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Table of Contents

Articles

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Fraud Detection in the Banking System in Nigeria Challenges and Prospects

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Abstract

Fraud is an epidemic dimension that has eaten deep into the banking sector as well as the entire economics in Nigeria. Its devastating effect manifests itself in the deteriorating balance sheet of banks as well as in economic backwardness. Apparently, measures to detect and eradicate fraud in banking sector have been quite ineffective as the fraudulent practices have been on the increase in recent times. Thus, this study evaluates the various challenges of detecting and combating fraud in the banking sector in Nigeria. The results from the descriptive analysis showed that lack of adequate motivation is not a major cause of fraud in banks, looting of fund by bank managers and directors constitutes the major form of fraud in Nigeria. Furthermore, it is recommended that government should strengthened existing anti-graft agencies and to enhance their financial independence. Those managers and director involved in looting of fund should be persecuted to serve as a deterrent to potential fraudsters. In addition, bank staff should be properly screened to test their morality and integrity before recruitment. Adequate internal control mechanism should be established to serve as check and balances among the bank staff. There is also the need for the anti-graft agencies to be strengthened in order to adequately complement the effort of the Central Bank of Nigeria (CBN) at nibbling the incidence of bank fraud in the bud.

Keywords: banking system, fraud, fraud detection, fraud prevention, Nigeria

Introduction

The banking sector is one of the most critical sectors in virtually all economics of the world arising from its wide effects on the magnitude and direction of economic growth and transformation. As intermediaries to both suppliers and users of funds, the banking sector plays a pivotal role in stimulating the level of economic activities. Diamond (1984) posits that a special feature of banking activities is to act as delegated monitors of borrowers on behalf of the ultimate lenders (depositors). In recent times, the inability of banks to successfully fulfill their role as intermediaries has been a central issue attributable to the financial crisis that has been witnessed in the sector as well as the risks associated with banks' practices. One of such risks which is increasingly becoming worrisome is the banking risk associated with fraud.

Fraud, according to Idolor (2010), is described as a conscious and deliberate action by a person or group of persons with the intention of altering the truth or fact for selfish personal gains, and it has now become the most single veritable threat to the growth of banking industry. Apart from this, the rise in the number of employees who are involved in the act as well as the ease with which many escape detection thus encouraging many others to join in perpetuating fraud is quite alarming (Onibudo, 2007). It is indeed worrisome that while banks are constantly trying to grapple with the demands of monetary authorities to recapitalize up to the stipulated minimum standards, fraudsters are always at work threatening and decimating their financial base. The spate of fraud in the banking industry has lately become an embarrassment to the nation apparently due to the seeming inability of the law enforcement agents to successfully track down and prosecute culprits of this heinous act.

Bank frauds greatly jeopardize the organizational growth of a bank as it leads to bank distress. This is because fraud reduces the deposits of depositors and eventually leads to the erosion of the capital base of banks. The cost of fraud is also usually difficult to estimate because not all frauds are discovered or even reported since most banks have a tendency to cover up the frauds emanating from their banks and cash tills all in a bid to continue to gain customers goodwill and engender their clients" confidence all the time (Asukwu, 1999). Statistics on the activities of fraudsters in the industry is amazing, confounding and shocking. Ogwuma (1981) estimated that on the average, banks in Nigeria were at a risk of losing one million naira every working day due to the incidence of frauds which come in different guises or forms. Official figures from the Nigerian Deposit Insurance Corporation (NDIC) reports revealed that the amount involved in banks' fraud rose from N104, 967m in 1989 to N12, 919.55b in 2002 and further climbed to over N28.4b in 2011. However, the amount of expected loss fluctuated between 1989 and 2011. From N15.341m in 1989 it dropped to N227.44m in 1997 rose to N1,094.55b in 2000 and then dropped to N854.46m in 2003 and rose again to N4.07b in 2011. Similarly, the number of staff involved declined from 311 in 1998 to 85 in 2002 and further rose to 498 in 2011. Accordingly, about 4,276 bank staff was involved in bank frauds between 1998 and 2011.

Equally worrisome is the rise in the number of top management staff that have either been indicted or accused of engaging in bank fraud. Besides, the yearly increase in the amount of financial resources lost to fraud clearly indicates that the mechanisms of fraud detection and management have been quite ineffective. Against this background, this study is to quantitatively ascertain the causes of bank frauds as well as the problems associated with fraud detection in the banking system with a view to proffering policy options that could help reduce the spate of bank frauds in the country. The rest of the paper is organized as follows: section two presents conceptual clarifications of fraud and fraudulent practices while section three examines the various ways by which fraud is perpetrated and finally concludes with some recommendations and policy options capable of mitigating frauds in the banking sector.

