**ROLE OF FRAUD MANAGEMENT IN THE PROFITABILITY OF NIGERIAN BANKS (A STUDY OF FIRST BANK NIGERIA LTD)**

**BY**

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**U14/MSS/ACC/042**

**DEARTMENT OF ACCOUNTING AND FINANCE, FACULTY OF MANAGEMENT AND SOCIAL SCIENCES GODFREY OKOYE UNIVERSITY, UGWUOMU NIKE, ENUGU**

**JULY, 2018**

**TITLE PAGE**

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**A PROJECT SUBMITTED TO THE DEARTMENT OF ACCOUNTING AND FINANCE, FACULTY OF MANAGEMENT AND SOCIAL SCIENCES GODFREY OKOYE UNIVERSITY, ENUGU IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BARCHELOR OF SCIENCE (B.Sc) IN ACCOUNTING**

**JULY, 2018**

**DECLARATION**

I, Okeke, Maria-Stella Onyinyechi with registration number U14/MSS/ACC/042,a student of accounting under the department of accounting and finance under the faculty of management and social sciences in Godfrey Okoye university declare that the research work titled “Role of fraud management in the profitability of Nigerian Banks (A study of First Bank Nigeria LTD)” submitted in partial fulfillment of the requirements for the award of bachelor of science( B.Sc) in Accounting is my original work and has not been submitted either in part or full for any other degree or diploma either in this or any other tertiary institution

**………………………………… ……………………**

**Okeke Maria-Stella Onyinyechi Date**

**CERTIFICATION**

This is to certify that this research work “role of fraud management in the profitability of Nigerian Banks(A study of first bank of Nigeria PLC ) ” By Okeke maria-stella onyinyechi in the department of accounting and finance has been examined and approved as meeting the requirements for the award of bachelor of science (B.Sc) degree in accounting, faculty of management of social sciences, Godfery okoye university Enugu.

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**(Project Supervisor)**

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**Dean of FMSS**

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**External Examiner Date**

**DEDICATION**

This project work is dedicated to Almighty God for his infinity mercy, grace, love and protection upon me.

**ACKNOWLEDGEMENTS**

An academic work of this nature will not be complete without the co-operation and assistance of some people and institute to whom I am indebted for their ideas and other contributors that emanate from various angles of life. My gratitude first of all goes to God Almighty for his protection and grace throughout this program.

My unreserved gratitude also goes to my able dynamic supervisor and Head of department (H O D) Dr. S.N. Udeh who in spite of his enormous engagement always spared most of his limited time and effort in reading the manuscript. Furthermore I wish to appreciate Mr. Inyama, Prof. Eyisi, Dr Uwgu, Mr. Hyacinth Obiekwe, Mr. Elias Agbo and Prof. Michael Ekwe who contributed to my success in one way or the other.

This will be incomplete without calling on my family HRH. Wg cdr & Lolo J.A.Okeke who by God s grace made you what I am today the incomparable parents and my brothers for their wonderful love and care.

Also I recognize the advice and support of my friend and course mates who has contributed in one way or the other to the success of my work especially Philip Nosike, Boma Dodo,Onuigbo Goodness, Umo Blessing, Chinemerem Mbah ,Pebbles Ibezue, Ohakanwa Claire. I cherish you all and I will not forget you.

**ABSTRACT**

*This research looks at the role of fraud management in the profitability of Nigerian banks (A study of first bank Nigeria plc). The objectives of this study include to ascertain the role of fraud detection and the contribution of fraud investigation in the profitability of Nigerian banks. Ex-post factor research design was adopted for this study because secondary data was used. Data was collected from the bank’s annual report and fact books covering from the period 2006 –2015 However regression was ran and hypothesis tested using a T-test. Findings were based on the result of the regression and one of the findings of this study is that Fraud detection plays a significant role in the profitability of Nigerian banks. One of the recommendations says that the management should employ the service of an investigator once fraud is suspected so as to detect fraud in the banking system which enhances the profitability of the system.*

**TABLE OF CONTENTS**

Title page ­­

Declaration i

Certification ii

Dedication iii

Acknowledgements iv

Abstract v

List of tables vii

**CHAPTER ONE: INTRODUCTION**

1.1 Background of the Study 1

1.2 Statement of Problem 3

1.3 Objectives of Study 4

1.4 Research questions 4

1.6 Research Hypotheses 5

1.7 Significance of the Study 5

1.7 Scope of the Study 6

1.8 limitations of Study 6

1.9 Definition of Terms 7

**CHAPTER TWO: REVIEW OF RELATED LITERATURE**

2.1Conceptual frame work 8

2.2.1 Concept of Fraud 8

2.1.2 Concept of fraud Management 11

2.1.3 Concept of Banking System 12

2.2 Theoretical framework 13

2.2.1 Theories of Fraud 15

2.2.2 Effects of bank fraud in Nigeria banking system 16

2.2.3 Fraud in Nigeria Banking System 21

2.3 Empirical Review 22

2.4 Summary of related literature 24

**CHAPTER THREE: RESEARCH METHODOLOGY**

3.1 Introduction 26

3.2 Research design 26

3.3 Nature and sources of data 26

3.4 Area of study 27

3.5 Instrument for data collection 27

3.6 Population and sample size 27

3.7 Model specification 28

3.8 Model one 28

3.9 Validity and reliability of instrument 28

3.10 Data analysis 28

**CHAPTER FOUR: PRESENTATION AND ANALYSIS OF DATA**

4.1 Introduction 30

4.2 Analysis of data 30

4.2.1 Regression result of the model 30

4.3 Test of hypotheses 33

**CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

5.1 Introduction 35

5.2 Summary of research findings 35

5.3 Conclusion 35

5.4 Recommendations 35

5.5 Area of further research 36

References 37

Appendices 40

**LIST OF TABLES**

**Table No Title Page**

4.1 A summarized table of the regression result on the first

Independent variable 31

4.2 A summarized table of the regression result on the second

Independent variable 31

4.3 Result of Apriori test 32

4.4 Hypothesis one 33

4.5 Hypothesis two 33

**CHAPTER ONE**

**INTRODUCTION**

**1.1 Background to the Study**

The failure of banks to adequately fulfill their role arises from the several risks that they are exposed to; many of which are not properly managed. One of such risks which is increasingly becoming a source of worry is, the banking risk associated with incessant frauds and accounting scandals. The major problems confronting the financial institution today is “fraud”, which has sent many of them out of business and is making the industry customers to lose confidence in them since they have not been able to curb the ugly event called “fraud”.

