

ACCOUNTING FOR FRAUD IN NIGERIA: THE BANKING SECTOR IN FOCUS

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Abstract

Users of financial information rely on the financial statements produced by the management of the organizations. These financial statements, before being released to users are certified by the auditors. However, with the various corporate scandals around the world and Nigeria inclusive, one is left to wonder whether these financial statements reflect a true and fair view of what transpired in the organization within the accounting year. This paper looks at fraud as a challenge to accurate financial reporting with a particular focus on the banking sector. The effects of this challenge were also highlighted both on the users of the financial information, economy and the practitioners of the Accounting profession. The paper concludes with adequate recommendation to help solve this challenge.

KEYWORDS: Fraud, Accounting, Banking sector, Financial Reporting, Nigeria.

Introduction

The Companies and Allied Matters Act 1990 sections 331-335, as amended, requires that companies operating in the private sector (PLCs and Limited Liability Companies) prepare their financial statements annually. Such financial statements must be certified by an auditor before being presented to shareholders and users of such statements. The essence of the auditor certifying the financial statements and expressing his professional opinion is to assure the members of the companies that their resources have been judiciously utilized. Also, other users of the financial statements can rely on the professional opinion of the auditor to make certain decisions. Such decisions may include; investment decision, financial decision and any other decisions that may involve their interrelationship with the companies. The professional bodies {e.g. The Institute of Chartered Accountants of Nigeria (ICAN)} have issued guidelines that

these auditors are expected to comply with in the process of executing their job. This is to ensure that they meet the expectations of users of such financial statements.

However, with the news of recent corporate scandals around the globe and the subsequent collapse of some of these organizations, one is tempted to ask whether such financial statements were not audited in the first place. Although, auditors claim that it is not their responsibility to detect fraud but rather to express an opinion as to the true and fair view of the financial statement. In response to such statements, can a financial statement prepared to conceal fraud show a true and fair view? This paper therefore seeks to explore fraud and the need to account for fraud in the financial statements with particular focus on the banking sector.

2. The concept of fraud

Izedonmi (2000:156); defines fraud as “The intentional misrepresentation of financial information”. Nwaze (2008); is of the view that fraud relates to a false representation of fact made with the knowledge of its falsity or without belief in its truth, or recklessly careless whether it be true or false. Fraud may include falsification of records and documents, misrepresentation of assets, omission of transactions from records, recording of transactions without substance and misapplication of accounting policies (Izedonmi, 2000). Olufidipe (1994) defined fraud as “Deceit or trickery deliberately practiced in order to gain some advantage dishonesty”. Police (2005) sees fraud as a behavior that is deceptive, dishonest, corrupt or unethical. From the different definitions on fraud, it can be said that fraud is an act or behavior geared towards the misrepresentation of financial information. However, Police (2005); is of the view that fraud may not only involve financial misrepresentation but may also include dishonesty in; obtaining property belonging to someone else, applying someone else’s property to one’s own use, causing a detriment to another person’s or entity and gaining a benefit or advantage for any person.

Fraud can occur as a result of so many factors. Police (2005) is of the view that for fraud to exist there needs to be an offender, a victim and an absence of control or safeguard. Okoye and Okafor (2004); citing Cressey (1953), links the cause of fraud to the “fraud Triangle”. The three elements of the fraud triangle are pressure or motive – opportunity- rationalization. Generally, fraud occurs when someone with a financial need (motive) gains improper access to fund (opportunity) and is able to justify the act to themselves or others (Rationalization). This simply means that people commit fraud because they think they need the money, believe they will not be caught and have justified the act to themselves. Izedonmi (2000); links the cause of fraud to weakness in the internal control system of the organization. Accordingly, certain factors will exist within the system that will influence the existence of fraud. Some of these factors are;

- Where authority is concentrated in a few hands within the organization;
- Where management continually fails to implement the internal control recommendations made by the external auditor;
- Where there is high rate of turnover in key accounting functions;
- Where there are frequent changes in the external auditors of the enterprises.
- Where fees paid to legal advisers appears to be out of proportion with the actual services rendered.
- Where the accounting system is inadequate and the books of account cannot be reconciled with the financial statements.
- Where documentations supporting transactions are generally non-existent.
- Where it is difficult to obtain explanations from management and staff of the enterprises during the audit.
- Where the enterprise is experiencing solvency problems.
- Where there are material transactions during or around the year end date.

- Where there are significant transactions with related parties.
- Where transactions occurring during the year are reversed after the year end.

Jeff (2009) is of the opinion that “fear and greed” are the main causes of fraud. Nwaze (2008); citing the work of Impey and Variables; relates the cause of fraud to the acronym COMAS.

