

INTRODUCTION

BACKGROUND OF THE STUDY

Even since the inception of the first three successful indigenous banks in Nigeria, the National Bank of Nigeria established on February 11th 1933, the Agbommagbe Bank (now wema Bank Nig Plc) in 1945, The African continental Bank Plc in 1947 and others subsequently established in the country during the period from 1952 when the first banking ordinance was enacted to regulate and control the activities of commercial banks in the country till present day, and have remained a permanent feature in our banking industry.

During the free banking era (between 1892 and 1952) there was no form of banking act or ordinance to regulate the stability and operation of commercial banks. There are as it is presently supervised. Many banks were registered. Some of them did not open their doors for business ever for a day while some simply collected customers deposits and vanished. This had resulted to the deprivation of our economy and as a whole the much needed funds for development and depriving individuals their hard earned funds, this also brought about loss of faith and trust on the commercial banks in Nigeria and the subsequent under developed banking habit in the country.

However, with the introduction of the first banking ordinance in 1952 and the central bank of Nigeria (CBN) ordinance in 1958 to regulate and control the activities of commercial banking in the country, fraud in commercial banks has rather increased in size, and the methods used by fraudsters acquire greater sophistication day by day.

Presently with the introduction of modern banking procedures i.e. improved communication systems, automatic electronic gadgets and computer networks into our banking system coupled with various precautionary measures taken by banks to prevent fraud in the banks, fraud has rather taken unclear dimensions and the forms involved increase in a geometric progression. Other authors in their articles on the growth of the banking industry saw that it was discovered during investigation

that bank now take extra precaution before clearing a cheque because of rampant incident of fraud and forgeries the form of fraud has placed banks loss on the average of # 1m per each working day of the year in Nigeria Asimi kola in his own article "The cash economy phenomenon" also observed that fraud has become sophisticated as to make forget cheque book good the owner to confirm it as his own signature recently in the bid curb the grand fraud, CBN issued a directive to bank to increase it capital base to # 25 billion. Previously section a of the decree 1990 state that, the minimum paid up capital for bank is #50 million for commercial bank. This directive come up after several bank has been discovered to have defrauded it is customers mostly foreign investors. In this required .

Bankers in a bid to reduce the size and rapid occurrence of fraud in their bank now take adequate precautionary measure before clearing cheques drawn their customers accounts. These precautionary measures bring into focus another problem facing commercial banks,. The problem of time wastage in the banking hall. Ashimi Kola in his article also said that customer waits a minimum of about two hours in banking hall of Nigeria banks to cash their money. This is one of the most legitimate criticisms of the quality of bank services. The checking process is long and by the time a cheque is released to cashier for payment, the customer is frustrated and perhaps Rast asleep among feering crowd. This calls for an overhaul of the checking and control system. E above being the general situation of things in commercial banking fraud is there fore number one enemy to all concerned with growth and development of banks., the intention of this research work therefore aimed at identification of the fraud on Nigerian economy in general and on Afribank Nigeria plc Enugu in particular and recommend more functional measure that will help in the prevention and to reduction of fraud in commercial bank in Nigeria.

STATEMENT OF PROBLEM

The focus of this study is to provide evidence bearing on the nature and factors leading to ineffective management in bank, also it actually evaluates the uneremental

effect of bank regulation on stability of Nigeria banking system

INADEQUATE INTERNAL CONTROL SYSTEM

Owing to peculiar nature of banks in trading on financial asset and liabilities, there is high propensity towards fraudulent manipulation by both employees and those outside the bank to install internal control system that will help to eliminate and arrest fraudulent tendencies and ensure effectiveness in performance of its functions. It is the function of the internal control

to assist management in achieving effective. The consequences of lack of adequate internal control system in direct and financial term can not be over whelmed. Thus banking subsector has been witnessing a phenomenal increase in reported bank fraud running in hundreds of million of naira annually. These occur in form of computers frauds, deflation misrepresentation of document outright disappearance with physical cash by employees and outsiders and the re occurring problem of banks branch managers granting credit over their discretionary as approval by the top management without adequate security hence resulting to losses and increased bad debt

INEFFICIENT WAYS OF TRANSACTING BANKING OPERATION

Most banks operate business in such inefficient way that their target and budget becomes always unrealistic thus leading to negative result and poor performance. The end result is that while efficiently managed banks are seeking approval to open new branches the mismanaged ones are busy clamoring to be allowed to close unlivable branches or even close their door entirely. The problem of lack of economy and efficiency in operation is more serious than fraud as it is mammals of procedures. Recording of some transaction of bank by employees are not done in conformity with established standard hence resulting to back of unbalanced book and records.

123 LOAD LOSSES AND INCREASING BAD DEBT PORTFOLIO OF BANK

Increasing bad debt portfolio of banks inherent from high credit default by loan users has been giving bankers sleepless night as a substantial part of their income is now

used as a provision against these debt in view of the requirement of prudential guidelines for licensed bank issued by the central bank of Nigeria in Nigeria in 1990, in 1991, financial year, most of the existing bank will hinge portfolio after report losses or very minimal profile position, after making the necessary provision are required by the guidelines.

It is because the continuous concerns of government and other regulatory bodies about the problem of banks and the serious need for effectiveness by their management that various registrations and directive were made in the recent time. Recently the CBN issued directive to bank for recapitalisation up to N25 billion, in January 1991 CBN issued circulated to all bank directors an information booklet (Pocket Guide for bank Directors). Equally in 1991, the Bank and other financial institution decree was promulgated by government.

PURPOSE OF STUDY

The principal purpose of this study is to identify and explain how the effect of bank regulation on stability of Nigeria banking system. The study

However, in more specific term, lies study scale to

- Identify to what extent adequate internal control is Banking system

- Find out the extent of ineffective way of Nigeria banking operation.

- Determine the overall loan losses and increasing bad debt portfolio

SIGNIFICANCE OF STUDY

The usefulness of this study entitled effective internal control as a basis for prevention detection of fraud can not be over whole the researcher was motive into embarking on this study because of the positive result accruable from an adequate internally control organization. Equally the result of this study would be immense benefit to numerous group of persons such as Auditors, External Examiners, Managers, the Accounting and Banking professions, Regulatory bodies of banks and other operators in the banking system. When the society is corrupt, wealth is prioritized irrespective of its sources. The desire to join the political and the ruling class may compel most bankers

to throw professional ethic to the winds for fraudulent practices. This therefore makes study very important.

Acknowledgement of the possible causes of disease will assist a medical doctor to give adequate prescription for the prevention and cure of disease similarly, it will be pertinent to analyze and recommend directive, preventive and curative measure to check fraud and distress in banks. Indeed internal control machinery when installed can do this ,Also recruitment not based on sentiments but on personal integrity will prevent recruitment of weptomanaic, greedy and ungodly people in bank

It is believes that for effective management, management by example should be the watch word of every banker, be he a director, manager officer, supervisor clerk, or messenger. Everyone should be made to comply with the lay down policed and procedure in performance of any banking function. He who says people should not steal should not steal too.

EFFECT OF BANK REGULATION ON STABILITY OF NIGERIAN BANKING SYSTEM

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