

# Effects of Monitoring on Fraud Detection in Nigerian Deposit Money Bank

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## ABSTRACT

Banks and other businesses must regularly deal with fraud. The depravity of mankind could be a factor in the rise in fraudulent behavior. Banks and regulatory authorities in Nigeria have proposed and approved monitoring measures to combat bank fraud. The study looked into the effects of monitoring on fraud detection in Nigerian deposit money banks. Diamond Bank, EcoBank, Fidelity Bank, First Bank, and Polaris Bank were the only banks studied. The research was based on the theory of fraud prevention. Descriptive statistics (frequency and percentage) were used to analyze the demographic data of the respondents and the research questions, while inferential statistics (ANOVA) was used to test the hypothesis stated. The study's findings revealed that monitoring has a significant effect on fraud detection in Nigerian deposit money banks. The effects of monitoring on fraud detection in Nigerian deposit money banks were revealed to be limited company expansion, broad company objectives, risk identification, lack of analysis on identified risk, and managing changes, according to the study. In view of that, banks should establish a work ethics unit, reduce excessive trust in bank staff, and emphasize leadership by example in order to maintain the banks' operations.

**Keywords:** Banks, Detection, Effects, Fraud, Monitoring

## I. INTRODUCTION

Banking institutions occupy a central position in the nations' financial system and are essential agents in the development process of the economy. By intermediating between the surplus and deficit spending units, banks increase the quantum of National savings and investments and hence national output. By granting credits, banks create money thus influencing the level of money supply which is an essential item in the growth of national income as it determines the level of economic activities in the country (Hartman, 2014).

For banks to be able to function effectively and contribute meaningfully to the development of a country, the industry must be stable, safe and sound. And for these conditions to be obtained there must be a sound accounting system, which is occasioned by a Monitoring system. In view of the economic growth in companies' size and complexities, proper management of modern business understandings is not possible unless they have an effective system of internal control. Stakeholders and other Investors in public and private sector institutions are concerned with the safety of their assets. Shareholders delegate rights to managers to act in the principal's best interest. This separation of ownership from control implies a loss of effective control by shareholders and taxpayers over managerial decisions hence concerns over the safety of their investment. Fraudulent practices in deposit money banks scenario may have pessimistic and undesirable effect on the viability, performance, sustainability and reputation of deposit money banks. Frauds in Nigerian deposit money banks have presented a perennial problem in the commercial banking management and regulations. The occurrence of fraudulent activities in the commercial banking sector has been documented in various instances.

Some Deposit Money Banks in Nigeria cease to function due to fraudulent activities perpetrated by management and employees. Fraudulent acts have necessitated Monitoring's (whole system of control, financial and otherwise established by management in order to carry on the business of the enterprises in an orderly and efficient manner) in entities including the Deposit money banks. Frauds have led to the loss of large amount of money in the economy as a whole and in the banking industry in particular. The acts have contributed significantly to the financial distress of some banks and the poor performance of the others. The need for Monitoring services in the banking sector is as a result of pervasive increase in deviant behavior, resulting in higher crime rates, obtuse,

irresponsive, opaque laws and regulations with loopholes that the unscrupulous exploits. Accusations on Fraudulent financial practices, misappropriations of assets, money laundering, and manipulation of the figures reported in the financial statements have been the order of the day. Thus, the objective of the study was to examine the effect of Monitoring on fraud detection in Deposit money banks in Nigeria.

## II. LITERATURE REVIEW

This section examines relevant literatures in light of current and ongoing research. It makes an attempt to review relevant research works for the study. The research looked at and reviewed literature from all sides of the problem.

### 2.1 Monitoring Concept

Monitoring determines whether management-designed and implemented policies and procedures are being carried out effectively by employees. Monitoring also aids in the early detection and correction of significant control flaws. Internal control monitoring necessitates a procedure. This procedure evaluates the quality of internal control over time (Frazier et al, 1996, p.72). Self-assessments, external audits, and direct control testing are all options for monitoring. Internal control activities are constantly monitored and their performance is evaluated through monitoring.