Concealment: The chance of remaining undetected opportunity.

Opportunity: The right place and right time for the fraudster.

Motivation: A personal need or greed.

Attraction: A desirable target.

Success: The chance of avoiding prosecution.

Fraud occurs in different sectors of the economy. However, researchers (e.g Nwaze, 2008); is of the opinion that fraud in the financial sector (e.g. Banks) is on the increase. This may be due to certain factors which he highlighted below:

- i. As a result of the instability and the grim struggle for survival by some banks, marketing and deposit mobilization have been placed conspicuously on the front burner at the expense of controls.
- ii. There is an increasing army of experienced bankers being thrown into the already saturated employment market but who are determined to continue to make a living from the banking system even from outside.
- iii. There is scanty information about fraudsters and their various syndicates including staff collaborators who are still keeping their jobs while continuing to pollute and subvert the system.
- iv. Contemporary issues of consolidation, capitalization, right sizing, rationalization, re-engineering etc. all combine to heighten tension and insecurity in the banking industry.

Accordingly, this may constitute a great temptation for honest staff to look for the non-existent pension and gratuity by settling themselves if the opportunity presents itself.

2.1. Types of Fraud in Banks

The most important and common types of fraud highlighted by Bank Administration institute (1989) in fraud prevention and detection series are as discussed below;

- a. *Advance Fee Fraud* (“419”): This usually involves an agent approaching a bank, a company or an individual with an offer to access large funds for services purportedly rendered or contracts executed. The collaboration of an accomplice is sought through the agent who must receive a fee or commission “in advance”. As soon as the agent collects the fee, he disappears, and the funds never get to the bank. This is popularly known as “419” in Nigeria, - a euphemism for the section of our law covering such criminal activities.
- b. *Cheque Kiting*: Kiting is defined by the US Comptroller of the Currency’s Policy Guidelines for National Bank Directors as “a method where a depositor utilises the time required for cheques to clear to obtain an unauthorised loan without any interest charge”. Cheque kiting involves the unauthorised use by depositors of undeserved credits in their accounts. The goals of the cheque kiter may be to use the collected funds interest-free for a short time to overcome a temporary cash shortage or to utilize the funds permanently.
- c. *Account Opening Fraud*: This involves the deposit and subsequent cashing of fraudulent cheques. It usually starts with a person asking to open a transaction account such as current or savings account with false identification but unknown to the bank. The person opens the account with a small initial deposit of cash or cheque. Generally, within a few days, the person will deposit a number of dud cheques and obtain cash in return, either by

cashing the fraudulent items outright or by withdrawing cash as soon as funds are available with the connivance of bank staff.

- d. *Letters of credit Fraud:* Letters of credit (CL) are generally used in international trade to facilitate payment for goods and services. Most letters of credit frauds are perpetrated by beneficiaries of the CL using forged or fraudulent documents. In these cases, forged or fraudulent documents are presented to the confirming or issuing bank and payment is demanded against the credit.
- e. *Money Transfer Fraud:* Money transfer services are means of moving funds to or from a bank to a beneficiary account at any banking point worldwide in accordance with the instructions from the bank's customers. Some common means of money transfer are mail, telegraphic, over-the-counter, electronic process and telex. Fraudulent money transfers may result from a request created solely for the purpose of committing a fraud or the alteration of a genuine funds transfer request. A genuine request can be altered by changing the beneficiary's name or account number or changing the amount of the transfer.
- f. *Loan Fraud:* Loans and other forms of credit extension to corporate and individual customers constitute traditional functions of banks. In the process of credit extension, fraud may occur at any stage, from the first interaction between the customer and the bank to the final payment of the loan. Loan fraud occurs when credit is extended without due authorisation or to a borrowing customer who has exceeded his credit ceiling. Some fraudulent staff in a bid to conceal such transactions could present falsified statements and documents to Examiners or feed such accounts with fictitious entries to portray them as being serviced. Other categories of loan fraud include granting of credits on the strength of overvalued or non-existent, multiple pledged, stolen or counterfeit collaterals

and extension of credits in violation of regulatory stipulations. Loan fraud could also be perpetrated by bank customers where loan is obtained on the strength of false financial statement or where the loan proceeds are diverted.