Fraud and Fraudulent Practices

Fraud can be defined as deliberate deceit or an act of deception aimed at causing a person or organization to give up property or some lawful right. The Association of Certified Fraud Examiners (1999) further defines fraud as the use of one's occupation for personal enrichment through the deliberate misuse, misapplication or employment of organizational resources or assets. Fraud can be further described as the fraudulent conversion and acquisition of money or property by false pretense (FBI, 1984). In legal terms, fraud is seen as the act of depriving a person dishonestly of something, which such an individual would or might be entitled to, but for the perpetration of fraud. Nevertheless, in its lexical meaning, fraud is an act of deception which is deliberately practiced in order to gain unlawful advantage. Therefore, for any action to constitute a fraud there must be dishonest intention to benefit (on the part of the perpetrator) at the detriment of another person or organization. Fraud usually requires theft and manipulation of records, often accompanied by concealment of the theft. It also involves the conversion of the stolen assets or resources into personal assets or resources.

There is a general consensus among criminologists that fraud is caused by three elements called "WOE" (Onibudo, 2007). For any fraud to occur there must be a **will**, an **opportunity** and **exit** (escape route). A fraud will only occur if the perpetrators have the will to commit the fraud, if the opportunity to commit the fraud is available and if there is an exit or escape route from relevant sections or institutions that are against fraud or related deviant behaviour and with the crash of major multinational corporations like Enron (in the United States of America) coupled with high level allegations and actual cases of corporate fraud, many organizations in their attempt to improve their image have resorted to developing ethical guidelines and codes of ethics. The whole essence of these is to ensure that all organizational members irrespective of rank or status, complies with the minimum standard of ethical responsibility in order to promote the reputation of such firms in their chosen industry, earn the goodwill of customers and thus improve their competitive advantage (Unugbro and Idolor, 2007). It is noteworthy that in the present Nigerian epoch, many youths and elder citizens alike indulge in sharp practices in order to get financially rich as quickly as possible and because banks deal with money, and money related businesses, the banking sector have become the targets of persistent fraudsters.

Akinyomi (2010) view fraud as the act of depriving a person underhandedly of something, which such a person would or might be entitled to but for the perpetration of fraud in its lexical meaning, fraud is an act of trickery which is intentionally practiced in order to gain illegitimate advantage. Therefore, for any action to constitute a fraud there must be deceitful objective to benefit (on the part of the perpetrator) at the disadvantage of another person or group. Fraud typically requires stealing and manipulation of accounts, frequently accompanied by cover up of the theft. It also involves the translation of the stolen resources or property into own resources or property.

In view of the gravity of fraud in banks coupled with the different mechanisms put in place by banks, such as establishment of internal control unit, fraud alerts, security measures etc.., yet fraud detection and prevention has continued to be a serious challenge in Nigeria and this has questioned the effectiveness of these measures (Okubena, 1998). Employees as well as firms in all industries and banking activities engage in fraudulent practices all over the world. Furthermore, Adeoti (2011) said that fraud is a global occurrence; it is not peculiar to the banking industry or for that matter, peculiar to only Nigeria. Ogidefa (2008) reported that the problem of fraud in our banking system may have some attachments which are:

i. Bank malpractices
ii. Failure to appoint trusted and honest official as the representative in the clearing house
iii. Failure to change representative on regular basis
iv. Failure to provide locked boxes or bags for carrying cheques to and from the central banks
v. Inadequate training facilities for clearing staff both in the offices and central bank
vi. Negligence in checking clearing cheques from the banks to avoid a case of possible short
vii. change of cheque.

According to Eseoghene (2010) there are various types of frauds perpetrated in banks which embezzlement is a form of fraud which involves the unlawful collection of monetary items such as cash traveler"s cheque and foreign currencies. It could also involve the deceitful collection of banks assets such as motor vehicles, computers, stationary, equipment and different types of electronics owned by the bank. While defalcation, involves the embezzlement of money held in trust by bankers on behalf of their customers. Defalcation of customers deposits either by conversion or fraudulent alteration of deposit vouchers by either the bank teller or customer is the common form of bank fraud. Where the bank teller and customer collude to defalcate, such fraud is usually neatly perpetrated and takes longer time to discover. They can only, easily be discovered during reconciliation of customers bank account. Given the conceptual clarifications espouse, the next section of this discourse will focus on the causes and salient categories of frauds in the banking industry. This is necessary for the purpose of policy formulation and guidelines to guide against frauds and to assist in the early detection of frauds perpetration.

Causes, Dimensions and Categories of Fraud

The various factors that underline the incidence of bank fraud can be classified into Institutional and Environmental factors which are further elucidated below.