Hayali and colleagues (2013) Monitoring is a process that evaluates the quality of the internal control system's performance over time in order to determine how effective the internal controls system put in place by management is. Monitoring occurs when a control is evaluated, not when routine management and supervisory controls and other statutory duties are performed. As a guide, COSO (2013) listed the following as examples of monitoring controls: Operating managers' comparison of internal reports and published financial statements with their knowledge of the business

- i. Analysis of customer complaints of amount billed
- ii. Analysis of vendor complaints of amount paid
- iii. Regulator's reports on compliance with laws and regulations (e.g., bank examiners' reports, IRS audits)
- x. Accounting managers' supervision of the accuracy and completeness of transaction processing
- vi. Periodic comparison of recorded amounts to actual assets and liabilities (e.g., internal

auditors' inventory counts, receivables and payables confirmations, bank reconciliations)

- vii. Internal auditors' reports on control effectiveness and recommendations for improvement

Training sessions for management and employees to heighten awareness of the importance of controls It must be noted that the existence of quality monitoring control is part of the oversight function of the audit committee, which provides the highest level of monitoring in a corporate body. This was why the Tread way Commission declared that to be effective, audit committee should exercise vigilant and informed oversight of the financial reporting process, including the entity's internal controls (Ali 2013).

### 2.2 Bank's Common Fraudulent Practices

Ovuakporia (1994) described thirty-three different types of bank frauds. Theft, embezzlement, defalcations, forgeries, substitution, suppression, payment against unclear effects, unauthorized lending, lending to "ghost" borrowers, kite flying and cross firing, unofficial borrowing, foreign exchange malpractice, impersonation, voucher manipulation, fictitious accounts, over and under valuation of properties, false declarations of cash shortages, falsification of status reports, duplication of cheque books, mail transfer and interruptions.

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

### 2.3 Types of Fraud

Depending on their perspectives and the criteria used, authorities have classified fraud in various ways. Others, on the other hand, classified them according to the nature and perpetrator of the fraud. Following that, cases of fraud are divided into two categories based on the perpetrators: whether the fraudster is a member of the entire staff or involves outsiders; and whether the staff fraudsters are in top management or non-management positions. The former is now divided into the following categories:

- Internal fraud
  - External fraud
  - Mixed fraud
- While the later according to Nwankwo (1991) gives rise to:
- Management fraud
  - Employee fraud

### Internal Fraud

Internal frauds are fraud committed among the member staff of the bank. Frauds are not only the most frequent occurring, but by far the highest in terms of number than the type involving both staff and outsiders (NDIC, 2005).

The following listed methods according to Jenfa, (1991) are categorized as the internal fraud:

- i. Unofficial borrowing
- ii. Over invoicing
- iii. Unauthorized stamps
- iv. Fictitious transactions
- v. Committing vi. Fraudulent use of document
- vii. Cash on hand converted to personal use
- viii. Premature writing off of assets
- ix. Ghost workers
- x. Figures falsification

### External Fraud

There are three types of fraud committed wholly by persons and organization external to the bank that is, people and organizations other than or without the involvement of the bank staff, persons such as these could be bank customers or those who do not do business with these banks such as;

Over invoicing: Over invoicing of services rendered to banks are done by dubious suppliers and other contractors either, through inflation of normal rates over actual value of services rendered or through committance with bank employees to get pay for services they already have been paid for (Omachonu, and Ndulor 1998; Idowu, 2009).

### Mixed Fraud

This is evident in the sessions of the Failed Bank Tribunals across the country; in the Ibadan zone, four (4) Universal Trust Bank employees conspired with customers to defraud the bank of N84.27 million through unauthorized loans, overdrafts, fraudulent and false accounting procedures (Ogbu, 1998). In addition, it was revealed that 152 bank employees were involved in frauds and forgeries in 2001, with supervisors, officers, accountants, clerks, and cashiers accounting for approximately 95.4 percent of the total number of fraudsters (NDIC, 2005). Quite often signature of customers are forged by non-customers with the active connivance of staff who in most cases provide the specimen signature cards, where forgeries are not perfected, arrangements are made with staff to beat the signature verification process.

### Management Fraud

This type of fraud primarily refers to deceptions perpetrated by bank employees in the top echelon, i.e., top management level staffs, with the primary goal of deceiving shareholders and, to a lesser extent, auditors and regulatory authorities, through the deliberate presentation of false financial statements – the key device of

perpetration (Jat, 1992). Bank management frauds often take one of two forms, similar to other types of business frauds:

- Concealing inadequate business operation performances
- Concealing prohibited business activities.

