

**PREVENTING AND DETECTING FRAUD IN BANKS THROUGH EFFECTIVE
INTERNAL CONTROL: A STUDY OF COMMERCIAL BANKS IN YOLA,
ADAMAWA STATE, NIGERIA**

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MBA/MT/11/0164

OCTOBER, 2014

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INTERNAL CONTROL: A STUDY OF COMMERCIAL BANKS IN YOLA,
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BY

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(MBA/MT/11/0164)

**A PROJECT REPORT SUBMITTED TO THE DEPARTMENT OF
MANAGEMENT TECHNOLOGY, MODIBBO ADAMA UNIVERSITY OF
TECHNOLOGY YOLA, IN PARTIAL FULFILMENT OF THE REQUIREMENT
FOR THE AWARD OF MASTERS DEGREE IN BUSINESS ADMINISTRATION
(MBA), SCHOOL OF MANAGEMENT AND INFORMATION TECHNOLOGY.**

OCTOBER, 2014

DECLARATION

I, Jason Baba Kwaghe hereby declare that this research study was completely conducted by me without any portion of it being an extract or review of previous research (es). All materials used from other sources have been duly acknowledged.

Kwaghe, Jason BabaDate

DEDICATION

This research study is dedicated to the Lord God Almighty in whom I live, move and have my being and who has seen me throughout the course of my study. Thank you Jesus.

ACKNOWLEDGEMENT

All praises and adoration to the Lord God Almighty for seeing me through the course of this program and the successful completion of it.

I am also grateful to all my lecturers in the program especially my supervisor Mal.Anono Z. A. N, my internal examiner Dr. AhmedBawa Bello, the MBA Coordinator Mr. EjikaSambo and the Head of Department Dr. Ibrahim Danjuma.

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ABSTRACT

Fraud has become a pervasive challenge in the banking sector in Nigeria. It has turned to an unfortunate staple in the nation's international reputation. Weak internal control system has been identified as the major problem in crime perpetration in Nigerian banks. This opinion and exploratory study aims at highlighting the role played by an effective and efficient internal control system in the Nigerian banking industry. It establishes the extent to which good internal control can help prevent, detect, and deter banking fraud. The survey research design employs the use of both primary and secondary data. Sample population was based on five randomly selected Nigerian banks. Data collected was analyzed by using regression tests, Statistical Package for Social Sciences (SPSS) and descriptive statistics. Findings show that an effective and properly monitored control system is essential in preventing, deterring and detecting any form of fraudulent activity in banks. The paper therefore recommended that the management of banks should ensure that a properly designed, evaluated and monitored internal control system with stricter enforcement and penalty measures is all the time existent and functional. Corporate governance stakeholders such as the government, regulatory bodies, and audit committees are also enjoined to provide regular checks and balances which would ensure that there are no deviations from sound internal control practices. A good, effective and efficient audit committee should be set up in all banks to perform monitoring and oversight functions. Internal control was found to be efficient and effective in ensuring accuracy in the financial and non-financial information about a company and its decision making system. The occurrence of fraud was also found to be low in a bank with effective and efficient internal control system with its entire elements like control environment, risk assessment, control activities, information and communication, monitoring just to mention but a few.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Effective internal control is a strength to any organization and it has assumed a paramount place of importance in today's Nigerian financial industry especially the banking subsector of the industry. The control systems in any organization like the management control and personnel control serve as a pillar for an efficient and an effective accounting system. There is utmost need for internal control systems in the banking industry because, banks, whether in a developed or developing economy, have a vital role to play in the economic development of a nation. They serve as financial intermediaries, providing efficient payment systems and serving as conduit for the implementation of the monetary policies of the economy (Shongotla, 2004).

Fraud, which is the major reason for setting up internal control system in most organizations especially banks, is really eating deep into the Nigerian banking industry. Fraud contributed significantly to the failure of the thirty – six (36) Nigerian banks in liquidation in the past (Donli, 2010). It is one of the serious economic crimes being perpetrated in the banking industry today. Fraud results in huge financial losses to banks and their customers, the depletion of shareholders' funds and banks' capital base as well as loss of confidence in the sector. Fraud is therefore of special concern to the regulatory authorities who are saddled with the responsibility of ensuring the safety and soundness of the entire banking system. The incidence of fraud in the Nigerian banking system could be of serious concern to all stakeholders. Any bank without an effective internal control system is highly vulnerable to fraud.

Considering the negative consequences of fraudulent activities in the banking industry, there is a need for researchers to effectively fashion out ways of tackling the menace. Despite the level of internal control in most banks, fraud is still paramount therein. As such, the problem of fraud is not caused by the non-existence of internal control, but by a lack of effective and efficient monitoring and evaluation of internal control systems established in banks

An in-depth study into the effects of fraud in the banking industry will go a long way in proffering ways of preventing and detecting such fraudulent activities on time (Udenwa, 2008). It is against this background that this study aims to determine the role that internal control plays in the prevention, detection and deterrence of fraud in the commercial banks in Yola. Our target banks are First Bank, Zenith Bank, Diamond Bank, Guaranty Trust Bank and Access Bank Plc.

First Bank Nig. Plc. is Nigeria's first and largest bank by assets, it was founded in 1894 as Bank of British West Africa and was renamed First Bank of Nigeria in 1979. As at June 2013, the bank had assets totaling approximately US\$ 21.3 billion NDIC (2014).

Zenith Bank Nig. Plc. was founded in May, 1990 and is today the second largest bank in the country by capital base. It became a Public Limited Company (Plc.) in July, 2004 CBN (2014).

Diamond Bank Nig. Plc. Is a full-service Nigerian bank and one of the country's largest financial services provider. As of December 2013, the Bank's total assets were valued in excess of US\$ 7.3 billion CBN (2014).

Guaranty Trust Bank Plc. was founded in January, 1990. It became a publicly quoted company in September, 1996. It is the most profitable bank in Nigeria today CBN (2014)

Access Bank Plc. is one of the commercial banks licensed by the CBN. It is a large financial services provider with an asset base in excess of US\$12.6 billion as of December, 2013 CBN (2014).

This study therefore is necessitated by the need to finding ways of arresting this ugly menace of fraud which is greatly hampering the economic development of the country.

1.2 Statement of the Research Problem

Fraud has been in existence for a very long time now and it is on the increase in the banking industry. For instance, the Central Bank of Nigeria's (CBN) 2007 half year report revealed a total of 741 cases of attempted fraud and forgery, involving 5.4 billion naira, while in 2006, 1193 cases were reported involving 4.6 billion

naira. Recently, some of the bank managers were given the poor corporate governance practices involving the approval of unserviceable loans to members of the public from the bank funds. The Central Bank of Nigeria (CBN) reported that the backward development in the Nigerian banking industry is attributable to weaknesses in the internal control systems of the banks. This clearly shows the extent to which fraud has weakened and penetrated the financial strength of Nigerian bank. Fraud puts the survival of banks in question, and if care is not taken can lead to the collapse or liquidation of the affected banks. Fraud is an enemy of a society's growth and development. It derails the society's integrity and value amongst the comity of nations with the consequential effect of engendering a decline in the level of trust and the tendency to do business with the fraud-prone society. The damage which this menace called fraud has done to the banks cannot be overemphasized and this needs urgent attention. Many banks lost the confidence of their customers. The inefficiency and the ineffectiveness of the internal control system established in most banks have been one major problem faced by the banking industry. In most organizations like banks, the main priority is not the establishment of an effective and efficient internal control system, but some other activities which they consider more important than that.

1.3 Objectives of the Study

The main objective of this study is to conduct a study on the role that internal control plays in the prevention, detection and deterrence of fraud in the commercial banks in Yola, Adamawa State. The main thrust therefore is a contribution to the attempt at reducing fraud and its negative effect in the banking industry and the economy at large to its barest minimum. The specific objectives of the study are amongst others:

1. To evaluate how effective and efficient the internal control tool can be in preventing and detecting fraud in the banking sector.
2. To determine the role played by the internal control system in the survival of a bank.
3. To verify empirically whether failure to effectively monitor and evaluate internal control constitutes a sufficient reason for bank failure.

1.4 Research Questions

Three research questions were formulated in line with the objectives of the study. These questions are:

1. How effective and efficient is internal control in the prevention and detection of fraud in the Commercial Banks?
2. What is the extent of the role played by internal control in ensuring the survival of Commercial Banks?
3. Does a failure in effective internal control constitute a sufficient reason for bank failures?

1.5 Research Hypotheses

The hypotheses of this study which are stated in null form are:

1. H_0 : The effectiveness of internal control system does not help to prevent and detect fraud in the Nigerian banking industry.
2. H_0 : Internal control does not have a significant role to play in the survival of Commercial Banks.
3. H_0 : Failure to effectively monitor and evaluate internal control does not constitute a possible reason for failure in the banking industry.