- g. *Counterfeit Financial Instruments:* Most of the financial crimes are perpetrated through illegal counterfeiting of commercial and financial instruments. Modern photographic and printing equipment have greatly aided criminals in reproducing good quality forged instruments. The documents may be total counterfeits or may be genuine documents that are copied, forged or altered as to amount, pay out date, payee or terms of payment. Some of the security instruments commonly counterfeited are: stock or bonds, treasury notes, cashiers' cheques, bankers acceptances, or certificates of deposits.
- h. *Cheque Fraud:* Cheques have remained a major vehicle for the operation of the payment system world-wide. Little wonder that the fraudsters have found a haven in it through which millions of naira is lost annually. Cheque frauds are perpetrated through stolen cheque books/leaves and subsequent forging of account holder's signature or alteration of payee or amount payable; substitution of clearing cheques etc.
- i. *Money Laundering Fraud:* This is a means by which source or use of money illegally obtained is concealed by converting the cash into untraceable transactions in banks. At times in a desperate effort to disguise such transactions the funds could be moved between several institutions and across boundaries.
- j. *Clearing Fraud:* Most clearing frauds hinge on suppression of payment instrument so that at the expiration of the clearing period applicable to the instrument the collecting bank will give value as though the paying bank had confirmed the instrument good for payment. Clearing cheques can also be substituted to enable the fraudster divert the fund to a wrong beneficiary. Mis-routing of clearing cheques can also assist fraudsters to

complete a clearing fraud. In other words, a local clearing item can be routed to an up-country branch. In the process of re-routing the instrument to the proper branch, the delay entailed will give the collecting bank the impression that the paying bank had paid the instrument.

- k. *Telex Fraud:* Transfer of funds from one location to another can be effected through telex. The message, though often coded, can be altered to enable diversion of funds to an account not originally intended.
- l. *Computer Fraud:* The rapid development in information technology and globalization has had serious impact on banking practice in the country. Those factors are expected to continue to drive the way banking businesses are conducted in the country as more and more banks move to automate their back office and clients' services. Also with the advent of the Internet, E-commerce, E-banking, etc, it is no longer news that somebody could stay in the comfort of his home and move millions around the globe. Some banks in Nigeria now offer on-line services for some of their clients. While this is convenient, it equally carries with it the risk of computer fraud as there seemed to be no longer discernable boundary nor perimeter along which to erect the defenses to keep corporate data within and inaccessible to computer hackers outside. While computer frauds more especially those perpetrated by hackers, are yet to be reported to the Regulatory Authorities in Nigeria, reports from onsite examination of banks have continued to draw attention to the poor attitude of some banks to the issue of computer security.
- m. *Management Fraud:* This type of fraud according to Ogunleye (2010) involves all kinds of unethical practices engaged in by management of banks to avoid been sanctioned by regulatory authorities. This type of fraud may include; "cross dealings", manipulating insider information against customers while taking undue advantage of their ignorance,

all kinds of illegal charges being debited to customers' accounts by some banks etc. the reasons why management usually embark on this type of fraud according to Ogunleye (2010) are as follows:

- i. To hide illiquidity;
- ii. To evade sanctions for breach of the regulatory lending limits;
- iii. To hide capital deficiency;
- iv. To minimise payment of premium to NDIC, cash reserve obligation to the CBN and tax to the relevant Tax Authorities;
- v. To present healthy credit portfolio and hide the weaknesses which the risk assets surreptitiously harbour;
- vi. To meet up with peer standards and industry performance benchmarks and paint rosy pictures of their state of affairs before the investing public and potential depositors.
- vii. To shrink deposits and reduce their loan portfolio;
- viii. To obtain arbitrage income from round-tripping of foreign exchange which are acquired from the CBN with fictitious documentation; and
- ix. Associate and subsidiary companies are often set up as conduit pipes to siphon funds through questionable contracts and fund transfers.

2.2 The Extent of Bank Fraud in Nigeria

The rate at which bank fraud increases in Nigeria is becoming a source of concern not only to shareholders and regulatory bodies but also to users of the financial information generated within the system. Table I, in the appendix reveals the total number of bank fraud cases and the amount involved, while table II shows the categories of staff involved. A comparative look at the cases and amount involved shows a considerable increase.

If the statistics provided in tables I and II are true, one is left to wonder why these fraud cases are not reported in the various banks' financial statement so that it can reflect a true and fair view of what transpired within the accounting year. Nwaze (2008); provides the answers and they include;

- Fraud is bad news which would also generate bad image and negative publicity;
- Some of the frauds are serious enough to make regulatory authorities wield the big stick against them;
- Many of the frauds are perpetrated by staff who are related to existing big time depositors or people within the corridors of power;

Unfortunately, this state of affairs does not do anybody any good as a cardinal objective of the reporting principle which is information sharing is not being achieved. Even on the few cases being reported, the actual details are so scanty that not much is gained from it by way of preventive intelligence (Nwaze, 2008).