### Employee Fraud

Employee fraud occurs when employees in lower management positions commit fraud. Employee fraud, unlike management fraud, does not involve the alteration or misrepresentation of financial statements or information, but rather the outright misappropriation of bank assets or the alteration of individual instruments such as checks and drafts for personal gain. Conversions of cash or other employer assets to the fraudster's immediate benefit are common examples of employee fraud. Employees, like their management counterparts, commit a large number of fraudulent acts after gaining a position of trust and responsibility. Employees in non-management positions, such as cashiers, clerks, accountants, and others, commit a significantly higher proportion of bank frauds.

## III. METHODOLOGY

Data was collected from both primary sources. Questionnaire was employed in collecting primary data from the respondents in this study. This approach for data gathering was adopted because it saves time and reduces cost, and allows large population to be used.

The study's target population was the twenty-two (22) Nigerian deposit money banks, of which five (5) were chosen as samples: Diamond Bank Plc, Ecobank Nigeria Plc, Fidelity Bank Plc, First Bank of Nigeria, and Polaris Bank Plc of Nigerian deposit money banks. The sample size was calculated using the sample frame developed by Krejcie and Morgan (2006). Using the simple random sampling technique and Krejcie and Morgan (2006), the sample size for this study was 1,669 registered bank employees. The sample distribution is shown in the table below, while Krejcie and Morgan's table for sample size selection is shown below (2006).

### Population and sample of the study

The population of this study consist of all the staff of the Twenty two (22) Deposit Money Banks in Nigeria since they have the same characteristic, structure and type of management and procedure processes sine they all receives directives and work under same umbrella of central bank.

The Sample of the respondents was drawn from 1,669 staff and the management team of five

(5) selected deposit money banks in Nigeria. In this case probabilistic sampling whose logic lies in selecting a truly random and representative sample that permits confident generalizations from the sample to a larger population is to be done. By the

use of this probabilistic sampling, each population member has a known chance of being included. Statistically, in order for generalization to take place, a sample of at least 5 deposit money banks are to be randomly selected.

**Table 1 Population and Sample**

S/N	Name of Bank	Population	Sample
1	Diamond Bank Plc	3805	351
2	Ecobank Nigeria Plc	1500	306
3	Fidelity Bank Plc	1847	317
4	First Bank of Nigeria Plc	5426	357
5	Polaris Bank Plc	2804	338
<b>Total</b>		<b>15382</b>	<b>1669</b>

Source: Deposit Banks Annual Reports 2021

This study collected primary data and utilized structured questionnaire (SQ). The questionnaire was collected after the respondents filled it. The study is concerned with variables which cannot be directly observed such as opinions, perceptions and feelings of respondents. Such information is best described through questionnaires. The questionnaire is considered most appropriate because it allows for collection of data from many respondents within a short time and provides a high degree of data standardization and adoption of generalized information amongst any population.

Descriptive statistics was used to analyze demographic data of the respondents (frequency and percentage) and research questions while inferential statistics (ANOVA) was used to analyze hypothesis one and two. Completed questionnaire were collected for completeness and consistency. The questionnaire was coded to allow for statistical analysis. The Statistical Package used to analyze the data was SPSS. Tables were used to summarize responses for further analysis and facilitate comparison. The terms and procedure used were presented in stages:

**ANOVA Summary Table**

Source	SS	df	MS	Ratio	Remark
Between	$SS_B$	t-1	$SS_B/df_B$	$MS_B$	Accept Or Reject
Within	$SS_W$	N-t	$SS_W/df_w$	$MS_W$	
<b>Total</b>	<b><math>SS_T</math></b>	<b>N-1</b>			

Source:Adefila (2008)

**IV. RESULT AND DISCUSSION**

This study was conducted to examine the effect of Monitoring on fraud detection in deposit money banks in Nigeria. The demographic data of the respondents and research questions were analyzed using descriptive statistics (frequency and percentage) while inferential statistics (ANOVA) was used to test hypothesis

one and two. One thousand six hundred and sixty-nine (1,669) copies of questionnaire were administered but only one thousand six hundred and fifty (1,650) copies were retrieved, making 98.8% return rate. The results were presented in tables and discussed according to the research objectives, questions and hypotheses.