1.6 Significance of the Study

The desire of every manager of a banking institution is the smooth and efficient running of the operations of the institution. This can only be achieved when the institution is made free from fraudulent activities of employees and outsiders, that is, when the institution is fraud – free. One sure means of attaining or achieving a fraud – free institution is when the management of the institution set in place an efficient and an effective internal control system.

The focus of this study is to understand how an efficient and an effective internal control mechanism aids in the prevention and detection of fraud in the Nigerian banking industry and also to identify factors that are important in the design of an efficient and an effective internal control mechanism.

The application of the findings of this study will mainly be for the prevention, detection and deterrence of fraud in the Nigerian banking industry. However, it is hoped that the key ideas that would be churned out from the study can be transported to any industry or institution wishing to employ an effective and an efficient internal control mechanism in the prevention and detection of fraud therein.

The study findings of this study will therefore be of benefit to the following:

1. Managers in the banking industry
2. Regulatory bodies like the Central Bank of Nigeria (CBN)
3. National Deposit Insurance Corporation (NDIC)
4. Internal control managers
5. Bankers
6. Government
7. Chartered Institute of Bankers in Nigeria (CIBN)
8. Crime – fighting agencies
9. Students
10. Researchers
11. Any other interested user from any industry.

1.7 Scope of the Study

This study is an attempt to provide the framework of measures with which fraud can be prevented, detected and deterred and to help manage them when they arise in the banking industry. Although fraud can be prevented using a number of measures, the scope of this study will be limited to only the application of internal control measures as a way of preventing and detecting it. Furthermore, the means in which internal control can be applied in the prevention and detection of fraud in the Nigerian banking industry would be investigated empirically. The study will cover the period from 2007 to 2012.

1.8 Limitation of the Study

The study is limited to only five randomly selected banks in Yola metropolis, these are; First Bank of Nigeria, Guaranty Trust Bank, Zenith Bank, Access Bank and Diamond Bank, and it will be focused only on fraud prevention and detection in the Nigerian banking industry.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this section, we are going to review the works of various scholars who had earlier on worked on the subject and nature of internal control and its application in the prevention and detection of fraud. The section will also review literature on the general concept of internal control, fraud; dimension, causes and nature of bank fraud were also critically reviewed here.

2.2 The Concept of Internal Control

Internal control systems as an aspect of auditing dates back to the ancient days – 3000 B.C. it has been defined “as the whole system of control, financial or otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the asset and secure as far as possible the completeness and accuracy of the records” (Nduka, 2003). Internal control refers to policies and procedures adopted by management for the achievement of objectives such as the prevention of and detection of fraud and errors, accuracy and the completeness of the accounting records and the timely preparation of reliable financial information (Olufidipe, 2004). Internal control encompasses not only internal check and internal audit but also the total system of management controls; financial and non – financial. This extends to administrative control which makes up of organizational plan and all the method/procedures that facilitate management planning and control (Shongotla, 2004). Examples are departmental budgeting procedures and report on performance.

A competent internal control consists of all the measures taken to protect the company’s asset, control irregularities, to ensure the accuracy of recorded transaction and to ensure management information on which it must base decisions is authentic and reliable (Udenwa, 2008). The system includes arrangement of duties and the flow of paperwork which ensure a minimum of clerical errors and maximum security against theft and embezzlement. The system according to Sandra (2004) is designed to provide real assurance regarding the achievement of objectives in the categories of:

- a) Effectiveness and efficiency of operations
- b) Reliability of financial reporting
- c) Compliance with laws and regulations

Although, the top managers of a bank have the overall responsibility for designing and implementing effective controls, everyone in a bank is nevertheless responsible for internal control to an extent and shares the responsibility of the management to design and implement sound and adequate internal control system. Internal control has long been prescribed as an antidote to management or employers. Internal control plays an important role in the prevention and detection of fraud. The internal control system can be used to systematically improve businesses particularly in regards to effectiveness and efficiency (Sandra, 2004). This includes the prevention of potential problems as well as the early detection and correction of actual problems should they occur. A good internal control provides a working condition or environment in which good employees are not tempted to do something they would not ordinarily have done. To carry out internal control in banks, a precondition is setting up of objectives. By setting up objectives, management can identify risks to the achievement of those objectives. And in addition to the identification of the objectives, management may implement specific internal controls. The effectiveness of internal control can then be measured by how well the objective and how effectively the risks are addressed (Nwaze, 2006). Since internal controls are the foundation of safe and sound banking and as such, the establishment of effective and efficient internal control system in a bank would prevent, deter and detect any fraudulent activities (Nzotta, 2009).

There are different types of internal control some of which are: organizational control, segregation of duties control, authorization and approval control, physical control, arithmetic and accounting control, personnel control, management control and budgetary control (Nwanlwo, 2001). The internal control framework according to Archibong (2003) is broken down into the following elements namely: organization, policies and procedures, records of transaction, reporting system, standards of performance, and a system of review.

2.3 The Concept of Fraud

Fraud, simply put, is the theft of an asset without the consent of the owner. Fraud is defined as an intentional misrepresentation of financial statement by one or more individual persons among management, employees or third parties involving manipulation, falsification, alteration of records or documents, misappropriating of assets, and suppression or omission in effects of transaction from records or documents. Criminologists gave the conditions that facilitate fraud to include: the presence of an item worth stealing, a potential perpetrator willing to commit fraud and an opportunity for the

crime to take place. Fraud has been defined into management fraud and employee fraud (Archibong, 2003).

Bank fraud has existed alongside the industry, and it continues to be one of the largest impacts against the operations of many financial institutions. The issue of fraud in banks has become serious food for thought. As Archibong, (2003) pointed out, “the frequency with which fraud rears its ugly head in any establishment will determine the long term survival and growth of the company, and if not handled with care can lead to corporate failures”. There is a genuine fear that the increasing wave of bank fraud is causing a lot of havoc in Nigeria’s financial system. It is worthwhile to recognize that the factors that motivate fraudsters amongst others include: heavy personal indebtedness, poverty, unemployment, low probability of detection, and weak internal control.

Bank fraud is the act of engaging in a pattern of activity where the purpose is to swindle a bank or its customers of their money or of funds. It can also be defined as all forms of deliberate actions that result in the loss of deposit or (loss of funds deposited) funds. Generally, controls are of two types namely preventative controls which are designed to discourage errors or irregularities from occurring and detective controls which are designed to find errors or irregularities after they have occurred.(Olaoye, 2009, and Fagbemi, 2008).

The most important and common types of bank fraud include: Advanced Fee Fraud (419), Cheque Kiting, Account – Opening, Letter of Credit Fraud, Clearing Fraud, Computer Fraud and Telex Fraud (Udenwa, 2008). Some of the organizational and environmental factors which stimulate bank fraud are: inefficient accounting system, ineffective inventory recording, and auditing procedures. Porous security checks, lack of effective supervision coupled with indiscipline, low morale amongst the workforce, as well as failure of management staff to lay good foundation of the systems and of reward and punishment may also lead to fraud. Various authors seem to be unanimous in analyzing many institutional causes of bank fraud. These include the following: bad management, faulty recruitment system, frustration, staff negligence, sustenance of loss syndrome, lack of or poor internal control, use of sophisticated accounting system, and negligence by customers. Environmental/ societal factors that cause bank fraud include: general lust for affluence, Nigerian value system, economic downturn, lack of effective/timely punishment, and fear of negative publicity (Adewumi, 2007).

2.4Dimensions of Fraud

According to Alashi (2004), cases of fraud in the Nigeria economy cannot be restricted to the banks alone. Frauds do take different dimensions which amongst others include the following:

- A. Cheating by market women/men or scale measurements etc
- B. Failure to pay correct import/export duties/tax evasion.
- C. Over invoicing/inflating contracts.
- D. Payment for services not rendered.
- E. Stealing and other 419 activities.
- F. Political fraud etc.

2.5 Causes of Fraud

Causes of fraud according to Abubakar (2010) includes amongst others the following:

A. General Lust for Affluence: it is a matter of fact that the Nigerian society in the last twenty years or there-about has become one where most people want to be rich overnight by whatever means and this has been responsible for the increase in the number of bank fraud and other forms of frauds.

B. Recognition Being Accorded Wealthy People Regardless of the Source(s) of Their Wealth: the manner in which we recognize wealthy people in our various communities, churches and mosques without considering the source(s) of their wealth has even made the matter worse. Young and talented men and women engage in drug trafficking and in committing frauds because our society do not only condone these but also encourage them by singing songs of praise in their honor, making them chairmen at functions, naming halls in universities, street and highway after them even floating non-governmental organizations in their names.