1). *Institutional factors*. Institutional factor are factors that can be traced to the internal working environment of the organization. They are, to a great extent, factors within the control of the management of the bank. The following are the notable institutional factors which when poorly provided or visible could lead to incidence of frauds perpetration;

- Poor information technology and data base management.
- Weak accounting and internal control system.
- Inadequate supervision of subordinates and nonchalance.
- General frustration occasioned by management unfulfilled promise – poor welfare policy of the organization.
- Disregards for "know your customer (KNC) rule.
- Failure to engage in regular call over.
- Banking experience of staff: frauds in banks occur with higher rate of recurrence among staff with little experience and knowledge in financial praxis. The more experience and knowledgeable a staff is, the less probability that frauds would pass such staff undetected unless with active support of staff / personnel/ professional competence.
- Poor book keeping and data management (both in storage and retrieval forms).

- Inadequate infrastructure: poor communication system and power failure, result to a build-up of unbalance postings, overcrowded office space etc, these encourage the committal of fraud in banks.

2). *Environmental factors.* Environmental factors can be traced to the immediate location and remote (social, economic, political) environment of the bank. Several social issues encourage people to fall into temptation and thus join fraudulent individuals in the society which include but not limited to the following;

- Honesty in offices or public places are no longer encouraged, on the contrary, such people are often despised and regarded as slow, foolish or stupid and not knowing how to utilize the opportunities at their disposal to make quick wealth.
- Much premium is placed on the accumulation of wealth in the society without sparing any thought about the source of wealth.
- At social gatherings, launching or similar social events, the cynosure of all eyes are usually on those who are in a position to dole out cash or make mouth watering pledges or promises of what to do. These are the ones that are instantly recognized and respected. However, nobody cares to ask how the money is made.
- The giving away of chieftaincy titles and similar honors have become highly skewed in favor of the rich and further even among this category of people, the highest bidders are also the front runners.
- Stiff competition in the banking industry which saw many banks engaging in fraud and unethical means so as to meet up in terms of liquidity and profitability. Other environment factors include, Job insecurity, increase in the financial burden of individuals, poverty and the widening gap between the rich and the poor.

Apart from the conventional, institutional and environmental factors in the perpetration of frauds in Bank, Asukwo (1999) and Idowu

(2009), indentified some other causes which they described as immediate and remote causes of frauds. These include ***poor internal control***; inadequate internal control and checks mechanisms usually create a loophole for fraudulent staff, customers and non-customers to perpetrate frauds. Therefore to reduce or eliminate frauds, there is need to always have effective audits, security systems and ever observant surveillance of staff at all times during and after bank official operating hours. Reliable internal control and checks mechanisms are probably the hallmark of containing and curtailing incidence of frauds in banks.

Poor book keeping; inability to maintain proper books of accounts coupled with failure to reconcile the various accounts of the bank on daily, weekly or monthly basis usually will attract fraud. This loophole can very easily be exploited by bank employees who are fraudulent. Information and data management, regular applications of monitoring and control mechanisms, when not properly synchronized with the banking operations often leads to the manipulation of records and eventual perpetration of frauds.

Greed; this refers to an inner drive by individuals (staff and personnel of the bank) to acquire financial gains far beyond their income and immediate or long-term needs. It is usually driven by a morbid desire to get rich quick in order to live a life of opulence and extravagance. Greed has in many cases been regarded as the single most important cause of fraud in the banking sector.

Inadequate / poor staffing; a poorly staffed bank will usually have a problem of work planning and in the assignment of duties and responsibilities. The bank that is flooded with unqualified and inexperienced staff will of a necessity have to grapple with the problem of training and supervision of its officers. This situation can very easily be capitalized upon by the teeming fraudsters that the bank has to contend with in its day to day transactions. Inadequate staffing can be in the form of quality, quantity and the psychological state of staff / personnel.

Inadequate training and re-training; lack of adequate training and retraining of employees both on the technical and theoretical aspects of banking activities and operations usually leads to poor performance. Such inefficient performance creates a loophole which can very easily be exploited by fraudsters. Apart, it is worthy to note that the banking industry is technologically dynamic and also easily affected by global economic equations and advancement. Hence, staff / personnel must be frequently trained and exposed frequently to these dynamics so as to keep the ethics and practice of banking in the right track.

