean	Standard Deviation	Correlation Coefficient	p value
Greedy Bank Staff	3.67	0.77	0.971	0.001
Fraud Perpetrated in the bank	3.52	0.426		

Source: Field survey

Table 7 shows that there is a strong correlation between greedy bank staff and fraud perpetrators as the value of correlation coefficient is 0.971 with probability value of 0.001 which is statistically significant at 0.05 level. This result proves that null hypothesis of insignificant correlation between greedy bank staff and fraud perpetrators is rejected at 0.05 level of significance.

Table 8: Correlation analysis between Inter control and Fraud control

(H_{O2}: Internal control does not significantly affect fraud control in the Nigerian banks)

Items	Mean	Standard Deviation	Correlation Coefficient	p value
Inter control	4.26	1.13	0.991	0.001
Fraud control	4.13	0.931		

Source: Field survey

Table 8 shows the correlation analysis between internal control and fraud control in the commercial banks in Nigeria. The result shows a correlation coefficient of 0.991 with p value of 0.001. The p value is less than the 0.05 level of significance rejecting, therefore, the null hypothesis and accepting the alternative hypothesis that states that there is a significant relationship between internal control and fraud control in Nigerian banks.

Table 9: Correlation analysis between Whistle-blowing and Fraud control

(H_{03}: There is no significant relationship between whistle-blowing and fraud control in the Nigerian banks)

Items	Mean	Standard Deviation	Correlation Coefficient	p value
Whistle-blowing	3.63	1.4	0.941	0.001
Fraud control	3.56	0.87		

Source: Field survey

Table 9 shows the correlation analysis between whistle-blowing and fraud control in the Nigerian commercial banks. The result shows a correlation coefficient of 0.941 with p value of 0.001. The p value is less than the 0.05 level of significant rejecting, therefore, the null hypothesis and accepting the alternative hypothesis, which states that there is a significant relationship between whistle blowing and fraud control in Nigerian banks.

Conclusion

The careful analysis shows how internal control help in preventing fraud in bank, management is seen as having that control to establish sound organization institution that prevent fraud and no matter how hard controlling measures are placed fraud can only be minimized and not totally eliminated. Nigerian banking sector can perform better if the fraud-controlling measures are effectively and efficiently implemented. The banks would have grow faster if the workers allowed the initiative to be operationalized without unnecessary interference while making good use of internal control; and external factors that threat the successful implementation policies, for which there is a need to promote whistle-blowing.

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