**Table 2. Demographic information of the Respondents**

**n =1,650**

Variables	Frequency	Percentage
<b>Age</b>		
18-30 years	273	16.5
31-40 years	605	36.7
41-50 years	533	32.3
51-60 years	145	8.8
Above 60 years	94	5.7
<b>Educational Qualification</b>		
Diploma	290	17.6
B.Sc	1075	65.2
M.Sc/MBA/MA/MPhil	271	16.4
PhD	14	0.8
<b>Professional qualification</b>		
ACCA	58	3.5
ICAN	236	14.3
ANAN	413	25.0
Other	943	57.2
<b>Working Experience</b>		
1-5 years	440	26.7
6-10n years	614	37.2
11-15 years	476	28.8
16 years above	120	7.3
<b>Job Description</b>		
Auditor	1190	72.1
General Accountant	293	17.8
Chartered accountant	167	10.1
<b>Gender</b>		
Male	1266	76.7
Female	384	23.3
<b>Total</b>	<b>1650</b>	<b>100.0</b>

Source: Field Survey 2021

Table 4.1

described the demographic information of the respondents; 1650 respondents participated in this study, out of which 16.5% were between the of ages 18-30 years, 36.7% were above 31-40 years, 32.3% were between the of ages 41-50 years, 8.8% were between the of ages 51-60 years, 5.7% were 60 years and above, 17.6% had Diploma, 65.2% had B.Sc., 16.4% had M.Sc./MBA/MA/MPhil, 0.8% had PhD, 3.5% were member of ACCA, 14.3% were member of ICAN,

25.0% were member of ANAN, 57.2% were members of other professional bodies, 26.7% had worked for 1-5 years, 37.2% had worked for 6-10 years, 28.8% had worked for 11-15 years, 7.3% had worked for 16 years and above, 72.1% were Auditor, 17.8% were General Accountant, 10.1% were Chartered of which 76.6% were male and 23.3% were female making a total number of 1650 (100%) respondents.

**Research Question:** What are the effects of monitoring on fraud detection in Deposit money banks in Nigeria?

**Table 3. Effects of Monitoring on fraud Detection on Deposit money Banks in Nigeria**

S/N	Statement	SA	A	U	D	SD
1.	Ongoing monitoring is one of the effects of	<b>804(48.7%)</b>	783(47.5%)	42(2.5%)	14(0.8%)	7(0.4%)



2.	monitoring on fraud detection on Deposit money banks in Nigeria Fraud identification is one of the effects of monitoring on fraud detection on Deposit money banks in Nigeria	<b>811(49.2%)</b>	790(47.9%)	42(2.5%)	7(0.4%)	0(0.0%)
3.	Reporting deficiencies is one of the effects of monitoring on fraud detection on Deposit money banks in Nigeria	<b>975(59.1%)</b>	605(36.7%)	63(3.8%)	7(0.4%)	0(0.0%)
4.	Separate evaluation is one of the effects of monitoring on fraud detection on Deposit money banks in Nigeria	<b>968(58.7%)</b>	598(36.2%)	63(3.8%)	21(1.3%)	0(0.0%)
5.	Periodic assessment is one of the effects of monitoring on fraud detection on Deposit money banks in Nigeria	501(30.4%)	<b>1072(65.0%)</b>	56(3.4%)	14(0.8%)	7(0.4%)

Source: Filed Survey 2017

Table 4.4 shows the effects of monitoring on fraud detection on Deposit money banks in Nigeria. Item one above shows that, (48.7%) and (47.5%) of the respondents strongly agreed and agreed respectively with the question, 2.5% were undecided, while 0.8% and 0.4% disagreed and strongly disagreed respectively with the question. One can conclude that ongoing monitoring is one of the effects of monitoring on fraud detection on Deposit money banks in Nigeria. From question two above, 59.1% strongly agreed, 36.7% agreed, while 3.8% was undecided. Furthermore, 0.4% disagreed and 0.0%

strongly disagreed with the research question respectively. One can infer that fraud identification is one of the effects of monitoring on fraud detection on Deposit money banks in Nigeria. Item three above shows that, (59.1%) and (36.7%) of the respondents strongly agreed and agreed respectively with the question, 3.8% were undecided, while 0.4% and 0.0% disagreed and strongly disagreed respectively with the question. One can conclude that reporting deficiencies is one of the effects of monitoring on fraud detection on Deposit money banks in Nigeria. From question four above, 58.7% strongly agreed, 36.2%

agreed, while 3.8% was undecided. Furthermore, 1.3% disagreed and 0.0% strongly disagreed with the research question. One can infer that separate evaluation is one of the effects of monitoring on fraud detection on Deposit money banks in Nigeria. Item five above show that, (30.4%) and (65.0%) of the respondents

strongly agreed and agreed respectively with the question, 3.4% were undecided, while 0.8% and 0.4% disagreed and strongly disagreed respectively with the question. One can conclude that periodic assessment is one of the effects of monitoring on fraud detection on Deposit money banks in Nigeria.