Genetic Traits (Background Checks); **t**his has something to do with heredity: a situation whereby characteristics are passed on from parents to offspring. For instance a kleptomaniac who has a pathological desire to steal just for the sake of stealing would naturally not do well as a banker. It is therefore imperative for banks to trace such symptoms quickly among members of their staff in order to reduce the possibility of fraud among employees. Besides, the following factors suggested by Aderibigbe (1999) and Onibudo (2007), also contributes immensely to fraud:

- Inadequate compensation, salaries and fringe benefits that are accruable to bank staff;
- The ease at which the stolen assets are converted after deceitful appropriation;
- Refusal to comply with laid-down procedures without any penalty or sanction;
- Collusion between interacting agents charged with the responsibility of protecting the assets and other interest of the bank and their customers / clients;
- Poor working conditions;
- Poverty and infidelity of employees.

As naturally expected, fraud is perpetrated in many forms and guises, and usually have insiders (staff) and outsiders conniving together to successfully orchestrate the act. The following types which are not in any way completely exhaustive are the most common types of bank frauds in Nigeria as identified by Ovuakporie (1994).

Theft and embezzlement; this is a form of fraud which involves the unlawful collection of monetary items such as cash, travellers' cheque and foreign currencies. It also involves the deceitful collection of bank assets such as motor vehicles, computers, stationeries, equipment's, and different types of electronics owned by the bank.

Defalcation; this involves the embezzlement of money that is held in trust by bankers on behalf of their customers. Defalcation of customers deposits either by conversion or fraudulent alteration of deposit vouchers by either the bank teller or customer is a common form of bank fraud. Where the bank teller and customer collude to defalcate, such fraud is usually neatly perpetrated and takes longer time to uncover. They can only easily be discovered during reconciliation of customers' bank account. Other forms of defalcation involves colluding with a customer's agent when he/she pays into the customers account and when tellers steal some notes from the money which are billed to be paid to unsuspecting customers/ clients.

Forgeries; forgeries involve the fraudulent copying and use of customer's signature to draw huge amounts of money from the customer's account without prior consent of the customer. Such forgeries may be targeted at savings accounts, deposit accounts, current accounts or transfer instruments such as drafts. Experience has shown that most of such forgeries are perpetrated by internal staff or by outsiders who act in collusion with employees of the bank who usually are the ones who release the specimen signatures being forged (Onibudo, 2007).

Unofficial borrowing; in some instances, bank employees borrow from the vaults and teller tills informally. Such unofficial borrowings are done in exchange of the staff post dated cheque or I.O.U. or even nothing. These borrowings are more prevalent on weekends and during the end of the month when salaries have not been paid. Some of the unofficial borrowings from the vault, which could run into thousands of naira, are used for quick businesses lasting a few hours or days after which the funds are replaced without any evidence in place that they were taken in the first place. Such a practice when done frequently and without official records, soon very easily becomes prone to manipulations, whereby they resort to other means of balancing the cash in the bank's vault without ever having to replace the sums of money collected.

Foreign exchange malpractices; this involves the falsification of foreign exchange documents and diversion of foreign exchange that has been officially allocated to the bank, to meet customers' needs and demand, to the black market using some "ghost customers" as fronts. Other foreign exchange malpractices include selling to unsuspecting and *naïve* customers at exchange rates that are higher than the official rate and thus claiming the balance once the unsuspecting customer has departed. This practice usually find fertile grounds to grow in banks which have weak control, recording and accounting systems and corrupt top management staff.

Impersonation; impersonation involves assuming the role of another person with the intent of deceitfully committing fraud. Impersonation by third parties to fraudulently obtain new cheque books which are consequently utilized to commit fraud is another popular dimension of bank fraud. Cases of impersonation have been known to be particularly successful when done with conniving bank employees, who can readily make available, the specimen signatures and passport photograph of the unsuspecting customers.

Manipulation/ falsification of vouchers; this type of fraud involves the substitution or conversion of entries of one account to another account being used to commit the fraud. This account would naturally be a fictitious account into which the funds of unsuspecting clients of the banks are transferred. The amounts taken are usually in small sums so that it will not easily be noticed by top management or other unsuspecting staff of the bank. Manipulation of vouchers can thrive in a banking system saddled with inadequate checks and balances such as poor job segregation and lack of detailed daily examination of vouchers and all bank records.

Falsification of status report; a common type of fraud is falsification of status report and/or doctoring of status report. This is usually done with the intent of giving undeserved recommendation and opinion to unsuspecting clients who deal with the bank customers. Some clients for example will only award contracts to a bank customer if he/she providers evidence that he/she can do the work and that they are on a sound footing financially. Such a fraudulent customer connives with the bank staff to beef up the account all with the aim of portraying himself not only as being capable but also as a persons who will not abscond once the proceeds of the contracts has been paid. The inflation of statistical data of a customer's account performance to give deceptive impression to unsuspecting third parties (which is very common in Nigeria), for whatever reasons, is a fraudulent behavior.