Fraud, which literarily means a conscious and deliberate action by a person or group of persons with the intention of altering the truth or fact for selfish personal gain, is now by far the single most veritable threat to the entire banking industry. It is indeed worrisome that while banks are constantly trying to grapple with the demands of monetary authorities to recapitalize up to the stipulated minimum standards, fraudsters are always at work threatening and decimating their financial base. Also more worrying is the rise in the number of employees who are involved in the act as well as the ease with which many escape detection thus encouraging many others to join in perpetuating fraud (Onibudo, 2007).

Idolor (2010) stressed that the spate of fraud in the banking industry has lately become an embarrassment to the nation as apparent in the seeming inability of the law enforcement agents to successfully track down culprits. Whereas the activities of armed robbers are given widespread reviews in the pages of newspapers, especially during major thefts, it is an irony that what they cart away from banks is only a slice of what fraudsters remove from bank tills. Corroborating the view of Idolor, Oseni (2006), stated that the incessant frauds in the banking industry are getting to a level at which many stakeholders in the industry are losing their trust and confidence in the industry .Fraud may take the form of; theft of inventory assets, misuse of expense account, secret commission and bribery, false invoicing, electronic and telecommunication fraud, unauthorized use of information, cheque forgery, cheque clone, false financial statements, and so on, but whichever form it takes, the fundamental point is that the banking industry falls victim to fraudulent acts suffers and bears the brunt.

Statistics the activities of fraudsters in the industry have been both amazing and confounding. In 2001, 943 fraud cases involving 11.2 billion were recorded. Ogbu (2000)stated that frauds in Nigerian banks continued to rise in2002 with 77 banks of the 90 in operation, recording cases involving the sum of N12.9 billion. Onyeogocha (2001) attributed it to insider abuses and even board tussles. The NDIC 1996/7 Annual report and Statement of Accounts that the number of frauds reached a magnitude of N1,006 million in 127 cases reported in commercial banks and 587 cases involving N1,543 million. Also the number of insiders (staff) who connive with outsiders to perpetuate the act is alarming. Equally worrisome is the rise in the number of top management staff that have either been indicted or accused of engaging in bank fraud.

As a result of the involvement of staffs and top management staffs in fraudulent activities in the banking industry, Fraud control is becoming an issue that the regulators and top banking executives who are in saddle when fraudulent activities takes place or more succinctly when someone commit an act of fraud in the financial institutions under their management. Owing to the fact that fraud affects the profitability and reputations of banking institutions, to minimize or control the alarming rate of fraud in the banking industry, there ought to be need for the players in the industry to set up and implement an effective and efficient control system that will adequately monitor the daily activities of the industry without leaving any gap, (Anyanwu,1993). Consequently, appropriate personnel policies and practices should be put in place since fraud is committed by people of moral decadence. Therefore, qualified auditors should be employed to ensure effective and efficient detection and prevention of fraud and financial reporting in Nigerian Commercial banks. Against these backgrounds, the main purpose of this study is to thus, ascertain the role of fraud management in the profitability of Nigeria banking system.

**1.2 Statement of Problem**

The larger society expects greater accountability, fairness, transparency and effective intermediation from banks, ensuring that they carry out their responsibilities with sincerity of purpose and unquestionable integrity with respect to their operations as a means towards earning public trust and goodwill. The banking business has become more complex with the development in the field of Information and Communication Technology (ICT) which has changed the nature of bank fraud and fraudulent practices. Berney(2008) observes that customers rely heavily on the web for their banking business which leads to an increase in the number of online transactions. Gates, Jacob and Malphrus(2009) assert that the internet provides fraudsters with more opportunities to attack customers who are not physically present on the web to authenticate transactions. In Nigeria, in spite of the banking regulation and bank examination by the Central Bank of Nigeria (CBN), the supervisory role of the Nigeria Deposit Insurance Corporation (NDIC), and The Chartered Institute of Bankers of Nigeria (CIBN), there is still a growing concern about fraud and other unethical practices in the banking industry. Evidence from the NDIC Report (2008) revealed that the report of the examinations and special investigations from the banks were still bedeviled with problems of fraud, weak board and management oversight; inaccurate financial reporting; poor book-keeping practices; non-performing insider-related credits; declining asset quality and attendant large provisioning requirements; inadequate debt recovery; non-compliance with banking laws, rules and regulations;

and significant exposure to the capital market through share and margin loans. This is a problem which makes the activities of the fraud management difficult or impossible and affects the profitability of the banking system and the economy at large.

**1.3 Objectives of Study**

The broad objective of the study is to conduct an empirical study into the role of fraud management in the profitability of Nigeria banks with special reference to First Bank of Nigeria Plc.

The specific objectives of this study are:

1. To ascertain the role of fraud detection in the profitability of Nigerian Banks;
2. To determine contribution of fraud investigation in the profitability of Nigerian Banks.

**1.4 Research Questions**

To guide the conduct of this research, the following questions are raised:

1. What is the role of fraud detection in the profitability of Nigerian Banks?

2. What is the contribution of fraud investigation to the profitability of Nigerian Banks?

**1.5 Research Hypotheses**

1. H0: Fraud detection does not play a significant role in profitability of Nigerian banks.

H1: Fraud detection plays a significant role in profitability of Nigerian banks.

1. H0: Fraud investigation does not contribute significantly to the profitability of Nigerian banks

H1: Fraud investigation contributes significantly to the profitability of Nigerian banks.