**Hypothesis One (H<sub>01</sub>):** There is no significant effect of monitoring on fraud detection in Deposit money banks in Nigeria.

**Table 4. Monitoring on Fraud detection in Deposit money banks in Nigeria**

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	171.212	4	0.084	78.222	0.019
Within Groups	213.319	1645	0.233		
<b>Total</b>	<b>384.531</b>	<b>1649</b>			

(F (4, 1645) =78.222, P<0.05)

Table 4 shows a significant effect of monitoring on fraud detection in Deposit money banks in Nigeria. Since the p value (0.019) is less than the alpha (0.05) value ( $p < \alpha$ ) the null hypothesis which states that there is no significant effect of monitoring on fraud detection in Deposit money banks in Nigeria is rejected at 0.05 level of significance. Meaning monitoring has an immense impact on fraud detection in Deposit money banks Nigeria.

#### 4.1 Summary of Findings and Discussions

1. Ongoing monitoring, fraud identification, reporting deficiencies, separate evaluation and periodic assessment were the effects of monitoring on fraud detection on Deposit money banks in Nigeria
2. There is a significant effect of monitoring on fraud detection in Deposit money banks in Nigeria.

The finding revealed ongoing monitoring, fraud identification, reporting deficiencies, separate evaluation and periodic assessment were the effects of monitoring on fraud detection on Deposit money banks in Nigeria. Aligning with this finding is study by Ebimobwei (2011) examined the effect of internal control services in fraud detection. The primary data was collected with the help of a well-structured questionnaire of three sections administered to twenty four banks in Port Harcourt, the capital of Rivers State and the data collected from the questionnaires were analyzed with descriptive statistics, Augmented Dickey-fuller, ordinary least square and Granger Causality. The result reveals that the application of internal control affects the level of fraudulent activities of banks.

Finding also disclosed a significant effect monitoring on fraud detection in Deposit money banks in Nigeria. Adedoyin (2013) studied the Internal Control measures and the detection of and prevention of fraud in banks. Using participants from the Main Street Bank Plc Aba branch in Nigeria and applying descriptive method showed that Internal Control system was significant in detection and prevention of fraud in banks in Nigeria.

Ademola (2010) studied the effect of internal control system in Nigeria public sector; a study of the Nigerian National Petroleum Corporation. Using chi square to test the hypotheses, showed that understanding the Internal Control techniques by both the management and the low level employees helps to reduce embezzlement and fraud in the corporation.

Ewa and Udoayang (2012) carried out a study to establish the impact of internal control design on banks' ability to investigate staff fraud and staff lifestyle and fraud detection in Nigeria. Data were collected from 13 Nigerian banks using a four point likert scale questionnaire. The study found that internal control design influences staff attitude towards fraud such that a strong internal control mechanism is deterrence to staff fraud while a weak one exposes the system to fraud and creates opportunity for staff to commit fraud.

#### V. CONCLUSION

The study was conducted to examine the effect of Monitoring on fraud detection in deposit money banks in Nigeria. An objectives, research questions, and hypothesis were used to guide the research. Diamond Bank, EcoBank, Fidelity Bank, First Bank, and Polaris Bank were the only banks included in the research. For this study, various

literatures were examined. The study was founded on the theory of fraud prevention. To select (1,669) respondents, the study used a simple random sampling method (Banks staff). The study's data was collected using a structured questionnaire. Descriptive statistics (frequency and percentage) were used to analyze the demographic data of the respondents and the research questions, while ANOVA was used to test the hypothesis. The result of the study revealed that limited company expansion, wide company objective, risk identification, lack of analysis on identified risk and managing changes were the effects of monitoring on fraud detection in deposit money banks.

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