

## Impact of Internal Control System in Banking Sector in Nigeria

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**Abstract:** The Central Bank of Nigeria reported that the backward development in Nigeria was attributable to weaknesses in the internal control systems of the banks. This has clearly pointed out the picture of how fraud has been penetrated in the financial strength of Nigerian Banks. In a nut-shell, the damage which this menace, called fraud has done to the banks is innumerable and needs urgent attention. Therefore, the attempt to put an end to this economic degradation, gave rise to the topic of this research study the impact of internal control in the banking sector in Nigeria with Wema Bank of Nigeria PLC as a case study. However, this study is aimed at verifying the conception that an effective and efficient internal control system is the best control measure for preventing and detecting fraud, especially in the banking sector. Data captured for this study, were analyzed through descriptive and inferential statistical methods. The descriptive analysis involves the use of percentages, tabulation and graphical presentation. While the inferential statistical method involved the use of the chi-square. The functions of fraud prevention, detection and control are interwoven, as the three works together to eliminate fraud and fraudulent tendencies. Therefore, internal control is highly significant in fraud detection and preventions in banking sector in Nigeria.

**Key words:** Accounting controls, administration controls, general control environment, inherent, internal controls review, internal control, management fraud

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### INTRODUCTION

Internal control, the strength of every organization, has become of paramount importance today in Nigerian banks. The reason being that the control systems in any organization is a pillar for an efficient accounting system.

The need for the internal control systems in the organizations, especially banks, cannot be undermined, due to the fact that the banking sector, which has a crucial role to play in the economic development of a nation is now being characterized by macro economic instability, slow growth in real economic activities, corruption and the risk of fraud.

Fraud, which is the major reason for setting up on internal control system, has become a great pain in the neck of many Nigerian bank managers. It has also become an unfortunate staple in Nigeria's international reputation. Fraud is really eating deep into the Nigerian banking system and that any bank with a weak internal control system, is dangerously exposed to bank fraud.

The CBN reported that cases of attempted fraud and forgery in banks, as at half-year 2007 have surpassed what was recorded for the whole year 2006. The CBN half-year report for 2007, revealed a total of 741 cases of attempted fraud and forgery, involving 5.4 billion, \$35,406.1, 150 Euros were reported as at June, 2007. In 2006, 1,193 cases were reported involving ₦4.6 billion,

\$1.8 million and 14,389.7 pound sterling. The CBN also reported that the backward development was attributable to weaknesses in the internal control systems of the banks. This has clearly pointed the picture of how fraud has penetrated in the financial strength of Nigerian Banks.

In a nut-shell, the damage which this menace, called fraud has done to the banks is innumerable and needs urgent attention. Therefore, the attempt to put an end to this economic degradation, gave rise to the topic of this research study the impact of internal control in the banking sector with Wema Bank of Nigeria PLC as a case study. However, this study is aimed at verifying the conception that an effective and efficient internal control system is the best control measure for preventing and detecting fraud, especially in the banking sector.

The questions are: what can be said to be the cause or causes of the increasing rate of fraud in banks? What are the effects or damage has fraud caused banks, her customers? What is the impact of internal control in the prevention and detection of fraud in banks?

**Objectives of the study:** The objective of this study is to determine the impact of internal control, on the overall management of Nigerian banks. Also, to examine the effect of the internal control systems, when it comes to fraud prevention and detection. Summarily, the specific objectives are: to highlight the major causes of fraud and

actors that contribute to the incidence of frauds in banks. To determine the problem of fraud and how to curb it, by. To make recommendation based on the findings?

**Hypotheses tested:** Two hypotheses are formulated and tested in this study.

**H<sub>0</sub>:** The lack of a good internal control is not a major cause of fraud in banks.

**H<sub>1</sub>:** The lack of a good internal control is a major cause of fraud in banks.

**H<sub>0</sub>:** Banks with internal control systems cannot prevent the menace of fraud.

**H<sub>1</sub>:** Banks with internal control systems can prevent the menace of fraud.

**Scope of the study:** The content of this research, should not be seen as being totally exhaustive of all possibly situations available in the Nigerian Banking sector on the theme of this study. This is due to the vast size of the banking sector and the boundless nature of the study under review. Therefore, the scope of this research is limited to the study carried out on Wema Bank branches in the South-Western part of Nigeria, particularly 50 selected branches. In the following states; Ekiti, Ondo, Oyo, Ogun, Osun and Lagos.