B. General Belief That the Economy (banks and other financial institutions) Can Sustain Any Amount of loss: the attack on the nation's treasury and banks by fraudsters is partly due to the belief by many Nigerians that the banking sector is the most profitable sector of the economy and that the nation's wealth is inexhaustible and sometimes they see it as part of the national cake. Anybody with a little knowledge of Economics or Finance should

know that banks are trading on equity which means they are using other peoples' money to make money and depositors' monies are not theirs (Anyanwu, 2003). The banks can only sustain themselves by making profit, after all banking business is all about risk.

2.6 Bank Fraud and its Causes

Frauds in the banks are not new they are as old as the industry itself. Bank fraud can be defined as a conscious or deliberate effort aimed at obtaining unlawful financial advantage at the detriment of another person who is the rightful owner of the fund. (Orjih, 2008).

Alashi (2004) grouped the major causes of the bank fraud into two. These are institutional factors and environmental factors. Institutional factors are those traceable to the internal environment of the financial institution while the environmental factors are those which result from the influence of the environment on the banking industry.

2.6.1 Institutional Causes of Fraud

Donli (2010) analyzed the views of various authors and professionals in the industry and found out that they all seem to be unanimous in their identification of institutional causes of fraud. These are as follows:

- A. Volume of work: the amount of work done by official(s) could be so heavy that frauds could easily pass undetected by such official(s).
- B. Nature of Services: fraud may be caused where documents of value and liquid assets are exposed to an undisciplined staff or unauthorized person(s) for example customer(s)
- C. Banking Experience of staff: frauds in banks occur with higher frequency among staff with little experience and knowledge in financial practice. The more experience and knowledge of a staff, the less likelihood that frauds would pass such staff undetected unless with active support of that staff.
- D. Number of staff: where a senior official supervises quite a large number of staff, there is a high likelihood that fraud could go undetected.
- E. Poor Management: banks with poor management record high incidence of all sorts of frauds than those with effective and efficient management team with unsullied character.

F. Poor Security Arrangement: banks where security arrangement for valuable documents are weak, poor and vulnerable, it is easy for fraudsters to have their ways undetected. Nigerian banks use bullion vans for conveying huge sums of money. The heavy reliance on cash has made banking a nightmare for many Nigerians. Efforts should be made to make Nigeria a cashless society.

G. Inadequate Infrastructure: Poor communication systems, and power failure result to backlog of unbalanced postings, congested office space etc., encourage the perpetration of fraud in banks.

H. Delays in procuring Document: Delays create opportunities for hatching in bank and other financial institutions thus making prevention and detection difficult.

2.6.2 Environmental/Societal Causes of Fraud

Adewunmi (2007) has identified the following environmental and social causes of fraud:

A. Personality Profile of Dramatize Personae; most individuals with inordinate ambitions without qualm are prone to committing frauds. These kinds of individuals bent on making money by hook or crook and to them the end justifies the means.

B. Societal Value: when the possession of wealth determines the reputation ascribed to a person, that society is bound to witness unnecessary competition for acquisition of wealth.

C. Lack of Effective Deterrent/Punishment: this is a moot point because it is argued in some quarters that lack of effective deterrent such as heavy punishment could be a factor that contributes to the high perpetration of frauds in financial institutions.

D. Fear of Negative Publicity: many financial institutions fail to report fraud cases to the authorities. They believe that doing so will give unnecessary negative publicity to their institutions. This is not only a chance for fraudsters to thrive; it is great challenge to a researcher as regards to data collection.

E. Unemployment and High level of Poverty in Nigeria: Nigeria is one of the richest economies in the Sub Saharan Africa and indeed the world both in human and natural resources (oil) but 80% of the Nigeria youths especially university graduates are unemployed. Most of the politicians squirrel away the looted funds in foreign banks without been punished. This causes capital flight, unemployment, dearth in infrastructure

which is not particularly good for a developing country like Nigeria. Directly or indirectly some Nigeria youths especially those with little ICT knowledge with special reference to those that find themselves in the banking industry with criminal intent engage in one bank fraud or the other in order to eradicate poverty. Most of them have some of their family members that depend on them for what to eat, drink or even put in their pockets.

All these make fraudsters to have the feeling that they are above the law and as such can get away with ill-gotten wealth unpunished.

2.7 Nature and Types of Bank Fraud

Frauds in financial institutions vary widely in nature, character and method of perpetration. In general, it may be classified in two ways: (i) Perpetrators (ii) Methods used.

On the basis of perpetrators, there are three broad categories: internal, external and mixed. Internal perpetrators of frauds are related to those committed by members of staff (insiders). External perpetrators are those committed by non-staff while mixed fraud involved outsiders colluding with staff (insiders) (Drover and Bosley, 2005).

The most important and common types of fraud highlighted by Bank Administration institute (2009) in fraud prevention and detection series are discussed below:

A. Advance fee fraud (“419”). This involves an agent approaching a bank, a company or an individual with an offer to access large funds at below market interest rates often for long term. The purported source of such funds is not specifically identified as the only way to have access to it is through the agent who must receive a fee or commission “in advance”.

B. Cheque Kiting: kiting is defined by the US comptroller of the currency’s policy. Guidelines for National Bank Directors as “method whereby a depositor utilizes the time required for cheque to clear to obtain an unauthorized loan without interest charge.” (Michael, 2005)

C. Account-Opening Fraud: this usually starts when a person not known to the bank asks to open a transaction account with false identification but unknown to the bank. Such a person might use the account for illegal transaction and close the account within a short period.

D. Money Transfer Fraud: Fraudulent money transfer may result from a request created solely for the purpose of committing a fraud or the alteration of a genuine funds transfer request. A genuine request can be altered by changing the beneficiary's name or Account number or changing the amount of the transfer. These day "yahoo boys" the name giving to scammers in Nigeria that send fake e-mails to would be victims asking them to apply for fake contracts or fake lottery thereby winning non-existing money from a dead billionaire's account in different parts of the world. They connive with fraudulent bankers in the Western Union department to withdraw their ill-gotten hard currencies or without the knowledge of the bank as regards to the authenticity of the beneficiary. (Olaoye, 2009).

E. Telex Fraud: Transfer of funds from one location to another can be affected through the telex. The message though often coded can be altered to enable diversion of the funds to an account not originally intended.

F. Money laundering Fraud: this is a means to conceal the existence, source or use of illegally-obtained money by converting the cash into untraceable transaction in a bank. The cash is disguised to make the income appear legitimate.

G. Computer Fraud: computer frauds can take the form of corrupting the program(s) and even breaking into the system via a remote sensor by a computer programmer or specialist .Diskettes can also be tampered with to gain access to unauthorized areas or even give credit to an account for which funds were not originally intended.

H. Loans Frauds: Loan fraud occurs when credit is extended to non-borrowing customers or to borrowing customer who had exceeded his credit ceiling. The fraudulent aspect of this class is that there is intent to conceal it from the head office (inspectorate) staff on routine check to deceive them with plausible but falsified statements, documents etc. That is to say a credit facility for a customer "A" yet to be drawn is diverted for the use of customer "B". Other types of bank frauds include counterfeited securities, clearing fraud, letters of credit fraud, forging of banks Rubber stamps, substitution of names in credit vouchers, over stating interest charges, manipulation of dormant accounts and unauthorized printing of bank stationeries and cheque fraud etc. (Nduka, 2003).

2.8 Extent of Fraud in Banks

Bank fraud in Nigeria has increased and will continue to increase because it is a part of everyday life. "The magnitude of fraud is, of course, not known because much of it

is undiscovered or undetected and not all that is detected is published” Nwankwo (2001). In Nigeria, where the statistics are non-existent, it is put at about ₦200 Million per annum of which about 15%- 20% would be successful. It is appropriate to have a feel of the extent of loss through bank frauds in Nigeria in order to appreciate the havoc the cankerworm has been wrecking on the economy.

The sum of ₦2.2 billion Was involved in banks fraud in 3 year, 1991 – 1993 , out of which commercial banks accounted for about 94.1 per cent (Table 1) the actual/expected loss to the banking system within the same period totaled about ₦0 .3 Billion with commercial banks accounting for about 95.7 per cent thereof .

In 1998, the nation’s banking industry lost ₦3.196 Billion while in 1999; it lost a whopping sum of ₦7.404 Billion to fraud. Similarly, the actual/expected loss stood at a higher level of ₦2.713 Billion relative to ₦623 50 Million in 1998 (NDIC, 2004).