**1.5 Significance of the Study**

The study will be of invaluable benefits and useful to all categories of bank managers, financial information users such as existing and potential shareholders, they are the direct beneficiary of companies and they will get bonuses if the companies operate successfully. The use of fraud management will reduce the risk of fraud and increase the bank’s profit which will reflect on the dividends of the shareholders.

Also, creditors and fund providers will also benefit from the presence of fraud management system in the Nigeria banking system as the will guaranteed of the safety of the funds.

Besides, researchers and students in the field of accounting, banking and finance who want to know more about frauds, its causes and possible ways of preventing it. They will also find the study beneficial as it will add to the existing stock of knowledge for students and serve as a reference point for subsequent researchers.

The findings of this study will be of great importance to the policy makers especially the Central bank of Nigeria in their efforts to deter, prevent and at worst detect fraud timely, as the threat of fraud in Nigeria can be contained by taking the right steps.

**1.6 Scope of the Study**

The study is aimed at ascertaining the role of fraud management in fraud control, fraud prevention, fraud detection, fraud remediation and their effects on the Profitability of Nigerian banks with special reference to First Bank of Nigeria Plc.

**1.7 Limitations of the Study**

The progress of this study has been hinder by certain constraints during its course, some of which includes: technical factors such as power supply which have limited the speed of the researcher in concluding this research work and have subjected the researcher to sourcing power from substitute power supplies such as generator sets and power banks.

Furthermore, financial constraints which have restricted the researcher from getting a wide range of materials for the study as the researcher have had to narrow down its respondents in a bid to reduce the cost at which the questionnaires are printed, also, resulting from financial constraints, the researcher have been restricted from visiting other branches of the financial institution of concern to get concrete information which will be beneficial to the progress of this study. However, the researcher was able to solve the financial constraint by resulting to borrowings from friends and family members to further the research work.

**1.8 Operational Definition of Terms**

1. **Fraud management**- This involves the use of various management techniques to control and prevent fraud.

2. **Financial fraud**- This involves the financial account transaction such as bank account including a consumer lone or credit card account.

3. **Fraud prevention**- This involves taking steps that best protect against identity theft and other external treats targeting company .

4**. Fraud ring** - A group of individuals who scheme together to execute fraudulently activities.

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

This chapter reviews the available literature on the role of fraud management in the profitability of Nigerian banks. It reviews the concept of fraud, fraud management and banking system as well as related theories and previous studies related to this research topic.

**2.1 Conceptual framework**

**2.1.1 Concept of Fraud**

The Concise Oxford Dictionary of current English (1974:485) defines fraud as deceitfulness; criminal deception and use of false representations. Fraud is also defined as intentional deception in order to persuade another person to part with something of value.

Fraud takes place when a person deliberately practices deception in order to gain something unlawfully or unfairly. In most states, the act of fraud can be classified as either a civil or a criminal wrong. While fraud is most commonly committed to obtain benefits of value, it sometimes occurs solely for the purpose of deceiving another person or entity. For instance, if a person makes false statements, it may be considered fraud, depending on the circumstances.

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

**Theft and Embezzlement-**This is a form of fraud which involves the unlawful collection of monetary items such as cash, travelers’ cheque and foreign currencies. It could also involve the deceitful collection of bank assets such as motor vehicles, computers, stationeries, equipments, and different types of electronics owned by the bank.

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

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

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

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

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

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

There are various causes of fraud. According to Asukwo (1999), the immediate and remote causes of frauds in general include the following:

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

**Inadequate Staffing**-A poorly staffed bank will usually have a problem of work planning and assignment of duties. The bank that is flooded with unqualified and inexperienced staff will of a necessity have to grapple with the problem of training and supervision of its officers. This situation can very easily be capitalized upon by the teeming fraudsters that the bank has to contend with in its day to day transactions.

**Poor Internal Control**- Inadequate internal control and checks usually creates a loophole for fraudulent staff, customers and non-customers to perpetrate frauds. Therefore to reduce or eliminate frauds, there is a need to always have effective audits, security systems and ever observant surveillance staff at all times during and after bank official operating hours.

**Inadequate Training and Re-Training-**Lack of adequate training and retraining of employees both on the technical and theoretical aspects of banking activities and operations usually lead to poor performance. Such inefficient performance creates a loophole which can very easily be exploited by fraudsters.

**Poor Book Keeping-**Inability to maintain proper books of accounts coupled with failure to reconcile the various accounts of the bank on daily, weekly or monthly basis usually will attract fraud. This loophole can very easily be exploited by bank employees who are fraudulent.

**2.1.2 Concept of Fraud Management**

Fraud management involves the prevention and control of fraud in any institution. Fraud management involves series of control activities put in place by the management of the bank to discourage fraud amidst their staff and external bodies also. There is no gainsaying that the control and prevention of banks fraud is a collaborating effort that involves management of the banks, government and its agencies and the society. Fraud management involves the installation and maintenance of reasonable system of internal control to protect the entity from loss through fraud or error. The ability of the management to prevent and control frauds in the bank depends deeply on the quality of the staff employed and the soundness of internal controls system in place (Greenbaum&Thakor, 2010).

**2.1.3 Concept of Banking System**

Banking system in simple words refers to a chain of financial institutions that provide financial services like deposits, loan, money transfer, etc. to individuals and institutions with interest as the determining factor of the transaction. Banking system plays the role of an intermediary between the ones saving and the ones who borrow money for investments.

          The functions of the banking system can be classified into primary functions and secondary functions; according to GauravAkrani, (2011), these functions are explained below:

**Primary functions**: The primary or banking functions include two components namely depositing and disbursement of loans. The depositing function of the banking system has come to be highly developed providing a range of deposit option. Some of the popular deposits are saving deposits, fixed deposits, current deposits and recurring deposits. The disbursement of loans from the capital of savings constitute the determinant for the bank’s earnings, as the loans disbursed are charged with an interest rate levied to the borrowed amount. Some of the key loan advancements include loans, cash credits, overdraft and discounting of the bill of exchange.