## **MATERIALS AND METHODS**

The data, from which the information constitute the findings, were collected from fifty branches of Wema Bank Plc. This involved traveling to all the above mentioned states and asking the officers in charge, some prepared questions in which answers were provided accordingly. Data were obtained from both the primary and secondary sources, which includes; interview, structured questionnaire, journal publications, textbooks, newspapers, internet facilities. Secondary data are used to complement the primary data as the primary data is the original work.

Data captured for this study were analyzed through descriptive and inferential statistical methods. The descriptive analysis involves the use of percentages, tabulation and graphical presentation. While, the inferential statistical method involved the use of the chi-square.

**Review of related study:** A usual adage says prevention is better than cure; so also, people say that one should

look before one leaps. These statements are more or less the equivalents of an internal control system. It is very important to state that the success of the operations of banks world wide is strictly guided and dependent among other things, on the existing quality of their internal control system.

**Definition of internal controls:** Internal controls are policies, procedures, practices and organizational structures implemented to provide reasonable assurance that an organization's business objectives will be achieved and undesired risk events will be prevented or detected and corrected, based on either compliance or management initiated concerns (Awe, 2005).

The Institute of Chartered Accountants of England and Wales (ICAEW), defined internal control as the whole system of controls, financial or otherwise, established by management in order to carry on the business of an enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible, the completeness and accuracy of the records.

Mayo and BPP (1988), defined it as the measures taken by an organization for the purpose of protecting its resources against wastes, fraud, inefficiency; ensuring accuracy and reliability in accounting and operating data; Securing compliance with organization policies and evaluating the level of performances in all divisions of the organizations.

From these definitions, it can be deduced that internal control comprises the plan of an organization and all of the coordinate methods and measures adopted within it, to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies. Internal control objectives are channeled towards ensuring adherence to managerial policies and achieving organizational goals in general.

ICAN (2006a, b) categorized controls into three major classifications:

**Preventive controls:** These are controls that predict potential problems before they occur and make adjustments. They also prevent an error, omission or malicious act from occurring. Examples of preventive controls includes: Using well-designed documents to prevent errors. Establishing suitable procedures for authorization of transactions. Employ only qualified personnel.

- Segregate duties

**Detective controls:** These controls are designed to detect and report the occurrence of an omission, an error or a malicious act. Examples of detective controls includes: duplicate checking of calculations. Periodic performance reporting with variance error message over tape labels. Hash totals counter cheques post-due account reports.

**Corrective controls:** These controls help to minimize the impact of a threat, identify the cause of a problem, correct errors arising from the problem. They also correct problems discovered by detective controls and modify the processing system (s) to minimize future occurrence of the problem. Examples of corrective controls are: contingency planning back up procedures rerun procedures.

**The concept of fraud:** What is fraud? Fraud has been widely defined in literature by scholars and experts. Hornby (1998) defines Fraud as an action or an instance of checking somebody in order to make money or obtain goods illegally. The same dictionary defines the perpetrators of frauds as fraudsters.

According to the ICAN study Pack (2006a, b) Fraud consists of both the use of deception to obtain an unjust or illegal financial advantage and intentional misrepresentations, affecting the financial statements by the one or more individuals among management, employees, or third parties.

Archibong (1992) describes Fraud as a predetermined and well planned tricky process or device usually undertaken by a person or group of persons, with the sole aim of checking another person or organization, to gain ill-gotten advantages, be it monetary or otherwise, which would not have accrued in the absence of such deceitful procedure.