Money laundering; **t**his involves the deceitful act of legitimizing money obtained from criminal activity by saving them in the bank for the criminals or helping them transfer it to foreign banks, or investing it in legitimate businesses. In the recent political dispensation (in Nigeria), money laundering by con men, politicians and fraudulent bank staff have assumed alarming dimension.

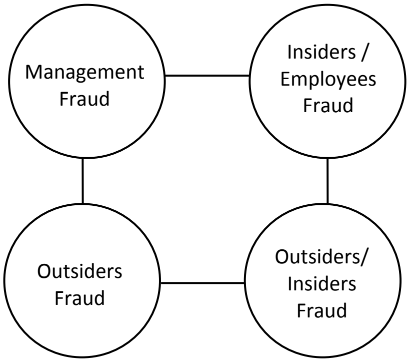
Fake payments; a common type of fraud in the banking sector is fake payments, which involves the teller introducing a spurious cheque into his/her cage. It is done with or without the collaboration of other members of staff or bank customers. This type of fraud is however easy to detect if the bank has a policy of thoroughly examining all vouchers, checks, withdrawal slips and payments on a daily basis.

Computer/ cyberspace frauds; this involves the fraudulent manipulation of the bank's computer either at the data collection stage, the input processing stage or even the data dissemination stage. Computer frauds could also occur due to improper input system, virus, program manipulations, transaction manipulations and cyber thefts. In this epoch of massive utilization of automated teller machines (ATMs) and online real time e-banking and commerce; computer frauds arising from cyber thefts and crimes has assumed a very threatening dimension. No bank seems to be immune from it, and a significant proportion of the billions of naira spent annually in the banking sector to help reduce fraud usually are channelled towards combating compute frauds and cyber crimes/thefts.

Categories of Bank Fraud

It is necessary to note further that frauds can be classified into various ways, but for the purpose of this study, emphasis shall be on the perpetrators criteria which are discussed hereafter. It is also noteworthy that the perpetrator criteria interacts in a systemic relationship which is as illustrated.

Figure 1: Categories of Bank Fraud - The Perpetrator Criteria



Management fraud is frequently committed by management staff of a reporting entity, which comprises the directors, general managers and managing directors to mention but a few. The category of victims of management frauds are investors and creditors, and the medium of perpetrating the fraud is financial statement. The inspiration of management fraud in most cases is to pull in more investment from both existing and potential shareholders to the organization. Another motivation for management fraud is to paint the bank in good light in the eyes of the regulatory authorities.

According to Fakunle (2006:173), management fraud is the manipulation of records and the accounts typically by the enterprise's senior staff with a view to benefit in some indirect ways. Ajisebutu (2006:6), say the key elements of management fraud are as follows:

- A material false statement
- Knowledge of its (statement) falsification
- Reliance on the false statement by victim
- Damage suffered by victim

Insiders or employees frauds; **t**his is also known as non-management fraud and they are usually perpetrated by the employees of the bank. According to Olatunji (2009: 183), insiders frauds in the bank involves falsification of some kind, lying, exceeding authority, violation of employer's policies, embezzlement of company's funds, usually in form of cash and other assets. Some of the typical manifestations of employee's frauds in the banks include:

- Cash thefts from the tills by banks staff
- Claiming of overtime for hours not working
- Suppression of cash/cheques
- Use of forged cheques to withdraw money from the customer's accounts
- Opening and operating of fictitious account to which illegal transfer could be made and false balance credited.

Outsider's frauds; these are fraud perpetrated by customers and non customers of banks. The primary function of a commercial bank is to connect customers with capital deficit to customers with capital surplus in the financial market. In implementing this function banks and workers come in contact with both customers and non customers, and this contract engenders the risk of fraud.

Outsiders/insiders fraud; This involves a collaboration of bank staff and outsiders for the purpose of defrauding the bank. For bank's outsider fraud to succeed, more often than not; there must be an insider who is providing information and other logistic support to the outsider.

Bank fraud can further be categorized into two broad groups, namely; internal and external frauds which are also associated with the perpetrator criteria. These are:

1. **Internal fraud** are frauds committed by employees and managers of an organization, either acting alone or in groups or though collusion with outside parties. Management fraud can be quite difficult to detect because managers have access to most information and systems

and have the power to disguise their actions because they know that their decisions may not necessarily be questioned by others. They can also intimidate junior employees to commit fraud on their behalf.

2. **External fraud** is frauds committed by third parties of organizations such as suppliers, competitors, partners and customers. Other offenders include potential customers, governments and criminal organizations. The perpetrators can work independently or can collude with staff to defraud the bank. The various types of external fraud witnessed by the bank are money laundering, identity theft and use of lost or stolen documents, use of counterfeit cards, theft and confidential information etc. These types of fraud can be relatively costly if not detected quickly. The probability that the bank could unknowingly be transacting with criminal gangs is very challenging. If for instance such a transaction was to come in the limelight, the bank could face a great damage to its reputation and customer confidence.