**Secondary functions:** Accompanying the primary functions are a pair of secondary functions which the bank performs, namely agency functions and general utility functions. The agency functions refer to services like funds transfer, cheque collections, portfolio management, etc. performing the role of an agent to the customer. The general utility functions refer to the special facilities or services which banking institutions provide, namely locker facilities, project reports, foreign exchange, etc. Not all utilities are provided by every bank, their disposal depends on the resources and nature of the banking institution.

There are various types of Banking System:

Private Banking: it refers to a complete asset management of the client. It serves all the financial dealings of the client namely investment, tax planning, securities, etc. with a high amount of equity.  
Home Banking: it refers to all the services, technology and tools which the banking institutions are continuously developing. It provides banking services to the people at the press of a button, removing the hassles of making errands to the bank for minor services.  
Wholesale Banking: it refers to the provision of banking services big corporations or institutions thus involving personalized and major scale operations.

Mixed Banking: banking institutions which perform both the functions of commercial i.e. retail as well as the wholesale functions or corporate banking are called mixed banking systems.

Fractional Reserve banking: it is this banking system which led to the distinguished phenomenon of the money multiplier. The banks are not allowed to hold the complete deposits in reserve; they only hold a fraction of the deposit in reserves and use the rest in lending and investments generating revenue for the banks.

**2.2 Theoretical framework**

Fraud control is becoming an issue that the regulators and top banking executives who are in saddle when fraudulent activities takes place or more succinctly when someone commit an act of fraud in the financial institutions under their management. It is quite clear that the installation of internal controls cannot be sufficient to eliminate dishonest activities, constantly rejigging of the controls already put in place to ensure that they are effective in reducing fraudulent activities in financial institutions from becoming successful should become important. Fraudulent activities are rampant in every organization but more rampant in financial institutions and perhaps more common in Deposit Money Banks (DMBs) because of the instruments of their trade. Banks are most prone to financial fraud as a result of money and near money instruments used in the process of their operations.

The acts of financial fraud has persisted in DMBs in spite of strong internal controls put in place to forestall and control any planned intention to steal the bank’s money. Strong controls that at times are antithetical to the efficient operations of the bank having been put in place in certain cases but have not succeeded in reducing drastically the amount of funds lost. Thus all internal control measures have become preventive and protective of the banks financial resources sometimes to the detriment of the bank’s primary operations. Most banks are litigation-shy as judicial officers often do not find it interesting that that the process (internal controls) put in place by the bank was compromised by the employee. In addition, where the bank is litigious, courts often sympathize with customers whose infractions led to large losses of funds irrespective of whether collusion with an employee had existed The scenarios are not funny outside the banking halls when financial fraud happened and parties have to prove their innocence. Whatever the case is, the bank losses money and reputation, the staff members’ lose jobs.

One of the reasons for the use and continuous revision of internal control systems in the bank is to ensure that losses occasioned by fraudulent activities are minimal if they occur, and attempts are discovered very early before losses can occur. The triumvirate of fraud prevention, fraud control and detection are coalesced into the effective internal control system that the bank employs (Adetiloye 2016).

**2.2.1 Theories of Fraud**

There are quite a number of relevant theories on fraud that are relevant to this study:

**The Fraud Triangle Theory**

Originally developed in 1973 by Donald Cressey, a criminologist. He established that for fraud to occur there must be a reason. He related to three factors (pressure, opportunity, and rationalization) that must be present for an offense to take place. He ascertained that the perpetrator must formulate some morally acceptable idea to them before engaging in unethical behavior and if fraud perpetrators are given the opportunity they are most likely to commit fraud. Lister (2007) in furtherance of this study stated that pressure is a significant factor to commit fraud. He determined three types of pressure which are personal, employment stress, and external pressure. He defined the pressure to commit fraud as “the source of heat for the fire.”

**The Fraud Diamond Theory-** The FDT was first presented by Wolfe and Hermanson in the Certified Public Accountant (CPA) Journal in December 2004.In this theory, an element named capability has been added to the three initial fraud components of the Financial Transaction Tax (FTT). Wolfe and Hermanson (2004) argued that although perceived pressure might coexist with an opportunity and a rationalization, it is unlikely for fraud to take place unless the fourth element (i.e., capability) is also present. Mackevicius and Giriunas (2013), not every person who possessed motivation, opportunities, and realization may commit fraud due to the lack of the capability to carry it out or to conceal it. Albrecht, Williams, and Wernz (1995) opine that this element is of particular importance when it concerns a large-scale or long-term fraud. Furthermore, Albrecht *et al.* (1995) believe that only the person who has an extremely high capacity will be able to understand the existing internal control, to identify its weaknesses and to use them in planning the implementation of fraud.

**The Anomie Theory on Fraud-** The Anomie Theory on Fraud was popularized by French Sociologist, Emille Durkheim in his influential book “suicide” in the year 1897. According to the Anomie theory on fraud, in every competitive capitalist society, the other members of the society who are excluded from access to legitimate means to success and stardom will experience a sense of relative deprivation which they try to relieve by way of social vices like

(1) Aggressive criminal behaviors, like bank frauds, and armed robbery attacks,

(2)Aggressive revolutionary behaviors like Coup de tat in the military and (3) a retreat into psychosomatic illnesses like drug addiction, alcoholism, etc

Of all theories explained above, this study therefore, is anchored on the Fraud Diamond Theory. This is so because it is more linked to the topic of concern as opposed to other theories reviewed above.

**2.2.3 Effects of Bank Fraud in Nigeria Banking System**

The effect of fraud in banking industry are felt by all, if not as a customer, then, as a citizen of nation. The effect of fraud has a chain reaction on the community as a whole because this industry constitutes a vital position in a community. Every part of the economy, especially the banking sector is punctuated with fraud (Ogbu, 2003). Thus, its, success or failure goes a long way to determine the success of the community. Fraud is a major cause of bank failure. The number of fraud that occurs in Nigerian banks is so alarming with the overall effect on poor bank performance. The amount of money lost to fraudsters is large; such amounts taken out of the coffers of banks do not generate any income for banks, but rather result to bank solvency and liquidity problem. Recently two officials of Skye bank Plc, was arraigned before a chief 21 magistrate’s court on a three count charge of forgery and stealing. In Union bank Plc; eight staffs were accused on two separate charges that border on criminal conspiracy, stealing by fraudulent conversion, money laundering and fraud to the tune of about ₦ 700million. The then Oceanic Bank Managing Director was involved in fraudulent cases. Frauds lead to loss of money which belongs to either the bank or customers. This loss results in a decline of productive resources available to the bank. The following are some under listed effects of bank frauds according to Ogbu, (2003).