Nigeria's banks have seen almost \$10m disappear through employee fraud in 2002, a rise of more than 40% on the year before, a survey by the country's banking regulator has found. From Table 2, the total amount stolen was 1.29bn naira, up from 906.3m in 2001(NDIC, 2004). Ten times that amount ₦12.91bn was recorded in attempted fraud, up from 11.24bn for a rise of 15% (Table 3). Most of the thefts, NDIC said, were the result of either forgeries or illegal withdrawals from customers' accounts (NDIC, 2004).

It is not only Nigerian banks and citizens that are exposed to bank frauds. Such frauds are also focused on foreign banks and their citizens. Just how much has been stolen by such fraud is not clear. But BBC news-business says that US citizens lose in 2004 more than \$100m (£63.4m) a year to Nigerian fraudsters (Ekechi, 2010). However, Nigerians do indeed involve themselves in genuinely legal businesses apart from the infamous banking scams.

Table 1: Cases of Fraud in Banks 2000 – 2004

Year	Reported Cases of Fraud	Amount Involved (N)	Number Resulted in Losses	Amount Involved (N)
2000	723	2, 185 million	388	107.3 million
2001	908	2.53 billion	402	931.4 million
2002	981	5 billion	428	1.40 billion
2003	1036	3.6 billion	369	1.5 billion

2004	1175	9.6 billion	518	266 billion
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Source: NDIC Bank Returns (2004)

Table 2: Official Statistics for Bank Fraud in 2005

Quarter		1 st Quarter (Jan–Mar)	2 nd Quarter (April–June)	3rd Quarter (Jul – Sept)	4 th Quarter (Oct – Dec)
Total	Amount	1, 152,	1, 466, 910,	2,258,224,681	3,678,876,908
Involved		248, 997	383		
Actual/Expected		260, 127,	369,313,757	522,324,919	845,673,345

Loss	499
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Source: Nwaeze (2006:7-8)*Bank Fraud Exposed*

Table 3: Total Amount Involved in Bank Fraud and Forgeries (2000-2008)

Year	Total	%	Total	%	Total	%	Staff	%
	Amount		Expected		Fraud		Involvement	
	Involved		Loss		Cases			
	(N'm)		(N'm)					

2000	2, 857.11	2.24	1,080.57						
2001	11,243.94	8.85	906.30						
2002	12,919.55	10.16	1,299.69						
2003	9,383.67	7.38	857.46						
2004	11,754.00	9.24	2,610.00						
2005	10,606.18	8.34	5,602.05						
2006	4,832.17	3.801	2,768.67						
2007	10,005.81	7.871	2,870.85						
2008	535,22.86	42.10	17,543.09						
Total	127,119.29	100.00	35538.68	100.00	10149	100.00	2514		100.00

Source: NDIC Bank Returns (2000 – 2008) cited in Abubakar, 2010

2.9 Fraud in Nigerian Banks and its Impact on Banks and the Nigerian Economy

The level of fraud in the present day Nigeria has assumed an epidemic dimension. It has eaten deep into every aspect of our life to the extent that a three year old child talks about yahoo mail or 419, newly discovered sobriquet for advanced free fraud that is hunting us as

a nation. Nigeria, with all of its natural and human resources, tethers on the brink of destruction because of fraud. Much of what we do is “cutting leaves” instead of dealing with the root problem. Generally, fraud take it roots from the human heart. It is an axiom that the heart is deceitful above all things and is desperately wicked.

Fraud is the number one enemy of the business world, no company is immune to it and it is in all works of life, Nwankwo (2001). The fear is now rife that the increasing wave of fraud in the financial institutions in recent years, if not arrested might pose certain threats to stability and the survival of individual financial institution and the performance of the industry as a whole and no area of the economy is immune from fraudsters and even the banking system. Fraud if not checked might cause run on in the banking sector.

The purpose of this work is to inculcate and instill the spirit of accountability, leadership, responsibility and probity in the reader(s), practicing bankers and potential bankers who will occupy managerial post tomorrow; expose the effect it has on the Nigerian economy and to discuss the effort of government and its agencies in the prevention and control of fraud . To be able to do so, this paper has been divided into volumes: the first volume examines the overall component of fraud, the second volume attempts to highlight the role of government and other agencies in fraud detection, prevention and control and finally the conclusion.

2.9.1 Implications of Fraud

A. Downturn in the Economy

For the past 18 years or so our economic development has witnessed a serious set-back with graduates roaming the streets in search of employment which are not available. Various governments’ policies to revamp the economy though appear laudable were all frustrated at the implementation stage because some of the people responsible for implementing them are fraudulent. Both the political and economic situation declined from bad to worse with naira witnessing an unprecedented devaluation of 1,300% within five years (Anyanwu, 2003). As at December 2008 and January 2009 the naira exchange rate with the stood between ~~₦~~149 to ~~₦~~150 per \$1 (Shongotla, 2004). Devil then found job as idle hands were meant to engage in one kind of fraud or the other while “419, cocaine pushing, billion naira bank frauds”, becoming regular features of our newspaper, Television and Radio headlines.

B. Termination / Retirement of Staff

As a result of this very serious economic crime, some staff in the industry have either been dismissed, or have their appointment terminated or prematurely retired. This means that some experienced hands in the sectors are lost due to their involvement in frauds and forgeries (Fagbemi, 2008). During and after the consolidation exercise that took place in the Nigerian banking industry it was revealed by the central bank that some bank directors and senior managers of those banks that couldn't meet up the ₦25 billion minimum capital base gave themselves unserviceable loans in hundreds of millions. The Nigerian Deposit Insurance Corporation is still in court with those involved in this unethical behavior. Our problem is that most of those involved these economic crimes are highly placed or senior politicians. We can't know their names simply because of their positions in the country.

C. Global Perception

Nigeria has become synonymous with fraud as some of its citizens use the boom in internet fraud and corruption has become an unfortunate staple in Nigeria's international reputation. The country regularly features at the top of international surveys measuring the part played by graft in different economies. Successive dictatorships have extracted billions from the exchequer; denuding the public purse of revenues from Nigeria's rich oil reserves (Adeniji, 2004). Outside the country Nigeria has become synonymous with fraud as some of its citizens use internet and the boom in of cafes to send "spam" e-mails, promising millions in exchange for the gullible recipient's bank details. This makes it difficult for genuine business men from Nigeria to go into international business with foreigners or secure credit overseas (Nzotta, 2009).

2.10 Fraud Detection, Prevention and Control in the Nigerian Banking System

It should be obvious from the catalogue of causes, nature and types of fraud that have been given that their identification, prevention and control should be a collaborative effort involving government and its agencies; the operators, i.e. financial institutions management and staff; and the general public. While the major task here is to articulate the role of government and its agencies in this respect, it should be emphasized that the classic rule of banking. "Know your customer" is the key to identifying, preventing and controlling frauds (Olaoye, 2009). It is pertinent to submit that the role of government and

its agencies is more of curative whereas the financial institutions and members of the public have dual role of preventing and curing frauds.

Fraud is a complex universal phenomenon. It is rampant in both developed and developing countries and varies across time and places in its magnitude, its sources, the way it manifests itself and in its effects on administrative performance and development. Political, economic, social, cultural and attitudinal factors combine in contributing to its incidence (Nwaze, 2006).

The responsibility for fraud prevention and detection rests squarely on the management. This responsibility is discharged through the establishment of an adequate system of internal control (Alashi, 2004). This is so because management is answerable to the shareholders, the regulatory body of the banking industry, the Central Bank of Nigeria (CBN) as well as to the customers who have an account with the bank. The primary objective of the audit system of banks is not to detect and prevent fraud but rather to report on the truth and fairness of the view shown by the books financial statement (Izedonmi, 2005). Fraud if not readily prevented or detected in banks could lead to the collapse of the bank, systemic bank failures, economic downturn, and a general increase in crimes. The usual measures which ensure the prevention, detection and control of bank frauds are categorized as follows:

- a) Personnel controls
- b) Administrative controls
- c) Accounting controls
- d) Financial controls
- e) Inventory controls
- f) Process controls (Adewunmi, 2008).

Fraud can therefore be generally prevented through the following: periodic rotation of staff, re – enforcement control measures, appointment of an independent committee, having an adequate number of staff and separation of duties, and an installation of an effective accounting system (Olufidipe, 2004).

2.10.1 Role of Government in Ensuring Fraud Prevention and Control

The role of government in the prevention and control of frauds in banks and other financial institutions is a Herculean task. It boarded mainly on ensuring a disciplined society,

promulgation of appropriate statutes, establishing relevant institutions and ensuring enforcement of various legal provisions (Orjih, 2008).