From the above the term fraud may be said to be as an intentional misrepresentation of financial information by one or more individuals among management, employees or third parties. Fraud may involve:

- Falsification or alteration of accounting records or other documents
- Misappropriation of assets or theft
- Suppression or omission of the effect of transaction from records or documents
- Recording of transactions without substances
- Intentional misapplication of accounting policies
- Willful misrepresentation of transactions of the entity's state of affairs

From whichever perspective, fraud is looked at, it is simply a deceitful and dishonest act, which involves

taking a property unlawfully from its owner, without his/her knowledge, permission or consent, or to misstate a situation knowingly or by negligence.

This issue of fraud is a conventional phenomenon in the national life. In the government and private sectors, it is the order of the day. In the banks, fraud is on the increase. Companies are failing every day, through the activities of fraudsters.

**Classification of fraud:** Within the scope of this study, attempts shall be made to critically examine the two broad schemes of frauds. Fraud is classified into two and are:

- Management fraud
- Employee fraud
- Management fraud

According to Fakunle (2006), management fraud often involves the manipulation of the records and the account, typically by the enterprise's senior officers with a view to benefiting in some indirect way. An example is, obtaining finance under false pretences, or concealing a material, worsening off the company's true position, i.e., window dressing.

Robertson (1996) defines management fraud as a deliberate fraud, committed by management that injures investors and creditors, through materially misleading financial statements. Management fraud is sometimes called Fraudulent financial reporting.

Management fraud is usually perpetrated by the management staff of an organization, which includes directors, general managers, managing directors etc. The class of victims of management frauds are investors and creditors and the instrument of perpetration is financial statement.

The essence of management fraud most times is to attract more shareholders to come and invest in the organization. It is also perpetrated, so that organization will be in better position of obtaining loans from banks, because, a good statement will show a healthy look, hence it will be a good collateral security.

**Employee fraud:** Also known as non-management fraud: These are frauds that are perpetrated by the employees of an organization. Robertson (1996) defines it as the use of fraudulent means to take money or other property from an employer. It usually involves falsification of some kind, like false documents, lying, exceeding authority, or violating an employer's policies, embezzlement of company's funds, usually in form of cash or other assets. It consists of three phases, which are:

- The fraudulent act
- The conversion of the money or property to the fraudsters us
- The cover up

Employee frauds are more likely to be encountered where internal controls are weak: other types of employees frauds according to Awe (2005) are as follows:

- Fictitious payment of suppliers:
  - Alteration of invoices
  - Double payment of invoices
  - Suppression of credit notes received
  - Missing returned cheques (so that it appears that bills are paid)
  - Missing involves
- Wages Fraud (Payroll Fraud)
  - Payment for hours not worked for
  - Payment of an incorrect wage rate
  - Fictitious employees (ghost workers) on wage sheet
  - Deliberate errors in wage sheet
  - Misappropriated cash taking
  - Actual theft of cash balance
  - Misappropriated cash from credit sales

It is important to note that all these form of employee fraud are perpetrated, so that the perpetrators will have an undue benefit from all the irregularities made, as embedded in the definition of fraud.

**Type of bank's common fraudulent practices:** Ovuakporia (1994) gave account of thirty-three types of bank frauds in the banking sector. These includes theft, embezzlement, defalcations, forgeries, substitution, suppression, payment against unclear effects, unauthorized lending, lending to 'ghost' borrowers, kite flying and cross firing, unofficial borrowing, foreign exchange malpractice, impersonation, over-involving, manipulation of vouchers, fictitious accounts, over and under valuation of properties, false declaration of cash shortages, falsification of status reports, duplication of cheque books, mail transfer, interception of clearing cheques, computer frauds, fake payments, teeming and lading, robbers and others.

The above numerous types of fraudulent practices in banks, serve as threats to the success of many banks. If adequate preventive and detective measures are not put into action, it could lead to the complete failure of financial institutions especially banks in Nigeria.