1. **Fraud reduces bank’s profitability**

Fraud leads to loss of money belonging either to the bank or customers. Such losses may be absorbed by the profits for the affected trading period and this, consequently, reduces the amount of profit which would have been available for distribution to shareholders. Losses from fraud, which are absorbed by the equity capital of the bank, impair the bank’s financial health and constrain its ability to extend loans and advances for profitable operations. In extreme cases, rampant and large incidences of fraud could lead to a bank’s failure.

Fraud can increase the operating cost of a bank because of the added cost of installing the necessary machinery for its detection, prevention and protection of assets. Moreover, devoting valuable time to safeguarding its asset from fraudulent men distracts management. This unproductive diversion of resources reduces outputs and low profits which in turn could retard the growth of the bank.

1. **Fraud discourages banking habit among the banking public.**

Fraud as witnessed in recent times has resulted in the collapse of many banks, this raises the question of how reliable are banks to trust ones money with them, the ethics of banking profession which is honesty, reliability and competence are far fading away. It is disheartening to note that the successful prevention of a particular fraud give rise to a more complex and sophisticated one by the perpetrators and the category of staff involved are increasingly those of higher rank. This brings a great concern to the society.

1. **It places emotional and psychological burdens on the fraud victims.**

There is a perception among some members of the public that fraud is a ‘victimless’ crime or has little impact (Duffield &Grabosky, 2011). The impact of fraud can also lead to a range of health problems, both physical and mental. Spalek (2012) in a study on the victims of the Maxwell pension fraud found that ‘anger’ was a common emotional impact of the fraud. She also found they suffered stress, anxiety and fear as a result of their loss.

**2.2.4 Strategies Used to Combat Bank Fraud by Fraud Management**

Types of fraud encountered in the banking environment include internal fraud and external fraud (Black, 2014b; Greenbaum&Thakor, 2010; Mishkin, 2011; Weiss, 2013). Fraud detection and prevention is at the heart of every fraud management system. Detection of fraud is highly complex, and a large percentage of fraud cases are actually detected externally (such as by the media or external auditors) or by accident (Dyck, Morse, &Zingales, 2010). However, approaches such as lifecycle monitoring and verification can be used to reduce the incidence of fraud overall (Potter, 2012; Porter, 2010; Wilhelm,2013; Venkatraman&Delpachitra, 2009).

According to Wilhelm (2013), the fraud management lifecycle can be used to encapsulate the process of fraud prevention. This cycle consists of eight stages, including deterrence, prevention, detection, mitigation, analysis, policy, investigation, and prosecution (Wilhelm, 2013). The deterrence stage involves activities that hinder or discourage fraud through fear of consequences (Wilhelm, 2013; Webster, 2012). On the other hand prevention activities hinder, check, keep away or stop the fraudster from committing fraudulent activities. The detection stage uncovers existing or attempted fraud while mitigation includes activities designed to stop the continuation of the fraud e.g. blocking access to the bank account. The analysis stage seeks to determine the root cause of the fraud and the factors that led to the occurrence of the fraudulent activity. The policy stage is characterized by the creation, evaluation and communication of policies aimed at reducing fraud e.g. fixing limits to the authority to incur expenditure such as any transaction over £10,000 should be reported. The seventh stage of investigation brings together any evidence and information to curb further fraudulent activity, recover assets 53 or secure restitution and gather evidence necessary for the successful prosecution of the fraudsters. Many known frauds are not prosecuted due to concerns about the damage such prosecution could cause to the image and reputation of the organization. The combination of internal factors (information technology, risk tolerance, fraud management philosophy etc.) and external factors (regulatory requirements, competitors, fraud methods etc.) all play a part in influencing fraud management. The complexity of fraud management increases with a dynamic and ever growing environment (Wilhem, 2013; Webster, 2012).

Specific signs of potential fraud by insider employees that Porter (2013) identified included long hours, refusal to delegate, different behavioral patterns than expected, copying data, overriding controls, and relatively low levels of documentation. This suggests identifying these factors is crucially important for detecting fraud.

The rest of this section discusses auditing as a measure of fraud management. Also discussed is how banks can prevent fraud as well as how fraud can be detected.

**Auditing**

Often a strong system of internal controls is the frontline defense that an organization can employ to prevent and detect fraud. The absence of internal controls does not always preclude the occurrence of fraud but it does leave potentially an open door for it to happen. Poor internal controls manifest themselves through: poor inventory control, lack of proper documentation and support for cash payments, lack of segregation of duties, ineffective or obsolete accounting software and the absence of independent verification (Doyle et al., 2014; Porter, 2013)

To prevent these failures, banks should conduct periodic risk assessments, lead by either internal or external auditing staff. The assessments should focus on high-risk areas, such as physical controls relating to high-dollar fixed assets, cash, marketable securities, payroll and inventory.

**Whistle blowers and regulatory requirements**

Whistle blowing is traditionally a voluntary practice of individuals who observe something incorrect about a given auditing or accounting situation and bring it to the attention of auditors (Schmidt, 2014). However, there has also been a movement in recent years to introduce a regulatory requirement for whistle blowers, or to induce some regulatory compensation or incentive to blow the whistle (Schmidt, 2014).

Whistle-blowers may face significant social pressures in African societies, however, which may mean that regardless of incentives, there may be a strong incidence of retaliation that will act as a negative incentive to engage in the disclosure activity (Domfeh&Bawole, 2011). There are also structural impediments to whistle blowing, such as elements of the African Union Convention on Preventing and Combating Corruption, which promotes a presumption of guilt that whistle-blowers must overcome (Schroth, 2014).