2.3 Effect of Bank Fraud Users of Financial Statement and the Nigerian Economy

The users of financial information are many. Porwal (2006); classifies them into Direct and Indirect users. The direct users include owners, creditors, suppliers, potential owners, management, tax authorities, employees and consumers while the indirect users include; financial analyst, stock exchanges, lawyers, regulatory and registration authorities, financial press and reporting agencies, trade association and labour unions.

Porwal (2006); also cites some reasons why users of financial information would need such information. The reasons are as follows;

- I. To be able to decide when to buy, hold or sell an equity investment;
- II. To assess the stewardship or accountability of management
- III. To assess the ability of the enterprise to pay and provide other benefits to its employees;

- IV. To assess security for the amount lent to the enterprise;
- V. To determine taxation policies;
- VI. To determine distributable profits and dividends;
- VII. To regulate the activities of the enterprise;

The non-accountability of fraud in the organization's financial statement does not reflect a true and fair view of such financial statement and may tend to mislead the users of such financial statements. Moreover fraud is detrimental to the economy of our nation Nigeria. Okoye & Gbegi (2013) in their study concludes that fraudulent practices and financial related crimes have portrayed Nigeria in bad light and as such foreign investors are skeptical in doing business in our country. Also fraud and related financial crime has significant effect on Gross Domestic Product thereby affecting the Nigerian Economy negatively. Uchenna & Agbo (2013) in their submission assert that; fraud reduces the amount of money available to small or medium scale firms for developing the economy and the costs of fraud are always passed on to the society in the form of increased customer inconvenience, opportunity costs, unnecessary high prices of goods and services and lack of infrastructure.

3. Conclusion

It is a known fact that users of financial information will continue to depend on the financial statements produced by companies for their decision making. This therefore implies that; the auditors and accountants empowered by the law to ascertain these financial statements should rise up to the challenge and refuse to drag the image of the profession on the mud. The laws and code of conduct have already made provisions for their protection. Users of financial information are waiting for the era when they can fully rely on audited financial information for their decision making as it was some years back. If the management of these institutions cannot

take proactive measures in reducing fraud cases, the auditors and accountants on their part should ensure that the organization properly accounts for same in their financial reporting.

4. Recommendations

If the integrity of the accounting profession is to remain, a lot should be done. Based on this, the following recommendations may become useful.

- i. The concept of “true and fair view’ should be reviewed by professional bodies and regulatory agencies.
- ii. Organizations should be required to disclose fraud when they occur in their financial statement.
- iii. Regulatory Agencies should be adequately funded to meet up with their responsibilities.
- iv. Auditors and reporting accountants should carry out their assignment with due diligence.

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Other Internet Sites

www.moneyterms.co.uk.

www.fraduadvisorypanel.org.

www.nbs.mycportal.com.

APPENDIX

TABLE I: FRAUD IN BANKS (1995 -2012)

Year	Total Number of Fraud Cases	Amount of Bank funds involved in fraud(N,M)	Actual / expected losses sustained by banks(N'M)
1995	141	1011.36	229.13
1996	606	1600.68	375.243
1997	487	3777.9	227.44
1998	573	3196.91	692.25
1999	195	7404.28	2730.06
2000	403	2851.11	1080.57
2001	943	11243.94	906.3
2002	796	12919.55	1299.69
2003	850	9383.67	857.46
2004	1,175	11754	2610
2005	1,229	10606.18	5602.05
2006	1,193	4832.17	2768.67
2007	1,533	10105.81	2870.85
2008	2,007	53522.86	17543.09
2009	1,764	41265.50	7549.23
2010	1,532	21291.41	11679
2011	2,352	28,400.86	4,0 71
2012	3380	17,965.00	4,517

Source: NDIC Reports (1995 – 2012) www.ndic.org.ng

TABLE II: CATEGORIES OF BANK STAFF INVOLVED IN FRAUD AND FORGERIES

Status	2009		2010		2011		2012	
	Number	%	Number	%	Number	%	Number	%
Supervisors & Managers	94	14.32	92	25.77	89	17.87	78	14.69
Officers, Accountants & Executive Assistants	137	20.88	79	22.13	26	25.30	89	16.76
Clerks & Cashiers	200	30.49	115	32.22	163	32.73	117	22.03
Typists, Technicians & Stenographers	64	9.76	23	6.44	7	1.41	5	0.94
Messengers, Drivers, Cleaners, Security Guards & Stewards	11	1.68	15	4.20	35	7.03	16	3.01
Temporary Staff	150	22.87	33	9.24	78	15.66	226	42.56
Total	656	100	357	100	498	100	531	100

Source: NDIC Reports (2009 – 2012) www.ndic.org.ng