Fraudulent Practices: The Bane of Nigeria Banking Sector

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ABSTRACT
Fraudulent practices globally are a disease that its effects can shake a well planned, growing or developed economy to its foundation if an urgent attention and a proactive action is not taken immediately. This paper is aim at determining the parties that bears the burden of fraudulent practices committed by banks within the Nigerian economy. Primary and secondary data were used in analyzing the various forms of effect of fraudulent practices in Nigeria banks system. The paper concludes by saying that the staff of banks in conjunction with outsider to perpetrate fraud in banks. However, the shareholders and depositors suffer great loss as a result of these fraudulent practices in banks. The paper recommends that supervisory and regulatory bodies should perform their work without fear or favor and professional bankers should be allowed to perform in the field of specialization, while an effective and efficient internal control system is installed.

Keywords: Fraudulent Practices, Financial Instruments, Environmental Factor, Internal Control System, Share Holders

Introduction
Fraudulent practices globally is a disease that its effects can shake a well planned, growing or developed economy to its foundation if an urgent attention and a proactive action is not taken immediately it is discovered. "Financial scandals and their association effects on national economy have made policy makers and government around the globe to put to test the integrity of cooperate governance and their financial reports" Kantudu (2005). Many companies around the world have experienced one misfortune or the other which led to their distressed or bankrupt while others were liquidated. For example In Nigeria today many banks like trade banks, savannah bank and other were liquidated while some like Bank of the North ltd, Lion Bank Plc. And others were merged together to form new banks with new names. Sometimes ago, the CEO/MD of five banks namely, Union Bank, Afri bank, Oceanic Bank, Intercontinental Bank and Fin Bank Plc. Were removed from the office by the Central Bank Governor, Lamido Sanusi for abuse of office and fraudulent practices. In United States of America, there were failed giant companies such as Enron and World Com. In the United Kingdom case it was Maxwell Empire, and in Italy, parmalat. According to Kantudu (2005) in 2001-

2003 there were 24 reported cases of biggest and most complex corporate financial scandals involving giant companies. Such companies are named as Arthur Anderson, Mierill Lynch, Citi Group, Ag, Jp Morgan, Deutche Bank and Royal Bank of Scotland.

In any economy, banks and companies are formed to provide good services to the society, make good return to the shareholders, create employment, provide revenue to the government and contribute massive to the economic development of the country. However, bank failures or bankrupt of banks will have negative effects on the depositors, citizenry, inventors and the national economy of the country because the multiplier effects could exert pressure on the foundation on which the economy of the country was built. This has made many people regulatory authorities to doubt the sincerity and effectiveness of auditors in performing their duty according to the ethical code of conduct of their profession. "It was not sufficient to state that an auditor was a watchdog and not a blood hunt. An auditor must approach his work with an "inquiring mind" not suspicious of dishonesty but suspecting that somebody might have made mistakes somewhere and that a check must be made to ensure that there has not been such mistake" (Millichamp, 1996:40). Therefore it is a fact that a gap exist between the users of financial statements and the performances of auditing profession. The paper aim at determining the parties that bears the burden of fraudulent practices committed within the banks in the Nigerian economy. The paper is therefore divided into five sections. Section one is the introduction, section two is the conceptual framework and literature review, section three focuses on methodology used. Section four is discussions on the results arrived at, while section five contains summary, conclusion and recommendation.

Literature Review and Conceptual Framework

The Concept of Fraud

Fraudulent practices are act fraud such as embezzlement, extortion, illegal enrichment of oneself through dubious means. Existing literature on fraud or numerous; however some of the current ones would be analyzed. Crime of cheating somebody. Crime of obtaining money or some other benefits by deliberate deceptions. Encarta 2009). It is the use of deception with the intention of obtaining an undue advantage, avoiding an obligation or causing loss to another party (Tanko, 2003). According to Archibong (1992) it is a predetermined and well planned tricky processes or device usually undertaken by a person or group of persons with the sole aim of cheating another persons or organization to gain an ill-gotten advantage, be it monetary or otherwise, which will not have accrued. There is no doubt that distress in the financial sector is been caused by fraudulent practices from within the members of staff in collaboration with the outsiders. According to Etuk (1998) Fraud presents a sinful act, theft, mischievous act of omission or commission relating to financial matters done with the intention to secure an undue and unlawful financial advantage. Banks fraud are been perpetrated by management by preparing different financial statement to the bodies concern instead of the one at the end of the financial year. The senior staff and junior staff are either operating side by side or jointly in order to archive their sinful act. Elumilade (2004) as cited in Kantudu (2005) distress in many banks was caused significantly by incidents of fraudulent activities. This is because individuals set up banks with the intent of fraudulent activities Kantudu (2005) stated that management fraud represents a situation where management intentionally mistakes financial statement.