The Trend of Banks' Fraud in Nigeria

Trend analysis of the fraudulent activities committed within the banking industry in Nigeria between 1994 and 2012 is presented in Table 1. The total number of fraud cases that were reported as well as the amount of money lost to fraudsters was analyzed.

Table 1

Analysis of Banks' Fraud in Nigeria (1994-2012)

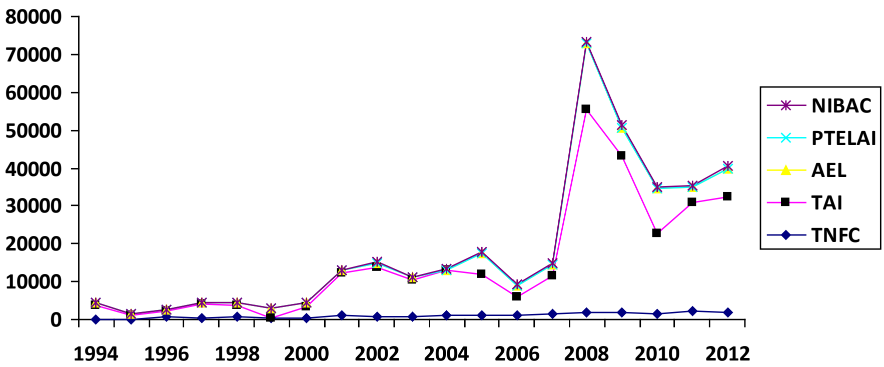
Year	Total No of Fraud Cases	Total Amount Involved (N'000)	Actual Expected Loss (N'000)	Proportion of Total Expected Loss to Amount Involved (%)	No of Insured Banks with Adequate Cover. (C/M)
1994	170	3399.39	950.65	27.97	40
1995	147	1,011.36	229.13	22.66	42

1996	606	1,600.68	375.243	23.44	64
1997	487	3777.89	227.44	6.02	46
1998	573	3197.91	692.25	21.66	51
1999	195	73,944.28	2730.06	36.87	34
2000	403	2851.11	1094.55	37.9	14
2001	943	11,243.94	906.3	8.06	61
2002	796	12,919.55	1,299.69	10.06	89
2003	850	9,383.67	854.46	9.13	106
2004	1,175	11,754.00	2,610.00	22.21	383
2005	1,229	10,606.18	5,602.05	52.82	378
2006	1,193	4,832.17	2,768.67	57.29	331
2007	1,553	10,005.81	2,870.85	28.69	273
2008	2,007	53,522.86	17,543.09	32.78	313
2009	1,764	41,265.50	7,549.23	18.29	656
2010	1,532	21,291.41	11,679	54.85	357
2011	2,352	28,400.86	4,071	14.33	498
2012	1,883	30, 319.26	7,766.33	3.90	503

Source: Nigerian Deposit Insurance Corporation (NDIC) Various Issues

Figure 2

Analysis of Banks' Fraud in Nigeria (1994 – 2012)



Note:
TNFC: Total No of Fraud Cases
TAI: Total Amount Involved
AEL: Actual Expected Loss
PTELAI: Proportion of Total Expected Loss to Amount Involved
NIBAC: No. Of Insured Banks with Adequate Cover (C/M)

Table 1 and figure 2 show that there is a linear relationship between amount involved in fraud and deposit mobilize between (1994-2012)) for insured banks. While the amount of fraud rose from N3,399m in 1994 to N73, 944.28m in 1999 and further dropped to N30, 319.26 in 2012, the amount of expected loss fluctuated during the period 1994-2012. From N950.65m in 1994, it peaked at N17, 543.09m in 2008 and fell to N4,071m in 2011 before settling at N7,766.33m in 2012. It should be noted that the downward trend recorded between 2008 and 2011 could be attributed to the activities of the Central Bank of Nigeria (CBN) as well as the anti-graft agencies like the Economic and Financial Crime Commission (EFCC) and Independent Corrupt Practices and Other Related Offences Commission (ICPC) in country. Because the spate of distress syndrome in the economy, the number of banks dropped to 89 out of which only 49 were insured were insured and adequately covered. The rest 40 uninsured banks were unsafe in case of distress or outright closure. Total number of reported cases of fraud rose from 170 in 1994 to 1883 in 2012.