**World Bank Fraud Detection and Prevention Rules**

A major factor in the modernization of the Nigerian banking system has been the imposition of World Bank rules for development lending (McGee, 2012; Muhoro& McGee, 2012). Thus, World Bank rules are likely to be highly relevant for the development of fraud detection systems in the Nigeria bank. The World Bank has its own series of rules for fraud and corruption prevention and detection in World Bank projects. They include specific anti-corruption policies intended to address corruption in the bidding and loan processes in general bank operations and case studies that highlight where and when fraud may be found (Aguilar et al., 2011). The guidelines also include a specific ethical guidance for bank staff intended to address problems of ethical practice by bank employees.

**Restriction of Business**

Although banks may not detect initial fraud, they will have much stronger reactions following disclosed fraud by customers (Graham, Li&Qiu, 2012). Specifically, companies that are forced to restate their earnings face higher spreads and interest rates and more demand for securing of loans than those that do not, as well as higher fees; those that have restated due to fraud are even further penalized. Thus, the bank can use contract terms to protect themselves from information asymmetries identified through these restatements (Graham, Li&Qiu, 2012). However, it is uncertain how often this happens in Africa.

**Human Resources Strategies (Recruitment and Selection)**

One major individual response that banks may use in order to reduce fraud is to use recruitment and selection strategies to limit the exposure to those believed to be untrustworthy. However, this has not been very effective in the African context for a variety of reasons.

Human resources management practices, including recruitment and selection, are seen as a means of controlling for risk management (Meyer et al., 2011).

**2.2.5 Fraud in Nigeria Banking System**

A total of 17,975 cases of fraud and forgeries were reported during the period, involving₦305,008.57million and perpetuated across the various Nigerian banking institutions between the periods of 1994-2011. It is noteworthy that the year 2008 (which subsequently happened to be the period of the global financial crisis) witnessed the highest number of frauds and forgery cases (i.e. 2,007 cases), and the highest total amount of frauds and forgeries of ₦53,522.86million. The expected loss did not commensurate with the amount of fraud between 1994-2011; while the amount of fraud rose from₦3,399.39m in 1994 to N12, 919.55m in 2002 and dropped slightly to ₦11,754.00m in 2004, amount of expected loss fluctuated between the period 1994-2011.From₦950.65min 1994 it dropped to ₦227.44m in 1997 rose to ₦1,094.55min 2000 and then dropped to N854.46m in 2003 and rose again to 2,610.00m in 2004. Total number of reported cases of fraud rose from 170 in 1994 to 2,352 in 2011.

Within, fourteen years, a total of 4,932 staffs were reported to have been involved in frauds and forgeries, while in 2009 which was the highest number of banks staff involved in frauds and forgeries with a total of 656 members, 431 of them were core operating staff such as supervisors, officers, accountants, managers, executive assistants, clerks and cashiers, thus accounting for 65.7% of the total staff who were involved in fraudulent activities.

Fraud is perhaps the most fatal of all the risks confronting banks. The enormity of bank fraud in Nigeria can be inferred from its value, volume and actual loss. A good number of banks frauds are suppressed partly because of the personalities involved or because of concern over the negative effect such disclosure may have on the image of the bank. Customers may lose confidence in the bank and this could cause a setback in its growth. This unproductive diversion of resources reduces outputs and low profits which in turn could retard the growth of the bank. It also leads to a diminishing effect on the asset quality of banks. The problem is more dangerous when compounded by insider loan abuses. Indeed, the first generation of liquidated banks in Nigeria by NDIC was largely a consequence of frauds perpetrated through insider loan abuses. If this problem is not adequately handled, it could lead to distress and bank failure (Taiwo, 2016)

**2.3 Empirical Review**

Several related studies on the topic of concern have been carried out by some researchers; some of which are listed below.

Idowu (2009) did a research aimed at finding means of minimizing the incidence of fraud in Nigerian banks Findings of this study revealed that, so many factors contributed to the incidence of frauds in banks amongst which are poor management of policies and procedures, inadequate working conditions, bank staff staying longer on a particular job and staff feeling frustrated as are result of poor remunerations.

Nwankwo (2013) evaluated the impact of fraud on the performance of commercial banks in Nigeria. It also sought to ascertain the relationship between bank ATM Fraud, Forged Cheque, Clearing Cheque Fraud and bank performance. The methodology adopted in testing objective of this study was regression analysis. The outcome of the research revealed that there is significant impact of fraud on the performance of commercial banks in Nigeria. The implication of this is that if the level of fraud in commercial bank did not reduced to the barest minimum, it may not allow commercial banks to perform well and as well contribute to the growth of Nigeria economy. He recommends that there is an urgent need for effective monitoring of bank fraud through the use of ATM to allow for the growth of Nigeria commercial banks performance.

Olongo (2013) evaluated the effects of financial fraud and liquidity on the financial performance of the commercial banks in Kenya. The study adopted a descriptive research design. Regression analysis model was used in which the dependent variable was the ROA. The independent variables were the annual liquidity ratios and the annual fraud loss. The multiple regression analysis was used to determine how each of the dependent variable relates to ROA. The result showed that banks’ financial performance variable Return on Assets (ROA) has significantly affected by liquidity ratios and fraud loss with positive correlation. The strong and positive Pearson correlation coefficient simply that financial fraud loss and liquidity ratios had a strong and significant influence of financial performance of commercial banks in Kenya for the period considered. The study recommends that commercial banks in Kenya should put in place fraud detection mechanisms by setting up an efficient, reliable and working fraud detection department to oversee all the transactions that are considered prone to fraud to minimize the vice for them to maximize profits for better financial performance.

Adetiloye et al (2016) examined the issues of internal control *viz.,* fraud prevention in the banking industry, adopting both primary and secondary data. Primary data was used to test internal control while secondary data were employed to test fraud prevention. The main primary variables were separation of duties, monitoring, and staff qualifications while the main secondary variables are bank profit, regulation, technology and *M2*. In both cases regression techniques were adopted. The results show that internal control on its own is effective against fraud, but not all staff is committed to it, while the secondary data is quite supportive of the primary data but more exemplifying in that *M2*, staff qualifications and technology were significant throughout the various dependent variables. It is also clear from the regressions that technological based fraud is significant. The paper recommends the continuation of the cashless policy of the Central Bank to reduce available cash and improvement in educated staff engagement to reduce fraud in the banking system.