**Causes of bank frauds:** There are many identified causes of fraud in banks. They vary from institutional to economical, social, psychological, legal and even infrastructural causes. The immediate causative agents of frauds in general as provided by Ogbunka (2002) are as follows:

- Availability of opportunities to perpetrate frauds and forgeries
- Human greed, avarice, instability
- Poverty and the widening gap between the rich and the poor
- Prevailing misplaced social values, moral and spiritual decadence
- Increasing incidence of unemployment
- Increasing financial burden on individuals
- Misapplied intelligence-say for adventure
- Job insecurity
- Social misconceptions that banks' money is nobody's money property and therefore can be defrauded
- Societal expectations
- Inadequate training of personnel
- unhealthy comparison and competition
- Revenge
- Peer group pressure
- Non-adherence to ethical standards
- Leadership by bad example
- Poor/weak recruitment policies
- Over ambition/frustrations of staff
- Increasing and changing sophistication in technological equipment
- Inadequate training of manpower
- Societal indiscipline, especially with money
- Risk on the fraudsters may be low or none
- Possibility of identifying or stopping a fraud may be very little
- Lack of effective machinery that guarantee sever punishment for fraudsters and forgers
- Poor/weak management control, monitoring and supervision
- Weak internal control system of the bank

Of a truth, there are many causes of bank frauds, but, weak internal control system stands as the major cause of frauds in banks. It is therefore, expedient that adequate, efficient and effective internal control system be installed in every bank in order to reduce this disaster called fraud.

**Factors influencing the existence of fraud in banks:** Despite the numerous cause of bank frauds, there exist some other factors that influences the risk of fraud within

the bank and accordingly steps ought to be taken to minimize them. According to Izedonmi (2000), these factors includes:

- Where authority is concentrated in a few hands within the bank
- where, management continually fails to implement internal control recommendations, made by an external auditor
- Where, there is a high rate of turnover in key accounting functions
- Where the accounting system is inadequate and the books of accounts cannot be reconciled with the financial statements
- Where transactions occurring during the year are reversed after the year end
- where fees paid to legal advisers appear to be out of proportion with the actual services rendered
- Where there are material transactions during and around the year end date
- where the bank is experiencing slovenly problems.
- Where it is difficult to obtain explanations from management and staff of the banks during the audit.
- Where documentation supporting transactions are generally non-existent

Other factors that could influence the risk of fraud in banks, according to Raji (1997) includes:

**Experience:** When too much confidence is reposed on a staff because of his apparent ability to work with minimum supervision due to his experience, it could degenerated into a situation that could breed an opportunity for committing fraud.

**Understaffing:** Most banks today, strife that strenuous efforts be made to cut down cost. This idea is however, over-stretched that at times result to entrusting too many sensitive function to a staff. No matter how good a staff is, carrying out its functions efficiently may not be easy to sustain. Understaffing will create opportunity for fraud, as there will be no room for any form of supervision.

It can be deduced from these factors that management needs to do a good job by installing an effective internal control system to reduce the exposure of the banks to frauds.

**Effects of fraud:** As a consequence, the activities of fraudsters have negative and grave effect on the affected banks. Some of the effect of frauds on banks according to the provision of the NDIC published report (1996).

**The distress syndrome:** Bank frauds tend to jeopardize the industrial growth of the Nation. Bank frauds have made some banks to wind up, while some are still battling with the distress syndrome. Bank failure in Nigeria have gulped >₦40 billion so far from innocent depositors, who end up loosing their hard earned money and their confidence in these banks.

**Loss of bank funds:** Frauds had caused hardship in banks, especially those whose liquidity stated was already in doubt. As fraud cases in banks, continue to rise, bank's losses in terms of money also rises.

**Bank staff involvement:** According to the NDIC publication, about 1914 bank staff of various ranks were involved in fraud between 1994 and 1996. The obvious effect is possible termination of appointment, dismissal and suspension, which would certainly affect their homes adversely.

**Illiquidity:** When banks experience fraud, some amount of money is being lost, which in turn affects the banks liquidity position, thus leading to their inability to meet their re-capitalization requirements.

**Bad name:** According to the BBC News on Nigerian bank frauds (2007) Nigeria has become synonymous with fraud as some of its citizens use the boom in the internet cafes to send Spam mails, promising millions in exchange for the gullible recipient's bank details. This has proved to us that fraud has become an unfortunate staple in Nigeria's international reputation, thus, giving us a bad name.

