PDF - ROLE OF FRAUD MANAGEMENT IN THE PROFITABILITY OF NIGERIAN BANKS (A STUDY OF FIRST BANK NIGERIA LTD) - researchcub.infoCHAPTER ONE

INTRODUCTION

1.1 Background to the Study

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

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

Idolor (2010) stressed that the spate of fraud in thebanking industry has lately become an embarrassment to the nation as apparentin the seeming inability of the law enforcement agents to successfully trackdown culprits. Whereas the activities of armed robbers are given widespreadreviews in the pages of newspapers, especially during major thefts, it is anirony that what they cart away from banks is only a slice of what fraudstersremove from bank tills. Corroborating the view of Idolor, Oseni (2006), statedthat the incessant frauds in the banking industry are getting to a level atwhich many stakeholders in the industry are losing their trust and confidencein the industry .Fraud may take the form of; theft of inventory assets, misuseof expense account, secret commission and bribery, false invoicing, electronicand telecommunication fraud, unauthorized use of information, cheque forgery,cheque clone, false financial statements, and so on, but whichever form ittakes, the fundamental point is that the banking industry falls victim tofraudulent acts suffers and bears the brunt.

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

As a resultof the involvement of staffs and top management staffs in fraudulent activitiesin the banking industry, Fraud control is becoming an issue that the regulatorsand top banking executives who are in saddle when fraudulent activities takesplace or more succinctly when someone commit an act of fraud in the financialinstitutions under their management. Owing to the fact that fraud affects theprofitability and reputations of banking institutions, to minimize or controlthe alarming rate of fraud in the banking industry, there ought to be need forthe players in the industry to set up and implement an effective and efficientcontrol system that will adequately monitor the daily activities of theindustry without leaving any gap, (Anyanwu,1993). Consequently, appropriatepersonnel policies and practices should be put in place since fraud iscommitted by people of moral decadence. Therefore, qualified auditors should beemployed to ensure effective and efficient detection and prevention of fraudand financial reporting in Nigerian Commercial banks. Against thesebackgrounds, the main purpose of this study is to thus, ascertain the role offraud 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 carryout their responsibilities with sincerity of purpose and unquestionableintegrity with respect to their operations as a means towards earning publictrust and goodwill. The banking business has become more complex with thedevelopment 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 businesswhich leads to an increase in the number of online transactions. Gates, Jacoband Malphrus(2009) assert that the internet provides fraudsters with moreopportunities to attack customers who are not physically present on the web toauthenticate transactions. In Nigeria, in spite of the banking regulation andbank examination by the Central Bank of Nigeria (CBN), the supervisory role ofthe Nigeria Deposit Insurance Corporation (NDIC), and The Chartered Instituteof Bankers of Nigeria (CIBN), there is still a growing concern about fraud andother unethical practices in the banking industry. Evidence from the NDICReport (2008) revealed that the report of the examinations and specialinvestigations from the banks were still bedeviled with problems of fraud, weakboard and management oversight; inaccurate financial reporting; poorbook-keeping practices; non-performing insider-related credits; declining assetquality and attendant large provisioning requirements; inadequate debtrecovery; non-compliance with banking laws, rules and regulations;
and significant exposure to the capital market through shareand margin loans. This is a problem which makes the activities of the fraud managementdifficult or impossible and affects the profitability of the banking system andthe economy at large.

1.3 Objectives of Study

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

The specific objectives of this study are:

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