Table 2

Analysis of the Involvement of Bank Staff in Fraud and Forgeries

Years	Supervisor & Managers		Officers, Accountants & Executive Assistants		Clerks & Cashiers		Typists, Technician & Stenographer		Messenger, Drivers, Cleaners, Security Guards & Stewards		Temporary Staff		Total Number of Staff
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	
2003	25	24	41	39	25	24	-	-	7	7	8	8	106
2004	157	41	129	34	61	16	18	5	15	4	3	1	383
2005	169	45	124	33	54	14	16	4	12	3	3	1	378
2006	118	36	90	27	50	15	16	5	7	2	50	15	331
2007	87	31	89	33	34	13	21	8	-	-	45	17	273
2008	48	15	127	41	48	15	20	6	-	-	70	23	313
2009	94	14	137	21	200	31	64	10	11	2	150	24	656
2010	92	26	79	22	115	32	23	6	15	4	33	10	357
2011	89	18	126	25	163	33	7	2	35	7	78	16	498

Source: NDIC Annual Reports of Various Issues

Figure 3

Analysis of the Involvement of Bank Staff in Fraud and Forgeries

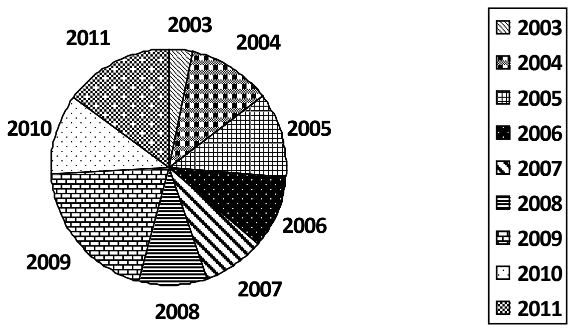
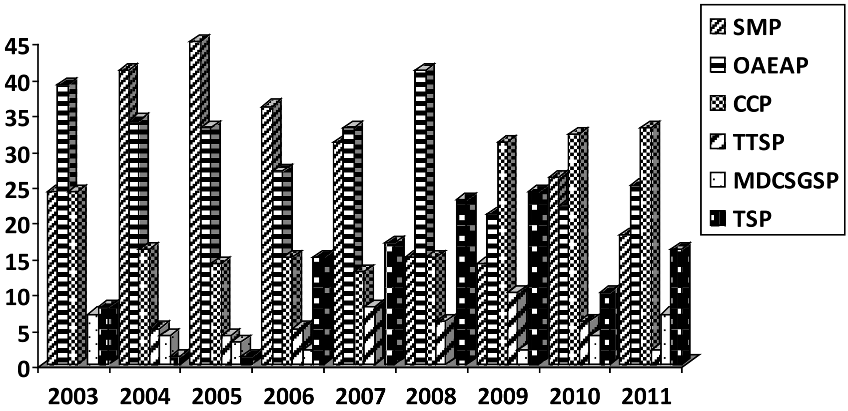


Figure 4
Breakdown Analysis of the Involvement of Bank Staff in Fraud and Forgeries



Note:
SMP: Supervisor & Managers Percentage
OAEP: Officers, Accountants & Executive Assistants Percentage
CCP: Clerks & Cashiers Percentage
TTSP: Typists, Technician & Stenographers Percentage
MDCSGSP: Messengers, Drivers, Cleaners, Security, Guards & Stewards Percentage
TSP: Temporary Staff Percentage

Table 2 and figure 3 and 4 show the status and number of banks staff involved in frauds and forgeries from 2003-2011. Within the nine years, a total of 3,295 were reported to have been involved in frauds and forgeries. In 2009, the number of banks staff involved in frauds and forgeries reached its peak with a total of 656 members, 431 of them were core operating staff such as supervisors, officers, accountants, managers, executive assistants, clerks and cashiers, representing 60% of the entire staff involved in fraud.

On the whole, a total of 16,334 cases of fraud and forgeries were reported between 2002 and 2012, involving ₦234,301.27million and perpetrated by a total of 3,227 staff of various designates. It is noteworthy that the year 2008 witnessed the highest number of frauds and forgery cases (i.e. 2,007 cases), and the highest total amount of frauds and forgeries of ₦53,522.86million.

Challenges of Fraud Detection

The banking industry in Nigeria has adopted several measures to detect and control the incidence of fraud. Mahdi and Zhila (2008) argued that measures aimed at fraud detection include checking of cashiers, call-over, reconciliation and balancing of accounts at all the branches, inter-bank reconciliation at head office levels, periodic submission of statement of accounts, stock-taking of security items and cash in the vaults and routine inspection at all branches. In addition, dual control mechanisms, reporting systems, installation of close circuit television/cameras, verification of signatures, control of dormant accounts, teleguiding staff lifestyle, as well as coding and decoding of telex messages are veritable tools of fraud detection. However, it is disheartening that in spite of all these measures, fraud within the banking industry has continued to be on the increase.