From the above effects, it can be clearly seen that fraud is really a destructive force on a mission to spoil the name of financial institutions, render so many employers of labour jobless, close down banks and erase the confidence of the people in the country's banks. This should not be permitted hence efficient internal control systems must be fully effected.

**Management's responsibilities towards fraud prevention and detection:** According to Ola (2001), Primary responsibility for the prevention and detection of errors and irregularities rest with management. This responsibility arises out of a contractual duty of care by directors and managers and also because directors and other managers act in a stewardship capacity with regard to the property entrusted to them by the shareholders or other owners.

Izedonmi (2000) also said that the responsibility for the prevention or detection of fraud and errors, within an enterprise, rest with the management. This responsibility

is discharged by management, through the establishment of an adequate system of internal controls, including internal check and internal Audit.

It is therefore, pronounced that the management of any banking organization is totally responsible for the prevention and detection of fraud, majorly by the establishment of an adequate, efficient and effective internal control system.

## **RESULTS AND DISCUSSION**

Through, the analysis of administered questionnaires. This is divided into two parts. The first part relates to the case study that is the historical background of Wema Bank Plc, while, the second part deals with how data are administered, analyzed and interpreted.

The analysis will be descriptive in nature that is, it would include tabulation, frequency counts and percentages. Chi-square will be used for all relevant hypothesis.

**Historical background of Wema bank PLC:** Wema Bank Plc, formerly known AGBONMAGBE BANK LIMITED, was incorporated on the 2nd of May, 1945, as a private limited liability company, with an authorized share capital of #15,000.

The bank was incorporated with the following stated objectives:

- The provision of efficient and modern banking services of Nigerian business men, traders and craft men, at a reasonable price
- Identification of the Bank with the economic and industrial aspiration of the country
- The assurance that the bank is operating on a purely commercial basis to ensure that enough funds for expansion and modernization are readily available when needed
- The creation of better conditions of services for its employees to ensure maximum job satisfaction, consistent with the Bank's overall objective

Like many other indigenous banks, operating in the country then, the bank had gone through trying periods during its early days, going largely to high level of capitalization, stiff competitions from other banks with foreign ownership, etc.

In order to minimize the effect of the factors mentioned above, the Bank increased its authorized share capital from £15,000-25,000. However, in the first few years of operation, only ₦13,535 was taken up by the share holders of the bank.

The Western Nigerian Government rose up to assist the bank, through its agency called the Western Nigerian Marketing Board, by making a deposit of ₦100,000, out of which ₦80,000 was capitalized, thus making the board the majority share holder of the bank.

The bank continued the operations with this level of capitalization until 1968, when a new banking decree was promulgated by the Federal Military Government. The decree, which raised the minimum share capital of indigenous commercial banks to ₦300,000 and the inability of the minority shareholders to meet up with the demand, resulted to a marked difference in the ownership and control structure of the Bank. To effect therefore, the true ownership structure of the bank and restore the much-needed public confidence necessary for continuous customers patronage, the name 'Agbonmagbe' bank Limited was changed to Wema Bank Limited on the 1st of June, 1970. Also, the share capital of the bank was increased to ₦500,000.

Wema Bank Ltd. was converted to a public limited liability company in April, 1987 and was subsequently listed on the floor of the Nigerian stock Exchange in January, 1990.

On February 5, 2001, the central Bank of Nigeria, granted a Universal Banking License to the Bank, thus, allowing the bank to undertake a wide range of financial services to its numerous customers, across the country.

Presently, Wema Bank Plc is adequately capitalized. Its shareholder's funds is in excess of ₦25,000,000,000 and its asset base is ₦165,000,000,000. Odua's investment company limited holds 10% equity stake in the Bank, while private individual investors and staff of the Bank own the remaining 90%. The authorized share capital of the Bank is ₦7,000,000,000 divided into 14,000,000 ordinary shares of 50 kobo each.

The Bank has witnessed tremendous growth and development in branch network, quality of service delivery and overall performance in the last two decades. Wema Bank is one of the largest banking institutions in Nigeria and a leading financial service provider with network 9 of 110 branches located across the six geo-political regions in the country, including the federal capital territory, Abuja.