The anti-corruption act passes by the senate, if well prosecuted and faithfully implemented, would go a long way in preventing and controlling frauds in our society. The activities of the Economic and Financial Crime Commission (EFCC) should be without fear or favor or witch-hunting of political opponents if really we want to eradicate fraud from our society. Convicts should not be allowed to occupy top position in our banks or outright ban should be the best option. This deduction is based on the realization that indiscipline breeds all sorts of vices including fraud (Adeniji, 2004). In recognition of this, the government should put in place relevant status to ensure safe and sound practices in the Nigeria financial system.

They CBN Decree, Banks and other Financial Institutions (BOFI) Decree, NDIC Decree, Community Bank Decree, Micro Finance Bank Decree and Insurance Decree should be upgraded to meet the challenges of the day and to further give effect to its resolve to rid financial institutions of frauds. The government constituted the “National Committees on Malpractices in Banks and Other Financial Institutions” in 1990. This committee should be strengthened with better legislations and the much needed funds.

2.10.2 Role of Central Bank of Nigerian (CBN) and Nigeria Deposit Insurance Commission (NDIC)

The subject of frauds in the financial system is of special concern to the monetary and supervisor authorities, particularly the CBN and NDIC. These government agencies are concerned about the safety of individual institution and the soundness of the banking system. Most especially, the NDIC is specifically charged with the responsibility of protecting debtors (Alashi, 2004). The prudential regulations of the CBN/ NDIC to banks are also aimed at preventing and controlling frauds. For example the conditions in the prudential guidelines for licensed banks that all banks should review their credit portfolio quarterly would help early detection of any acts of fraud, forgeries and financial malpractices relating to loans and advances granted under suspicious circumstances.

In effect, examination recommendations emanating from the CBN or NDIC must be treated with seriousness by banks and must receive the backing of the board of directors, shareholders and management of the effected banks (Archibong, 2003).

There is also the statutory requirement for banks and other financial institutions to employ external auditors to check their books and affairs. For banks not to exercise undue influence on external auditors, their appointment and termination is subject to the approval of the CBN (Donli, 2010).

2.10.3 Role of Branch Management

The branch's ability to prevent or detect and control fraud depends essentially on the quality of personnel assigned to it by head office and the effectiveness of internal control in place. The usual measures which ensure timely detection and control of fraud may be categorized as:

A. Personnel control: proper recruitment procedures – (screening, referees, sworn declaration, certificates, Photographs, permanent home address etc).

B. Administrative control: (a) segregation of duties (b) dual custody (c) security personnel (d) security devices e.g. Test key, Regiscope, cameras (e) franking machines.

C. Accounting control: e.g. (a) Data validation, (b) Prompt posting of transaction, (c) Balancing, (d) reconciliation, (e) Variance analysis, (f) Review and statistics, (g) Budgeting, standards and protections, (iv) Financial control :e.g. (a) cash limits (b) signing powers (c) specialized stationer (e.g. certified cheques, bankers payment coupons) (Nduka, 2003).

The control of fraud at branch level must focus on means of payments (i.e. bankers payments, inter branch transfers) and accounts (i.e. bank's ledger, impersonal accounts, customers account).

2.11 Summary of Reviewed Literature

From the foregoing, we can see that various scholars agreed that fraud results in huge financial losses to banks and their customers, the depletion of shareholders' funds and banks' capital base which leads to a loss of confidence in the sector (Nwaze, 2006). Internal control is therefore the most effective tool in the prevention and detection of fraud in the banking industry. This is what the literature reviewed analyzed as can be seen above.

Most of the authors formed a consensus on the effectiveness and the efficiency of internal control mechanism on the prevention and detection of fraud in the banking industry. This

is therefore the source of the motivation of this researcher to contribute to the growing literature on this topic.

In view of the craze for money in Nigeria, misplaced value judgment and the prevailing harsh economic environment, big time frauds are on the increase and banks are losing amounts running into millions of naira to fraudster every day. The starting point is remorse and the danger for us is denial and the refusal to admit our weaknesses, which is our inordinate quest for wealth and material things. Michael (2005) lamented that many frauds succeed because some people would rather be fooled than be thought to be distrustful. The prevention, detection and control of frauds should be a collaborative effort of banks, their customers, the public and the government including relevant agencies. Frauds in the financial system should as much as possible be minimized as it kills the institutions and destroys the economy of our nation. All hands must therefore be on deck to detect prevent and control frauds in our financial system.

CHAPTER THREE

METHODOLOGY

3.1 Research Design

The research design employed for this study is the survey design. The views, perspectives and opinions of respondents regarding the research variables was collected through the use of a well-structured questionnaire. Both primary and secondary were employed in this study.

3.2 Population of the Study

The population of this study is denoted by all the staff of the five commercial banks in Yola metropolis which the study focused on. That is, the total staff of First Bank of Nigeria, Guaranty Trust Bank, Zenith Bank, Access Bank and Diamond Bank. There are 167 staff in all of those banks as at 30th December, 2013.

3.3 Sample of the Study

The sample population of this study was restricted to one hundred (100) staff of five (5) of these commercial banks, these are: First Bank of Nigeria, Guaranty Trust Bank, Zenith Bank, Access Bank and Diamond Bank, which were randomly selected via convenience sampling technique.

3.4 Sampling Techniques

The adopted sampling technique for this study was accidental/convenience sampling technique. This technique was selected by the researcher in anticipation of yielding effective data supply for the study. Each of the banking institutions that was surveyed was considered as a single block or stratum.

3.5 Method of Data Collection

Primary and secondary sources of data were employed in this study. The use of structured questionnaire was employed for the collection of the primary data that was used in this study. Copies of the questionnaire were administered by the researcher and four research assistants who were trained by the researcher on how to effectively administer the questionnaire.

3.6 Description of the Instrument for Data Collection

The questionnaire that was employed in this study which is the instrument for data collection was titled; Internal Control and Fraud Prevention and Detection in Nigerian Banks. The instrument had three (3) sections A, B and C with options each.

3.7 Instrument for Data Collection

One hundred (100) ordinal measurement scale questionnaires were administered to the management and staff of the five (5) selected banks in the Yola metropolis coverage area.

The primary data were derived through observation (both direct and indirect observation) through the use of questionnaires and interviews were carried where necessary. The secondary data were acquired through books, journals, the internet, newspapers etc.

The advantage of primary data is that the exact information required were obtained on the field. The secondary data complemented the primary data which is the original work (Olu, 2005; Osuagwu, 2006). The sampling technique that was employed in this study was the convenience sampling technique.

3.8 Validation of the Instrument

Four experts from the department of Management Technology of the Modibbo Adama University of Technology, Yola were served with copies of the questionnaire for both face and content validation. They were requested to vet the instrument for clarity, relevance and suitability for collecting the necessary data for the study.

3.9 Method of Data Presentation/Analysis

The hypotheses and data that was generated for this study was analyzed using the parametric test of regression analysis to answer each of the three (3) research questions of the study. The measurement scale structure of questionnaire enabled the researcher the opportunity to rank variables. The limits of the response categories of the five-point Likert scale will be employed to determine the decision point that will be used.

Strongly Agree (SA)	-	5
Agree (A)	-	4
Indifference (I)	-	3
Disagree (D)	-	2
Strongly Disagree (SD)	-	1

Hypotheses 1 to 3 was also tested using regression analysis. The Statistical Package for the Social Sciences (SPSS) was used to run the analysis of the data collected. All the hypotheses were tested at 0.05 level of significance.

The regression analysis is a causal or impact measuring statistic that is used to determinethe effect of a dependent variable say y, on an independent variable say x. The standard formula for regression analysis is:

$$y = a + b x + \mu$$

3.10 Instrument of Data Analysis

The hypotheses and data collected was tested using regression analysis. Thedata that was collected was analyzed with the aid of Statistical Package for Social Sciences (SPSS) and descriptive statistics.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation

An overview of the data gotten from the analyses of responses gotten from the respondents via the questionnaire and is outlined in Table 4.

Out of the one hundred (100) questionnaires that were administered to the staff of the five banks under the study, ninety - three (93) were returned by the respondents making a total percentage of 93% returned questionnaire and seven (7) were unreturned – that is, 7% of the questionnaire were unreturned by the respondents.

Out of the ninety – three questionnaires that were returned, five (5) were found not to be fully filled thereby making them unfit for data analysis.

We are therefore left with only eighty – eight (88) fully filled questionnaires for the analysis, making a total of 88% percent of our initial sample size.

We have therefore proceeded with the analysis of the eighty – eight (88) questionnaires with the aid of SPSS and descriptive statistics as shown in the subsequent sections of the study.

4.2 Analysis of Data

In this section, we are going to analyze the features of the research study as contained in the returned questionnaire. A total of one hundred (100) questionnaires were issued out and eighty-eight (88) of them were returned representing 88% of the total questionnaire.