Banks generally have been experiencing fraud since its evolution. No doubt, this has affected their performance and profitability and in some cases, may possibly lead to distress. The inability of the banks in Nigeria to devise a common approach for tackling fraud has been a major challenge to fraud detection and prevention. Fraud is a major challenge to the entire banking industry; no bank is immune to it and in all facets of life (Olorunsegun, 2010). The banking public expects accountability, fairness, transparency in their day operation for effective intermediation and if these goals need to be achieved, the issue of fraud must be tackled holistically.

Even though there were known cases of fraud in the sector, yet the nature and different ways through which fraud can be perpetuated in banks have not been adequately demystified. It is asserted by Adeyemo (2012) that fraud in the bank is possible with corroboration of an insider and this seems to be the greatest risk to fraud detection and control. The banks are expected to ensure that they carry out their responsibilities with sincerity of purpose which is devoid of fraudulent practices as this will boost public trust and confidence. Another problem is that the government and its agencies have not done enough in the prevention and control of bank fraud in Nigeria; otherwise the level of bank fraud would have reduced to a bearable level. The various legislative Acts like Money Laundering Prohibition Act (which helps to place surveillance on any account through which such excess cash deposits or withdrawals are made), Bill of Exchange Act which helps to collect the proceeds of trade bills of exchange and cheques are not putting enough effort in the prevention and control of bank fraud that is the reason why bank fraud is increasing day by day in Nigeria.

However, environmental or social factors pose a problem in the activities of banking industry as they contribute to bank fraud in Nigeria. Environmental factors are those that can be trace to the immediate and remote environment of the bank these factors are manifest in the following manner; the desire to get rich quick, slow and complex legal process, poverty and the widening gap between the rich and the poor, competition among bank staff, the desire to belong to any social class, job insecurity, peer group pressure and societal expectations. Organizational factors which motivate involvement in bank fraud include inadequate staffing, poor internal control mechanism, lack of proper training and poor working conditions was revealed by the findings as the significant propellants. In fact, the high level of delinquent/toxic assets and non performing loans of banks, which greatly distort the banks' financial statements is attributable to the activities of top management who in most cases engage in unethical practices ranging from falsification of accounting statements, embezzlement of depositors funds, distortion of financial statements and the granting of loans and other credit facilities to business partners/clients over and above the regulatory obligatory limits without any significant form of collateral security. These top management officers exerted little or no effort at recovering such loans.

Conclusion

The incidence of bank fraud in recent time seems to be a rather pervasive phenomenon, and no one is in doubt about the tremendous effect and consequences that it poses to the stability of the larger economy. It is therefore recommended that banks pay more active attention to early fraud detection and eradication. One way of achieving this is by ensuring that additional security devices are incorporated, not only within the bank premises but also in the cheque books given to their numerous clients. This will not only help reduce their vulnerability to forgeries and other fraudulent acts but also makes early detection of such nefarious acts easy. Also, in recruiting key personnel who are to handle certain sensitive operations, it is essential that banks make concerted efforts at conducting a proper background check on the status and nature of the employee in his or her neighborhood, as this would help them establish the probability of the employee engaging in fraudulent activities. There is also the need for banks to increase the ability of their staff in detecting fraud especially those related to cheques and money transfers. This can be achieved through a combination of internal and external modules of on the job training and off the job training exercises.

Banks are equally advised to continuously review their compensation packages to reduce the tendency for fraudulent behavior by their employees. It is believed that if employees are well remunerated the incidence of frauds will reduce. Favorable financial awards and recognition should be given to employees who show dexterity in identifying and preventing fraud. Furthermore, top management must strive to maintain a high degree of ethical standards in the performance of their duties, in view of the fiduciary nature of their functions. This is imperative as they are by law required to safeguard the assets of their banks. The Staff deployed into the internal audit department of banks should be sufficiently qualified, properly trained and adequately experienced in all facets of banking operation.

In addition, enforcement of regulatory and supervisory guidelines, which are most dominant in the successful operation of banking activities in Nigeria, cannot be expected to be done alone by the CBN. The active and unalloyed participation of other agencies or institutions like the law courts, Economic and Financial Crimes Commission (EFCC), the police etc., must of a necessity, be sought as complement to the CBN in this matter. As Carmody (1998) and Imhanlahimi (2001) have pointed out, the high level of enforcement of laws, rules and regulations begets higher goals achievement in the social system or organizations concerned. Essentially, the CBN should strictly specify regulatory guidelines for banks to operate, and then strictly enforce them objectively without fear or favor through the active and unalloyed cooperation of the law enforcement agencies or institutions.

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