In addition, so many awards have been conferred on the Bank, as a result of the efficiency and effectiveness of its objectives on the Nigeria economy. Some of these awards are:

- Sectoral leadership award in the banking sector (1994) by the Nigerian stock exchange
- Corporate activities award (1998) by Nigerian Institute of Public Relations (NIPR) Oyo State chapter

- Winner of the 1999 annual, marketing award (Wema Treasure Account) by the chartered Institute of Marketing of Nigeria
- Award of Merit for outstanding support for development of Agriculture in Nigeria by Nigerian Association of Agricultural Students (NAAD), University of Ibadan, January 2005

These are some of the many awards won by Wema Bank Plc, due to its outstanding performance over the years.

With banking operations, spanning 62 years, Wema Bank Plc is reputed to be the longest surviving indigenous bank in Nigeria. Wema bank Plc is a customer focused bank, which takes delight in learning the intricacies of its customers, business and preferences.

**Data analysis and interpretation:** The result of the study had been presented according to the problems and testing the hypotheses.

**Preliminary analysis of questionnaires:** Eighty questionnaires were distributed to respondents, but 62 were retrieved:

Area/respondent	TQD	R	NR	R (%)	NR (%)	T
Wema bank PLC	80	62	18	62	18	100

TQD: Total Questionnaires Distributed; R: Retrieved; NR: Not Retrieved; R (%): Percentage Retrieved; NR (%): Percentage Not Retrieved; T: Total

In Table 1, it shows that the senior staffs are the highest respondent that is to mean that 50% of the respondents are senior staff that has wealth of experience on the subject matter.

In Table 2, the respondents with the ACA qualification are the highest. That is to mean that they know more about the subject under study/review. Hence, 58% of the professionals are with respect to accounting professional that has a wide knowledge of internal control system.

In Table 3, it suggests that cashiers are the most fraudulent set of fraud perpetrators in the bank. Almost 43.6% of the perpetrators are from cashiers. Hence, the managers 38.7% and cashiers are the perpetrators.

Table 4, reveals that direct theft of cash alone accounts for 64.52% of total kinds of frauds committed. This is not surprising, given the monetized nature of the economy. Overall, my findings reveal that cash is the most vulnerable form of assess to fraud.

From the Table 5, it is clear that the fraud committed by management staff alone, senior or Junior staff alone is the highest. According to the Table 5, it can be seen that management staff do not collide to defraud the bank, instead it is singularly done, either by a management staff

senior or junior staff. This stretches the responsibility of the management in the installation of a good internal control system to prevent fraud in banks.

From Table 6, it is obvious that effective and adequate internal control system is the best measure to be adopted in order to detect and prevent frauds, since it accounted for 72.6% of the total response.

**Result of the analysis/decision take N**

**H<sub>1</sub>:** X<sup>2</sup> calculated = 15.75, while X<sup>2</sup> tabulated at a level of significance of 0.05 is 5.991. That is, X<sup>2</sup> cal > X<sup>2</sup> tab: 15.75 > 5.991.

Table 1: Calibers of the staff

Position at work	No.	%
Management staff	16	25.8
Senior staff	31	50.0
Junior staff	15	24.2
Total	62	100.0

Table 2: Professional qualifications of staff

Professional qualification obtained	No.	%
ACA	39	58.0
ACIB	19	30.7
CIMA	5	8.1
Others	2	3.2
Total	62	100.0

Table 3: Representation of the perpetrators of fraud in the Bank

Perpetrators of bank frauds	No. of respondents	%
Board of directors	5	8.0
Accountants	6	9.7
Cashier	27	43.6
Account clerks	-	-
Managers	24	38.7
Total	62	100.0

Table 4: Representation of the type of frauds mostly committed

Forms of fraud mostly committed	No. of respondents	%
Theft of assets others than cash	10	16.13
Theft of cash	40	64.52
Others – forging of bank draft	12	19.35
Falsification of receipts e.t.c.	-	-
Total	62	100.00