The data collected from the questionnaire were put on a master sheet. In order to achieve the objectives of the study, relevant information were extracted from the master sheet and are present in the Table 5.

Table 6 shows that 50 respondents representing 56.8% were male while 38 respondents representing 43.2% were female.

Table 4: Data Overview

Respondents	Returned	Not Returned	Not Fully Filled	Total
Bank Employees	93	7	5	100

Source: Field Survey, 2014 (SPSS Output file).

Table 5: Respondents by Sex

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	50	56.8	56.80	56.80
	Female	38	43.2	43.20	100.0
	Total	88	100.0	100.0	

Source: Field survey, 2014 (SPSS Output file).

Table 6: Respondents by Age

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 18-25 yrs.	20	22.7	22.70	22.70
26-30 yrs.	31	35.2	35.20	57.90

31-40 yrs.	24	27.2	27.20	85.10
41-50 yrs.	8	9.2	9.20	94.30
Above 50	5	5.7	5.70	100.0
Total	88	100.0	100.0	

Source: Field survey, 2014 (SPSS Output file)

Table 7 shows that respondents with age 18 – 25 years were 20 representing 22.7%, those between 26 – 30 years were 31 representing 35.2%, while those between 31 – 40 years were 24% representing 27.2%. Those between 41 – 50 years representing 9.2% while only 5 were above 50 years representing 5.7% of the respondents.

This shows that most of the bank employees are in the youthful and active age group and can perform their duties effectively and efficiently.

Table 7 shows that 35 of the respondents have Ordinary National Diploma (OND) certificates representing 39.7% of the total number of respondents, 25 have Higher National Diploma (HND) certificates representing 28.4% of the respondents, 18 have Bachelor's Degree certificates representing 20.5% of the respondents while 10 have postgraduate qualifications representing 11.4% of the respondents.

Table 8 shows the distribution of the respondents according to their professional qualification. 13 of the respondents are members of the Institute of Chartered Accountants of Nigeria (ICAN) representing 14.8% of the respondents, 12 respondents are members of the Association of National Accountants of Nigeria (ANAN) representing 13.6% of the respondents, 53 are members of the Nigerian Institute of Management representing 60.2% while 10 are members of the Chartered Institute of Bankers of Nigeria (CIBN) representing 11.4% of the respondents.

The table 9 shows that 34.1% of the respondents have worked for between 1 – 5 years in their banks, 26.1% have worked for between 6 – 10 years, 25% have worked for between 11 – 20 years and 9.1% have worked for between 21 – 30 years while only 5.7% have worked for more than 30 years.

The analysis revealed that the respondents have sufficient working experience that will enable them to know the internal control framework in their organization and how it is being deployed in the prevention and detection of fraud therein.

Table 7: Respondents by Academic Qualification

Frequency	Percent	Valid Percent	Cumulative Percent
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Valid	OND	35	39.7	39.70	39.70
	HND	25	28.4	28.40	68.10
	BSc		20.5	20.50	88.60
	MSc	18	11.4	11.40	100.0
	Total		100.0	100.0	
		10			
		88			

Source: Field survey, 2014 (SPSS Output file)

Table 8: Respondents by Professional Qualification

Frequency	Percent	Valid	Cumulative
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				Percent	Percent
Valid	ICAN	13	14.8	14.80	14.80
	ANAN	12	13.6	13.60	28.40
	NIM	53	60.2	60.20	88.60
CIBN		10	11.4	11.40	100.0
	Total		100.0	100.0	
88					
Source: Field survey, 2014 (SPSS Output file)					

Table 9: Respondents by Length of Service

Frequency	Percent	Valid	Cumulative
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				Percent	Percent
Valid	1-5 yrs.	30	34.1	34.10	34.10
	6-10 yrs.	23	26.1	26.10	60.20
	11-20 yrs.	22	25.0	25.0	85.20
	21-30 yrs.	8	9.1	9.10	94.30
	Above 30 yrs.	5	5.7	5.70	100.0
	Total	88	100		

Source: Field survey, 2014 (SPSS Output file)

4.3 Hypothesis Testing

Hypothesis 1 – H₀: The effectiveness of internal control system does not help to prevent and detect fraud in the Nigerian banking industry.

In determining the validity of this hypothesis, the researcher identified constructive dimensions or indicators of this hypothesis as:

1. Effective and efficient internal control system can serve as a tool for the prevention and detection of fraud.
2. Internal control could be used to solve the paramount problem of your bank.
3. The internal control established has been found to be effective and efficient as regards the prevention and detection of fraud in your bank over time.
4. Internal audit in your bank makes the internal control effective.

Table 10 is a model summary. It shows how much of the variance in the dependent variable (Fraud) is explained by the model (Effective and efficient internal control system can serve as a tool for the prevention and detection of fraud; Internal control could be used to solve the paramount problem of your bank; The internal control established has been found to be effective and efficient as regards the prevention and detection of fraud in respondents' bank over time; Internal audit at respondents' bank makes the internal control effective)

In this case, the R square value is .211, which when expressed by a percentage, it means that our model explains 21.1% of the variance in the dependent variable which is fraud.

- a) Predictors: (Constant), Effective and efficient internal control system can serve as a tool for the prevention and detection of fraud; internal control could be used to solve the paramount problem of your bank; the internal control established has been found to be effective and efficient as regards the prevention and detection of fraud in your bank over time; internal audit in your bank makes the internal control effective.
- b) Dependent variable: Fraud can be prevented and detected easily in a bank with a defined process of delegation and allocation of authority that is, internal control.

Table 10: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of The Estimate
1	.460(a)	.211	.173	.766

Source: Field survey, 2014 (SPSS Output file)

Table 11 shows the assessment of the statistical significance of the result. This tests the null hypothesis to determine if the null hypothesis is to be rejected or not. The model in this table is statistically significant (Sig = .001). Hence, the null hypothesis postulated should be rejected.

$$F_{\text{calculated}} = 5.561$$

$$F_{\text{tabulated}} = 4.46$$

$F_{\text{calculated}} > F_{\text{tabulated}}$, reject the null hypothesis and accept the alternate hypothesis.

Hence, in this analysis, 5.561 is greater than 4.46 therefore, the null hypothesis should be rejected while the alternate hypothesis (Effective internal control system can be used to prevent and detect fraud in the Nigerian banking industry) should be accepted.

- a. Dependent variable: A bank with a defined process of delegation of authority and allocation of authority would be in a better position for fraud prevention and detection.

Table 12 shows which of the variables included in the model contributed to the prediction of the dependent variable. It also seeks to explain which of the variables is making a statistically significant unique contribution to the model.

The study is interested in comparing the contribution of the independent variables, and to see which of the independent variables has a higher significant contribution to the dependent variable; therefore beta values are used for the comparison. In the beta column, the largest beta coefficient is .387 (which is Internal Control can be used to solve the paramount problem of the bank).

Interpretation of Results

Based on the results obtained from the table above, we can therefore conclude that internal control can be used to solve the paramount problem of banks which is fraud. Therefore, effective and efficient internal control can be used to prevent and detect fraud in the Nigerian banking industry.

Table 11: ANOVA (b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	13.045	4	3.261	5.561	0.001(a)
	Residual	48.671	83	.586		
	Total	61.716	87			

Source: Field survey, 2014 (SPSS Output file)

Table 12: Coefficients (a)

Model	Unstandardized Coefficients		Standardized Coefficients		T	Sig.
	B	Std. Error	Beta		B	Std. Error
1 (Constant)	2.435	.963			2.529	.013
The internal control established has been found to be effective and efficient as regards the prevention and detection of fraud in your bank overtime.	.019	.150	.014		.126	.900
Internal control could be used to solve the paramount problem of your bank.	.453	.122	.387		3.716	.000
Internal audit in your bank makes the internal control effective.	.272	.159	.190		1.706	.092
Effective and efficient internal control system can serve as a tool for the	-.229	.188	-.129		1.217	.227

prevention and
detection of
fraud.

Source: Field survey, 2014 (SPSS Output file)

Hypothesis 2H₀: Internal Control does not have a significant role to play in the survival of commercial banks.

In determining the validity of this hypothesis, the researcher identified constructive dimensions or indicators of this hypothesis as:

1. All specific controls and internal control management expected to be in place.
2. Lack of a sound internal control is partly a reason for fraudulent activities in most banks.
3. Internal control has a significant role to play as regards the survival of banks.
4. The internal control established in your bank ensures adequate safeguarding of your bank's asset.

Table 13 is the model summary. It shows how much of the variance in the dependent variable (Survival of banks) is explained by the model (All specific controls and internal control element expected to be in place in respondents' bank have been put in place; lack of a sound internal control is partly a reason for fraudulent activities in most banks; internal control has a significant role to play as regards the survival of banks; The internal control established in your bank ensures adequate safeguarding of your bank's asset).