However, the technicalities in applying the rule of law do not actually help the matters. If the audit has been performed according to generally accepted auditing standards, the auditor has done his job (SAS 53; AICPA, 1988). Some auditing involve testing a sample, management may have a well-concealed fraud such that the auditor is misled (Hanson, 1977, Arens A. and J. Loebbecke 1988 and Bintliff 1993). Kantudu (2005) pointed out that a gap exists between the expectations of users of financial statements and the performance of the auditing profession. The way to reduce fraud is for the auditor to be honest in discharging their professional duty and perform as professionals in accordance with the ethics of their professionalism.

Types of Fraud

There are three major types of bank fraud, namely, internal fraud, external fraud and joint committed by both inside and outside of mixed fraud. Internal fraud actually exists in a wide range but some of them shall be discussed. This type of fraud include cashier having fictions till in the till box or borrowing from till, suppression of vouchers, suppression of financial instrument by not releasing it into the customer's account, granting unauthorized credit facilities, computer operators diverting credits, falsification of customer cash lodgments, manipulation of customers account, diverting customer's interest charged on saving or fixed deposit account into another account, forging of customer's signature etc. all the above listed methods are used by members of staff of banks in perpetrating fraud. The second type of fraud is external is being committed by the outsider. According to Kantudu (2005) external fraud is a sophisticated fraud usually executed by professionally inclined financial fraudsters. In this case a customer of the bank can play over the intelligence of the members of staff to commit fraud on his own account or on the account of another valuable customer.

Finally, the mixed fraud which is more complex is a joint effort of both staff and outsider coming together to perform the act with the insider releasing information on the fund available to be removed illegally. There is the belief that the major culprits in fraud are members of staff, management and outsider collaborations (Damagun 2003).

Causes of Fraudulent Practices
Fraudulent practices are caused by many reasons such as ambitious to rich quickly, getting recognized within the society, competition with the high class people and going after women. However, the criminologists believed that for fraud to take place there must be the will to commit fraud and the opportunity must be there couple with the way of escaping with the benefit or reward of fraud. There are two major grouped cases of fraud, namely institutional and environmental factors. Institutional factors refer to the fraud which took place within the organization as a result of poor internal control or negligence, inadequate training and lack f experience from members of staff. The environmental factor in the other hand include personality profile of the fraudsters, fear of negative publicity, lack of discipline and inability of the law enforcements to prosecute offenders. Kantudu (2005) citing CBN (1998) ; stated that bank fraud in organization or social factors include obsolete record keeping, general unattractive terms, and un-motivating terms, unattractive terms and condition of payment, shoddy security provision for staff and bank facilities, slackness, in operational dealings, and naivety of bank staff regarding experience on the job which fraudsters take advantage of.

Prevention of Fraudulent Practices
Fraudulent practices cannot be totally be eradicated but it can be reduce to minimum. There may be no perfect way of addressing the problem, but the following points will help in reducing fraud in organization.

i. Adequate training of staff for efficiency and encouragement.
ii. Motivating conditions of service for the staff.
iii. Good policy for rewarding performances and negative reward (punishment) for negligence and dishonest act.
iv. Good internal control system should be put in place by the organization.
v. There should be periodic checks by internal auditors
vi. The regulatory authorities should perform their duties with sincerity and honesty without hiding any culprit.
vii. There should more stiff punishment for erring management staff involving in fraud to serve as detriment to other members of staff.

In Nigeria today attempts to minimize fraud and forgeries have given rise to the formulation of various decrees by supervisory authorities leading to confiscation of assets and freezing of accounts of some top management officers CEO OF Oceanic Bank Plc), Intercontinental Bank Plc, and others by Economic and Financial Crimes Commission (EFCC) and their removal from the post of Managing Director (MD) by the Central Bank of Nigeria.

Methodology

Primary and secondary sources of data were used in this project work basically using questionnaire and personal interview. Questions were administered on One Hundred and Twenty respondents (120) consisting of lecturers, students, businessmen and women. The selection of respondents was done randomly sent out through questionnaire and personal interview. In order to avoid bias, the researcher conducted an oral interview at the point of collection of questionnaire for the fair and objectivity. Out of the 120 questionnaire sent out only 90 were filled and returned representing 75%.

Results and Discussion

This section analyzes the result of the outcome of the study on those that bear the consequences of fraudulent practices and its implication on growth, and development of the national economy. In response to the above question, the respondents identified the following category of people in the nation and the extent of their bearing the consequences of fraudulent practices in banks within the economy.