**2.4 Summary of Literature Review**

This chapter of the research work reviewed various literatures related to the topic of concern under several subsections. The literature review also pointed out theories related to fraud propounded by several authors. The literature review further reviewed previous research works carried out by other researchers on the topic of fraud.

**Chapter three**

**Research methodology**

**3.1Introduction**

This chapter treated research design, nature and sources of data, area of the study, instrument for data collection, population of the study, sample size of the study, model specification, validity and reliability of instrument and data analysis. They are as follows:

**3.2 Research design**

Research design is a frame work that guide data collections and analysis, it guides how data are collected and analyzed. The study adopted ex-post facto research design. Ex-post facto research design is a category of research design in which the investigation starts after the fact has occurred without interference from the researcher. The researcher has no control over the variables and as such cannot manipulate them. The researcher used ex-post facto design because the data used for the study is already provided by a reliable source.

**3.3Nature and sources of data**

In this study the researcher used secondary data. The data have been collected from the bank’s annual reports and fact books covering the period of 2006-2015. The nature of the data is published annual reports and statements of accounts of Nigeria deposit insurance company.

**3.4 Area of study**

The study was conducted in first bank of Nigeria plc in Nigeria.

**3.5 Instrument for data collection**

The instrument for data collection is document. The data was collected from published annual report from the First Bank plc. The researcher extracted fraud detection, fraud investigation and profit from the year (2007-2015). The data being extracted from the Nigeria deposit insurance company.

**3.6 Population and sample size**

The population of the study comprised of the 24 commercial banks in Nigeria. It was not possible for the study to use all the population, so the use of purposive random technique was applied and one bank; that is the first Bank Plc was selected for the study. In the selection of the sample, the following criteria were applied:

a. A bank that has a strong and active internet network.

b. A bank that is among the best banks in Nigeria.

c. A bank that is registered in the Nigerian Stock Exchange (NSE) market.

d. A bank that can easily adapt to technological and economical changes in Nigeria.

**3.7 Model specification**

In order to analyze the role of fraud management in the profitability of Nigeria banks, this study shall formulate a regression model, to capture the role of fraud management in the profitability of Nigeria banks using First Bank Nigeria PLC as a reference point.

**3.8Model one**

*PROF=F(FD, FI)*

Where,

PROF= Profitability of the banks (Dependent variable)

F= functional relationship

FD=fraud detection (First independent variable)

FI= Fraud investigation (second independent variable)

**3.9 Validity and reliability of instrument**

The researcher ensured that the instruments measure the concepts they are suppose to measure. The method of validity used was face and content validity corrections were made by an expert in banking and finance, and the corrections were taken.

**3.10Data Analysis**

T-test was used to evaluate the results of the Pearson Product Moment Correlation Model that was used in the analysis of data collected from the First bank’s annual reports and Nigeria deposit insurance company from the period of 2006-2015,in order to make the analysis more meaningful and understandable the researcher made use of tables.

**CHAPTER FOUR**

**PRESENTATION AND ANALYSIS OF DATA**

**4.1Introduction**

This chapter will analyze the results using variousstatistical tests. Thus, the earlier posted hypothesis of this study will be tasted based on the empirical results.

**4.2 Analysis of data**

As the performance of theoretical postulation is no guarantee, but only an indicator of what we may expect in practice, empirical testing of the time series data of the variables is absolutely necessary.

**4.2.1 Regression result of the model**

In the regression result, the variables under consideration are profitability of the banks (dependent variable whereas fraud detection (FD) and fraud investigation (FI) are the independent variables.

**The regression results are presented as follows**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Dependent Variable: PROF | | |  |  |
| Method: Least Squares | | |  |  |
| Date: 07/17/18 Time: 21:13 | | |  |  |
| Sample: 2006 2015 | | |  |  |
| Included observations: 10 | | |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|  |  |  |  |  |
|  |  |  |  |  |
| C | 749.3476 | 336.1500 | 2.229206 | 0.0610 |
| FD | 49.05485 | 19.26956 | 2.545718 | 0.0383 |
| FI | 119.0226 | 58.57443 | 2.031989 | 0.0417 |
|  |  |  |  |  |
|  |  |  |  |  |
| R-squared | 0.480911 | Mean dependent var | | 337.4180 |
| Adjusted R-squared | 0.332600 | S.D. dependent var | | 630.0562 |
| S.E. of regression | 514.7218 | Akaike info criterion | | 15.56846 |
| Sum squared resid | 1854570. | Schwarz criterion | | 15.65923 |
| Log likelihood | -74.84228 | Hannan-Quinn criter. | | 15.46887 |
| F-statistic | 3.242578 | Durbin-Watson stat | | 1.640917 |
| Prob(F-statistic) | 0.100774 |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

**Table 4.1 A summarized table of the regression result on the first independent variable**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | Coefficient | Standard error | t-Test | probability |
| C | 749.3476 | 336.1500 | 2.229206 | 0.0610 |
| FD | 49.05485 | 19.26956 | 2.545718 | 0.0383 |

The constant term is estimated at 749.3476which imply that the model passes through the point 749.3476 mechanically, if the independent variables are zero, Real Gross Domestic Product would be 9.797126. (Gujarati and Sangeetha, 2007).

From the regression result, the coefficient of fraud detection (FD) is positive which indicate a positive relationship with profitability of the banks, that is to say an increase in the rate of fraud detection will lead to increase in the profitability of the banks on the average.

**Table 4.2 A summarized table of the regression result on the second independent variable**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | Coefficient | Standard error | t-Test | probability |
| C | 749.3476 | 336.1500 | 2.229206 | 0.0610 |
| FI | 119.0226 | 58.57443 | 2.031989 | 0.0417 |

The constant term is estimated at 749.3476which imply that the model passes through the point 749.3476 mechanically, if the independent variables are zero, Real Gross Domestic Product would be 9.797126. (Gujarati and Sangeetha, 2007).