In this case the R square value is .243. When expressed by a percentage, it means that our model explains 24.3% of the variance in the dependent variable which is the survival of banks.

- a. Predictors: (Constant), All specific controls and internal control management expected to be in place; lack of a sound internal control is partly a reason for fraudulent activities in most banks; internal control has a significant role to play as regards the survival of banks; The internal control established in your bank ensures adequate safeguarding of your bank's asset.
- b. Dependent Variable: The survival of your bank depends on the extent to which the internal control in your bank can detect fraud.

Table 14 shows the assessment of the statistical significance of the result. This tests the null hypothesis to determine if it is statistically significant (Sig. = .000). Hence, the null hypothesis should not be rejected.

Table 13: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of The Estimate
1	.493(a)	.243	.206	.992

Source: Field survey, 2014 (SPSS Output file)

Table 14: ANOVA (b)

Model		Sum of	Df	Mean	F	Sig.
		Squares		Square		
1	Regression	26.153	4	6.538	6.645	0.000(a)
	Residual	81.666	83	.984		
	Total	107.818	87			

Source: Field survey, 2014 (SPSS Output file)

$$F_{\text{calculated}} = 6.645$$

$$F_{\text{tabulated}} = 4.46$$

$F_{\text{calculated}} > F_{\text{tabulated}}$, reject the null hypothesis and accept the alternate hypothesis.

Hence, in this analysis, 6.645 is greater than 4.46 therefore, the null hypothesis should be rejected while the alternate hypothesis should be accepted.

- a. Dependent Variable: The survival of your bank depends on the extent to which the internal control in your bank can detect fraud.

Table 15 shows which of the variables included in the model contributed to the prediction of the dependent variable. The study is interested in comparing the contribution of each independent variable; therefore beta values are used for the comparison. In this table, the largest beta coefficient is .226 which is safeguard of bank's asset. This means the model variable (Internal control ensures safeguarding of bank's asset) makes the strongest unique contribution to explaining the dependent variable – the survival of a bank.

Interpretation of Results

From the table and analysis above, we can therefore conclude that adequate safeguarding of the bank's asset which is one of the functions of internal control plays a significant role in the survival of banks.

Hypothesis 3 H_0 : Failure to effectively monitor and evaluate internal control does not constitute a possible reason for failure in the banking industry.

In determining the validity of this hypothesis, the researcher identified constructive dimensions or indicators of this hypothesis as:

1. Internal check in your bank forms an integral part of your internal control system.
2. Internal control is a technique sufficient and adequate enough to detect fraud in banks.
3. Internal control to a very large extent, has been able to check fraud in your bank.
4. Every member of staff in a bank is responsible for an effective internal control system.

Table 15:Coefficients (a)

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta	B	Std. Error
1 (Constant)	.456	.806		.566	.573
Lack of a sound internal control is partly a reason for fraudulent activities in most banks.	.142	.094	.159	1.513	.134
The internal control system established in your bank ensures adequate safeguarding of your banks' asset.	.345	.175	.226	1.975	.052
Internal control has significant role to play as regards the survival of banks.	.142	.170	.088	.833	.407
All specific controls and internal management expected to be in place in your bank have been put in place.	.230	.124	.201	1.85	.067

Source: Field survey, 2014 (SPSS Output file)

Table 16 is the model summary. It shows how much of the variance in the dependent variable (Bank Failure) is explained by the model (Internal check in your bank forms an integral part of your internal control system; Internal control is a technique sufficient and adequate enough to detect fraud in banks; Internal control to a very large extent, has been able to check fraud in your bank; Every member of staff in a bank is responsible for an effective internal control system.).

In this case, the R square value is .170. When expressed by a percentage, it means that our model explains 17.0% of the variance in the dependent variable Bank Failure.

- a. Predictors: (Constant), Internal check in your bank forms an integral part of your internal control system; Internal control is a technique sufficient and adequate enough to detect fraud in banks; Internal control to a very large extent, has been able to check fraud in your bank; Every member of staff in a bank is responsible for an effective internal control system.
- b. Dependent Variable: Lack of effective and efficient monitoring of established internal control in bank does constitute a major reason for bank failure.

Table 17 shows the assessment of the statistical significance of the result. This tests the null hypothesis to determine if it is statistically significant. The model in this table shows that it is not statistically significant (Sig = .004). Hence, the null hypothesis should be rejected.

$$F_{\text{calculated}} = 4.248$$

$$F_{\text{tabulated}} = 4.46$$

$F_{\text{calculated}} > F_{\text{tabulated}}$, reject the null hypothesis and accept the alternate hypothesis.

Hence, in this analysis, 4.248 is greater than 2.72 therefore the null hypothesis should be rejected while the alternate hypothesis should be accepted.

Table 16: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of The Estimate
1	.412(a)	.170	.130	1.143

Source: Field survey, 2014 (SPSS Output file)

Table 17: ANOVA (b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	22.215	4	5.554	4.248	.004(a)
	Residual	108.501	83	1.307		
	Total	130.716	87			

Source: Field survey, 2014 (SPSS Output file)

- a. Dependent Variable: Lack of effective and efficient monitoring of established internal control in bank does constitute a major reason for bank failure.

Table 18 shows which of the variables included in the model contributed to the prediction of the dependent variable. The study is interested in comparing the contribution of each independent variable; therefore beta values are used for the comparison. In this table, the largest beta coefficient is $-.352$. This means that the model variable – internal control is a technique sufficient and good enough to detect fraud and hence reduce bank failure, makes the strongest unique contribution explaining the dependent variable which is Bank Failure.

Interpretation Results

Based on the analysis presented above, we can therefore deduce that internal controls if well evaluated and monitored, is a good technique sufficient to prevent and possibly detect bank fraud and reduce cases of bank failure.

4.4 Research Findings

From the data gotten in the course of the study, all the eighty-eight (88) respondents affirmed the presence of internal control units in their banks as shown in the table below.

In respect of the length of time of existence, 69.3% of the banks have established their internal control system for about twenty-one (21) years and above ago, 18.2% have established their internal control system between the bracket of 11 – 20 years ago and about 11.4% established their internal control system between the bracket of 6 – 10 years ago while about 1.1% established their own internal control system within the bracket of 1 – 5 years ago. This is aptly captured in Table 20.

From the study also, we found out that 96.6% of the entire population under survey agreed that internal control should be communicated to employees, while the remaining 3.4% disagreed. This is also shown in Table 21.

Also observed is that 58% of the sample population of the research study strongly agreed that the internal control in their banks is good, while 22% agreed that it is strong and 20% were indifferent. This is also shown in Table 22.

Table 18:Coefficients (a)

Model	Unstandardized Coefficients		Standardized Coefficients Beta	T B	Sig Std. Error
	B	Std. Error			
1 (Constant)	.941	1.128		.834	.407
Internal control to a very large has been able to check fraud in your bank.	.065	.207	.036	.313	.755
Every member of staff in a bank is responsible for an effective internal control system.	0.40	.177	.026	.225	.823
Internal control is a technique sufficient and adequate enough to detect fraud in banks.	.426	.138	.352	3.089	.003
Internal check in your bank forms on integral part of your internal control system.	.187	.253	.083	.737	.463

Source: Field survey, 2014 (SPSS Output file)

Table 19: Does Internal Control System exist in your bank?

	Frequency	Percent
Yes	88	100.0
No	0	

Source: Field Survey 2014

Table 20: How long has the internal control system existed in your bank?

	Percent
1 – 5 years	1.1
6 – 10 years	11.4
11 – 20 years	18.2
21 years and above	69.3
Total	100.0

Source: Field Survey 2014

Table 21: Should policies regarding Internal Control be communicated to employees?

	Percent
Agreed	96.6
Disagreed	3.4
Total	100.0

Source: Field Survey 2014

Table 22: The Internal Control established in your Bank is good and effective.

	Percent
Strongly Agreed	58
Agreed	22
Indifferent	20
Total	100.0
Source: Field Survey 2014	

It has also been observed that 33% strongly agreed, 55.7% agreed and 8% were indifferent while 3.4% disagreed that internal control mechanism can be used to solve the numerous and paramount problems of the banks. This is shown in Table 23.

Also from the study, to the statement that a weak internal control mechanism can enhance the perpetuation of fraud, 69.3% strongly agreed, 21.6% agreed, 1.1% indifferent, 5.7% disagreed and 2.3% strongly disagreed as shown in Table 24.

Also from the study, on whether effective and efficient internal control system can serve as a tool for the prevention and detection of fraud, 73.9% strongly agreed, 22.0% agreed, while 1.1% were indifferent as shown in Table 25.