Table 5: Representation of the nature of fraud

Nature of frauds	No. of respondents	%
A	23	37.1
B	39	62.9
C	-	-
Total	62	100.0

A: Collusion-Management and Management Personnel; B: Single-Management alone, senior or junior staff alone; C: None of the above

Table 6: Representation of the measure to prevent fraud

Measures to prevent fraud	No.	%
A	45	72.6
B	-	-
C	-	-
D	17	27.4
Total	62	100.0

A: Efficient and adequate internal control system; B: Attractive pay package; C: Keeping of proper records; D: Monitoring of staff in payroll department

Since  $X^2$  cal is greater than  $X^2$  tab,  $H_0$  is rejected and  $H_1$  is accepted, thus concluding that the lack of a good internal control system, is a major cause of fraud in banks.

**H<sub>2</sub>:**  $X^2$  calculated = 17.3 while  $X^2$  tabulated at a level of significance of 0.05 is 5.991 that is,  $X^2$  cal >  $X^2$  tab: 17.3 > 5.991. Since  $X^2$  cal is greater than  $X^2$  tab,  $H_0$  is therefore, concluding that banks with effective internal control system can prevent and stand against the menace of fraud.

### CONCLUSION

Bank Fraud are now becoming a global phenomenon. Fraud in general, inflicts untold hardship on bank owners, customers and their family members, as most bank failures are associated with large scale frauds.

The prevention and detection of frauds are basically the responsibility of the management, through the establishment of an effective and efficient internal control system.

Conclusively the importance of the internal control department/unit of any organization, especially banks cannot be undermined. Since the lack of an effective internal control system, according to the findings is the major cause of bank frauds. It is then concluded that the management of every bank should create and establish a standard internal control system, strong enough to stand against the wiles of fraud in order to promote continuity of operations and to ensure the liquidity, solvency and going concern concept of the bank.

### RECOMMENDATIONS

The functions of fraud prevention, detection and control are interwoven, as the three work together to eliminate fraud and fraudulent tendencies. The knowledge of the possible causes of a disease will assist a medical doctor to give adequate prescription and panacea, for the prevention and cure of the disease.

Similarly, it is pertinent to recommend the following preventive, detective and curative measures to control fraud in the banking sector.

**Adequate internal control system:** Internal control which has been earlier mentioned and defined as all types of checks and balances, both operational and financial, should be employed by the management of every bank, to ensure that the bank's assets are safeguarded, of which cash is one. This would go a long way in reducing and curbing fraud in banks.

**Effective internal audit department:** Banks should try as much as possible to have an effective internal Audit department, which should be headed by a qualified accountant. In addition, the accountant should be responsible to the managing director or a higher authority in the bank.

**Proper attention should be paid to cash:** From the findings, it is observed that cash is the most vulnerable asset to theft, as it can be seen that cash accounted 64.52% of fraud committed in banks. The study also reveals that cashiers are the major culprits in perpetrating fraud, hence, their recruitment must be thorough, proper guarantee should be requested from the applicant, before given the post of a cashier. Banks should also arrange for a cash in transit insurance cover in order to prevent the risk of loss of any cash in transit.

**Attractive pay packages:** The maintenance of a rewarding workmen compensation scheme, will enable, an average banker live above poverty level. Hence, he will shun the temptation to defraud his/her employer.

**Formulation of good personnel and recruitment policies:** This is alike with No. 3 above. Recruitment not based on sentiment but on personal knowledge, guarantee and reference from people of high integrity will go a long way in preventing the recruitment of kleptomaniac, greedy and ungodly individuals in the banking sector.

**Good management:** Management by example, should be the watch word of every banker, be it director, manager, officer or messenger. Every one should comply with the laid down policies and procedures in the performance of any banking function.

**Other measures includes:** Keeping of adequate records, putting operating procedures manual in writing, observing the attitude of the staff towards work and their spending habit, whether amount spent is commensurate with income earned etc. If the aforementioned measures are strictly adhered to, the ever increasing menace of fraud, which has ruined many Nigerian banks, will be drastically reduced to its barest minimum and eventually eradicated.

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