From the regression result, the coefficient of fraud investigation (FI) is positive which indicate a positive relationship with profitability of the banks, that is to say an increase in the rate of fraud investigation will lead to increase in the profitability of the banks on the average.

**TABLE 4.3: Result of A prior Test**:

|  |  |  |  |
| --- | --- | --- | --- |
| **VARIABLES** | **PRE SIGN** | **POST SIGN** | **RESULTS** |
| FD | +VE | +VE | CWES |
| FI | +VE | +VE | CWES |

CWES – conform with expected sign

From the table above, the result of the regression conforms with the expected sign, it is expected that increase in the fraud detection will lead to increase in the profitability of the banks which conforms with the expected sign. Also, it is expected that increase in the use of fraud investigation will lead to increase in the bank performance on the average which equally conforms with the expected sign.

**4.3 TEST OF HYPOTHESES**

**HYPOTHESIS ONE**

**Table 4.4**

**Ho*:*** *Fraud detection does not play a significant role in profitability of Nigerian banks*.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | Coefficient | Standard error | t-Test | probability |
| C | 749.3476 | 336.1500 | 2.229206 | 0.0610 |
| FD | 49.05485 | 19.26956 | 2.545718 | 0.0383 |

The condition to accept null hypotheses is when the probability of the t-statistics is greater than 5% (0.05) level of significance. From the result in the table above, the probability of the t-statistics is less than the 5% level of significance. Hence we

reject null hypotheses (Ho) and conclude that fraud detection play a significant role in profitability of Nigerian banks

**HYPOTHESIS TWO**.

**Table 4.5**

**Ho:***Fraud investigation does not contribute significantly to the profitability of Nigerian banks*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | Coefficient | Standard error | t-Test | probability |
| C | 749.3476 | 336.1500 | 2.229206 | 0.0610 |
| FI | 119.0226 | 58.57443 | 2.031989 | 0.0417 |

Looking at the values in the table above, the probability of the t-statistics is less than the 5% (0.05) level of significance, hence we reject the null hypotheses and conclude that fraud investigation contributes significantly to the profitability of Nigerian banks.

**CHAPTER FIVE**

**SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

**5.1 Introduction**

This chapter deals on the summary of the findings, conclusions of the study, recommendation, suggestions for further

**5.2 Summary of research Findings**

1. From the result of this study; the probability of the t-statistics is less than the 5% level of significance. Hence we reject the null hypotheses and conclude that fraud detection play a significant role in profitability of Nigerian banks.

2. Also the result in the second hypotheses shows that the probability of the t-statistics is less than the 5% (0.05) level of significance, hence we reject the null hypotheses and conclude that fraud investigation contributes significantly to the profitability of Nigerian banks.

* 1. **Conclusion**

The research conducted has vividly opined to a reasonably extent the role of audit as an effective tool for fraud control in banking organization. The failure of the management to adopt the different measures of fraud control techniques listed above lead to fraud, loss of finance and lack of accountability. The success of the banking system rest on the threshold fraud prevention, remediation and control.

**5.4Recommendations**

Having observed the result and findings in this study, I hereby recommends that.

1. Since fraud investigation contributes to the profitability of the banking system, the management should investigate as soon as the auditor suspects any type of fraud.
2. Also haven seen that, fraud detection contributes significantly to the profitability of the banking system, the management should employ the services of an investigator so as to detect fraud in the banking system which enhances the profitability of the system

**5.5 Areas for further research**

The following areas are suggested for further research:

1. The effects of poor financial audit on the organizational returns
2. The role of auditing in small business scale performance

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**APPENDIX I**

**TIME SERIES DATA ON PROFITABILITY, FRAUD DETECTION AND FRAUD INVESTIGATION, DATA RANGING FROM**

**2006-2015**

|  |  |  |  |
| --- | --- | --- | --- |
| YEAR | PROF | FD | FI |
| 2006 | 610.12 | 4.3 | 2.77 |
| 2007 | 619.96 | 10.1 | 2.87 |
| 2008 | 658.1 | 53.52 | 17.54 |
| 2009 | -1370 | 41.27 | 7.55 |
| 2010 | 607.34 | 21.29 | 11.68 |
| 2011 | -6.71 | 28.4 | 4.07 |
| 2012 | 525.34 | 19.97 | 4.52 |
| 2013 | 539.97 | 21.8 | 5.76 |
| 2014 | 601.2 | 25.61 | 6.18 |
| 2015 | 588.86 | 18.02 | 3.13 |

**Source: first bank annual report and Nigeria deposit insurance company (NDIC).**

**APPENDIX II**

**REGRESSION RESULT**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Dependent Variable: PROF | | |  |  |
| Method: Least Squares | | |  |  |
| Date: 07/17/18 Time: 21:13 | | |  |  |
| Sample: 2006 2015 | | |  |  |
| Included observations: 10 | | |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|  |  |  |  |  |
|  |  |  |  |  |
| C | 749.3476 | 336.1500 | 2.229206 | 0.0610 |
| FD | 49.05485 | 19.26956 | 2.545718 | 0.0383 |
| FI | 119.0226 | 58.57443 | 2.031989 | 0.0417 |
|  |  |  |  |  |
|  |  |  |  |  |
| R-squared | 0.480911 | Mean dependent var | | 337.4180 |
| Adjusted R-squared | 0.332600 | S.D. dependent var | | 630.0562 |
| S.E. of regression | 514.7218 | Akaike info criterion | | 15.56846 |
| Sum squared resid | 1854570. | Schwarz criterion | | 15.65923 |
| Log likelihood | -74.84228 | Hannan-Quinn criter. | | 15.46887 |
| F-statistic | 3.242578 | Durbin-Watson stat | | 1.640917 |
| Prob(F-statistic) | 0.100774 |  |  |  |
|  |  |  |  |  |