Further into the study, 44.3% strongly agreed that the survival of the banks depends on the extent to which the internal control system in their banks can detect fraud, 33.8% agreed, and 11.4% were indifferent. However, 9.1% disagreed, while 3.4% strongly disagreed as shown in Table 26.

Furthermore, respondents equally indicated 34.1% strongly agree, 35.2% agree, 10.2% indifferent, 13.0% disagree and 6.8% strongly disagree on the subject of whether a lack of a sound internal control system is partly a reason for fraudulent activities in most banks as shown in Table 27.

Moving further into the analysis of the study, on if internal control system is a technique sufficient and adequate enough to detect fraud in the respondent's banks, the result showed that 47.7% strongly agreed, 33.0% agreed, 6.8% indifferent, 10.2% disagreed while 2.3% strongly disagreed as shown in Table 28.

Also from the research study, on whether a lack of effective and efficient monitoring of established internal control in banks does constitute a major reason of bank failure, 40.9% strongly agreed, 36.4% agreed, 5.7% were indifferent, 11.2% disagreed while 6.8% strongly disagreed. This is shown in Table 29.

Generally speaking, study results show that internal control system if well evaluated and monitored, is a good technique sufficient to prevent and possibly detect bank fraud and hence reduce bank failure.

Table 23: Can Internal Control be used to solve the paramount problem of your Bank?

	Percent
Strongly Agreed	33
Agreed	55.7
Indifferent	8
Disagreed	3.4
Total	100.0

Source: Field Survey 2014

Table 24: Can a weak Internal Control system enhance the perpetration of fraud?

	Percent
Strongly Agreed	69.3
Agreed	21.6
Indifferent	1.1
Disagreed	5.7
Strongly Disagreed	2.3
Total	100.0

Source: Field Survey 2014

Table 25: Effective and efficient Internal Control system can serve as a tool for the prevention and detection of fraud.

	Percent
Strongly Agreed	73.9
Agreed	22.0
Indifferent	1.1
Total	100.0

Source: Field Survey 2014

Table 26: The survival of your Bank depends on the extent to which the Internal Control in your Bank can detect fraud.

	Percent
Strongly Agreed	44.3
Agreed	33.8
Indifferent	11.4
Disagreed	9.1
Strongly Disagreed	3.4
Total	100.0

Source: Field Survey 2014

Table 27: Is lack of sound Internal Control the main reason for fraudulent activities in banks?

	Percent
Strongly Agreed	34.1
Agreed	35.2
Indifferent	10.2
Disagreed	13.0
Strongly Disagreed	6.8
Total	100.0

Source: Field Survey 2014

Table 28: Internal Control is a technique sufficient and adequate enough to detect fraud in banks.

	Percent
Strongly Agreed	47.7
Agreed	33.0
Indifferent	6.8
Disagreed	10.2
Strongly Disagreed	2.3
Total	100.0

Source: Field Survey 2014

Table 29: Lack of effective and efficient monitoring of established Internal Control in banks does constitute a major factor for bank failures.

	Percent
Strongly Agreed	40.9
Agreed	36.4
Indifferent	5.7
Disagreed	11.2
Strongly Disagreed	6.8
Total	100.0
Source: Field Survey 2014	

4.5 Findings

The benefit of sound internal control includes efficiency and effectiveness, protection against fraud and unpleasant surprises, optimum use of assets, and motivated staff. All in all, they make a contribution to organizational survival and prosperity. An internal control system must effectively implemented before it certainly can achieve its aim, particularly the prevention and detection of fraud.

Based on the field survey carried out, it was found that:

- a) An effective internal control mechanism is fundamentally necessary not only for prevention and detection of fraud in Nigerian banks but also for their continuous monitoring and survival.
- b) An effective internal control system can be sufficient for the prevention and detection of fraud in the Nigerian Banks.
- c) Internal control has a significant role to play on the survival of banks.
- d) The management of the banks is expected to communicate the importance of internal control system to the employees/staff of the various banks.
- e) Every member of staff is responsible for an effective internal control in the banking sector and any other industry or sector where it is deployed.
- f) Fraud, if undetected could lead to huge financial loss on the parts of banks and that is detrimental to the board, management, staff, and depositors of the bank in particular and the economy in general.
- g) Fraud holistically portrays a negative image on the banking industry as well as on a nation at large.
- h) The auditors themselves have a responsibility for an effective and efficient internal control system in banks.
- i) Management of banks are responsible for setting up an internal control system; while the auditors only responsibility is to ensure that the financial statement audited shows a true and fair view of the state and affairs of the banks.
- j) Internal auditors play an important role in evaluating the effectiveness of internal control systems and contribute to ongoing organizational effectiveness.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

In this study, the role of internal mechanism in the prevention and detection and detection of fraud in Nigerian banks with a particular emphasis on five banks operating in Jimeta-Yola metropolis was analyzed through an in-depth analysis of the scenario using appropriate quantitative tools of analysis.

Effective internal control mechanism had been identified as on the major strengths of managerial control in every organization especially in financial institutions like the banks. It serves as a pillar for an efficient and an effective accounting system in the banks and plays a vital role in the stability of the banking industry and consequently the in the economic development of a nation. They serve as financial intermediaries, providing efficient payment systems and serving as conduit for the implementation of monetary policies.

Fraud has also been identified as the major reason for the setting up of internal control mechanism in most organizations especially banks and it is eating deep into the Nigerian banking industry. Fraud no doubt contributed to the failure of some of the Nigerian banks that got into liquidation by the regulatory bodies. It is also one of the serious economic crimes being perpetrated in the banking industry today.

Some of the identified effects of fraud are huge financial losses to banks and their customers, the depletion of shareholders' funds and banks' capital base as well as loss of confidence in the sector.

Fraud was also found to be of special concern to the regulatory authorities who are saddled with the responsibility of ensuring the safety and soundness of the entire banking system. The incidence of fraud in the Nigerian banking system was also found to be of serious concern to all stakeholders in the banking sector. Banks without an effective and an efficient internal control system are found to be highly susceptible to fraud.

5.2 Conclusion

Fraud results in huge financial losses to banks and their customers, the depletion of shareholders' funds and banks' capital base as well as loss of confidence in the sector. It is therefore of special concern to the regulatory authorities who are saddled with the responsibility of ensuring the safety and soundness of the entire banking system. Any bank without an effective and efficient internal control system is susceptible to fraud. Because internal control affords protection against human weakness and rescues the responsibility for the occurrence of errors and irregularities, it helps auditors to carry out effectively the audit of banks.

Internal control also helps to ensure accuracy in the financial and non-financial information about a company and its decision making system. The occurrence of fraud would be low in a bank with effective and efficient internal control system with its entire elements like control environment, risk assessment, control activities, information and communication, monitoring etc. Although fraud cannot be completely eliminated, to a reasonable and a very high extent, it can be reduced to its barest minimum. However, it is a properly monitored and evaluated internal control system that can help prevent, detect and deter fraud to its barest minimum reduction.

5.3 Recommendations

Against the aforementioned discussion on the prevention and detection of fraud using internal control mechanism, the following recommendations are made:

- a) Management must ensure that effective and an efficient internal control systems are established in their banks.
- b) Management should ensure that the established internal control systems are properly evaluated and monitored on a regular basis for the purpose of easy prevention and detection of fraud.
- c) Stakeholders in the banking industry should ensure that there are stricter penalties for fraudsters in order to dissuade intending ones (fraudsters). The level of punishment meted out to fraudsters must be commensurate to the crime committed.
- d) The effectiveness of internal control is equally determined by the quality of experiences of the staff in charge of that control. It is therefore necessary for banks to ensure that staff members are regularly trained and exposed to all the critical

aspects of internal control systems that they are responsible for. This gives them the confidence and skill required to check irregularities that may be perpetrated through the systems.

- e) Management should ensure that banks' financial operations are reviewed at regular intervals by means of interim accounts and reports; there must be periodic checks carried out by management and watchdog groups and agents.
- f) Government must ensure that promulgated appropriate statutes and established relevant institutions responsible for eliminating the incidence of fraud in banks and other financial institutions function properly to ensure that such incidences are greatly reduced to the barest minimum. For example, statutes such as the Central Bank of Nigeria Act (CBN Act), Banks and Other Financial Institutions Act (BOFIA), Nigerian Deposit Insurance Corporation Act (NDIC Act), Securities and Exchange Commission Act (SEC Act), Money Laundering Laws etc. must be strongly enforced to ensure safe and sound banking operations and a good, efficient and effective financial system.
- g) Finally, a good, effective and efficient audit committee should be set up in all banks to perform monitoring and oversight functions.