Depositors

Majority of the respondent totaling about 50% were of the opinion that depositors who ran to the bank for fear of robbery, paying commission and other charges to the bank and some of them which kept the whole of their fund for business in the bank for safety woke up overnight to find out that all their total savings have gone. They argue that the major source of livelihood of such people saved for many years are no longer there. No thanks to fraudulent practices in the bank.

Shareholders

The respondents constituting about 75% were of the opinion that the shareholders bear the burden of fraudulent practices in banks. The respondents argue that the total annual dividend, goodwill and future growth of the company are gone. Though the shareholders fund is gone, shareholders can only lost their contribution (number of shares) in the business.

Creditors

Creditors are from the surplus of the economy who lends fund to the company with the hope of full repayment of both the capital and the interest on it. About 50% of the respondents are of the opinion that creditors such as debentures, preferential shareholders, banks and other financial institutions will suffer the same fate like the shareholders because there may not be sufficient fund to pay them after paying the depositors. Only those that are secured or had a pledge on the assets will be able to get little or nothing at the end of liquidation.

Employees
Respondents totaling about 10% were of the view that employees will lose their job at the major source of income. These employees will be jobless in the economy which may lead to increase in the rate of crime and other social vive in the social vice in the society. The implication is that government and in providing employment.

Pensioners
About 5% of the respondents agreed that the pensioners will be mostly affected in the event of liquidation because they have used their youthful age to serve and work for the organization they cannot be employ elsewhere with the old age and there is the need to attend to certain financial responsibilities.

Government
Respondents totaling 2% were of the opinion that apart from losing revenue though taxes, government expenditure will increase, rate of crime will also increase in the society and really government will be battling with how to create employment.

Contractors and Service Providers
The respondents (about 3%) argued that these group losing a substantial amount of money as revenue and unsettled obligations and commitment between them and the failed bank.

Table 1
During the oral interview, the respondents were further asked to rank these which they have chosen and their responses were on the table below.

TABLE 1: RESPONDENTS ON THOSE AT THE RECEIVING END IN BANK FRAUDULENT PRACTICE

S/N	Respondents	No	Depositor	Shareholder	Creditors	Employee	Pen	Gov't	Cont	Total
1	Lecturers	25	10	5	2	4	2	1	1	25
2	Students	30	15	4	3	4	3	0	1	30
3	Business men	15	8	2	2	1	1	0	1	15
4	Business women	20	1	3	1	1	1	1	2	20
	Total	90	43	14	8	11	7	2	5	90
	Percentage	10	47.78%	15.56%	8.89%	12.22%	7.78%	2.22%	5.56%	100%

Source: Field Survey 2015

Table 1 above shows that depositors are worst affected victims of fraudulent practices with 48% followed by shareholders with 16%, employee 5% and government with 2% which is the least affected. However, a different survey in a different environment may produce a different result depending on the type of people in the community and their view in the issue at stake.

Table II: RANKING OF FRAUDULENT PRACTICES VICTIMS IN BANKS

S/N	GROUP	RANKING
1	Depositors	1st
2	Pensioners	2nd
3	Shareholders	3rd
4	Creditors	4th
5	Employee	5th
6	Contractors	6th
7	government	7th

Source: Field Survey 2015

Table II above identifies the depositors as the worst affected group followed by pensioners, shareholders, creditors, employees, contractors and the government as the least affected group.

TABLE III: BANKS LOST ₦12 BILLION TO FRAUD IN 2010

Year	Reported Cases	Members of Staff Involved	10 Banks with the Highest of the Fraud
2010	1,532	357	51.08%
2009	1,764	656	90%

Source: NDIC 2010 Report

Looking at the table above critically, reported cases reduced in 2010 but the amount of money involved was at the alarming rate. This shows that there is still serious problem in the financial sector of the economy.

Summary and Conclusion

In this paper, an attempt has been made to emphasize on good corporate governance and the effect of fraudulent practices on Nigerian banks and those that suffered the consequences. The role of Government Agencies or regulatory authorities like CBN, ICAN, SEC, ANAN, and EFCC in protecting the public interest. The paper reviews the opinions of scholars of fraud and its implication on individual in the economy, the causes of fraudulent practices and possible preventions. Seven (7) major groups are majorly affected beginning with Depositors and end up in the government. The paper recommends that shareholders should make sure that they have efficient and effective management team and employing the services of external auditors quarterly.

Secondly, the auditors that perform below their professional ethics requirement should be sanction by relevant authority.
Thirdly, professional bankers should be allowed to perform in the field of their specialization.

Thirdly, there should be stiff punishment for those found not complying with the rules and regulation of the practices.

Lastly, supervisory and regulatory bodies should perform their work without fear or favour a the 2010 award winner of the best Central Bank Governor Mallam Lamido Sanusi, performed during the period without fear or favour

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