Enhancing the Integrity of the Nigerian Deposit Money Banking System: Effective Strategies for Mitigating Fraud and Corruption

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Abstract

This study investigated strategies to address fraud and corruption in Deposit Money Banks located in Nigeria. The goals comprised of examining the impact of weak accounting systems on bank profitability, investigating how inadequate supervision and improper asset valuation affect capital adequacy, and assessing how the internal control system influences banks' liquidity. Making use of an ex post facto study design, the study sampled ten deposit money banks in Southwest Nigeria through simple random sampling. Data collection employed a qualitative method with questionnaires. The statistical package SPSS facilitated the analysis, revealing significant relationships. Findings indicated that weak accounting systems, inadequate supervision, and improper asset valuation negatively impact profitability and capital adequacy, while the internal control system significantly affects liquidity. The research identifies certain banks with deficient or underutilized corporate fraud control systems, emphasizing the need for government and regulatory bodies to reassess the roles of internal and external auditors in these institutions. It proposes a thorough review of the responsibilities of internal auditors in risk management and external auditors in evaluating financial records. This aims to equip auditors with the necessary tools and autonomy to effectively detect and prevent fraudulent activities. Additionally, it suggests revising regulatory frameworks to enhance vigilance and transparency in auditing practices. Implementing these recommendations could fortify the banking sector against fraud, improve auditing processes, and ensure a more secure financial environment, benefiting all stakeholders and the broader economy.

Key words: *Internet fraud, monetary policy, Internal Control*

Introduction

One of the key components of Nigeria's economic structure is the banking industry, facilitating financial intermediation and contributing significantly to the country's development. However, amidst its crucial role, the sector has been grappling with persistent challenges, notably in the form of fraud and corruption. In recent years, instances of fraudulent activities within the Nigerian deposit money banking system have drawn attention, prompting an urgent need for robust strategies to address these concerns (Adeusi, 2019; Udeh, 2020). Fraudulent practices within the banking sector in Nigeria have posed substantial threats to the stability, credibility, and trust that are fundamental to the functioning of financial institutions (Abubakar & Rahman, 2018). Instances of internal collusion, cybercrimes, and sophisticated fraudulent schemes have not only undermined the integrity of the system but have also eroded public confidence in the banking sector (Okoye & Ezejiofor, 2021). In response to these challenges, stakeholders, including regulatory bodies, financial institutions, and policymakers, have been actively engaged in formulating and implementing strategies aimed at curtailing fraudulent activities and fostering a culture of transparency and accountability within the Nigerian deposit money banking system (Adediran et al., 2020; Oladipupo & Sholarin, 2021). These strategies encompass a multifaceted approach, incorporating technological advancements, regulatory reforms, capacity building, and enhanced risk management frameworks to safeguard the banking sector's integrity (Olayinka, 2019; Yahaya & Abubakar, 2020).The Nigerian deposit money banking system has historically been a critical pillar of the nation's economic landscape, serving as the backbone for financial transactions, investments, and economic growth (Adeusi, 2019; Udeh, 2020). Over the years, this system has encountered significant challenges, predominantly stemming from fraudulent activities and corruption within its operational framework (Abubakar & Rahman, 2018). Fraud and corruption in the Nigerian banking sector have manifested in various forms, including insider collusion, cybercrimes, identity theft, and money laundering schemes, posing a threat to the integrity and stability of financial institutions (Okoye & Ezejiofor, 2021). These illicit activities not only undermine the trust of customers and investors but also hinder the sector's ability to function efficiently and sustainably. The prevalence of fraudulent practices within the banking system has necessitated urgent and strategic interventions to safeguard against these threats. Regulatory bodies, financial institutions, and policymakers have embarked on initiatives aimed at implementing robust mechanisms and frameworks to mitigate fraud and corruption risks (Adediran et al., 2020; Oladipupo & Sholarin, 2021). Understanding the historical context and the evolving nature of fraudulent activities within the Nigerian deposit money banking system is crucial for devising effective strategies to combat these challenges. This study aims to delve into the historical precedents, prevailing trends, and regulatory responses related to fraud and corruption in the Nigerian banking sector. By analyzing empirical data, regulatory frameworks, and scholarly insights, this research endeavors to propose and evaluate viable strategies to enhance the resilience and integrity of the banking system.This paper aims to critically examine the prevalent issues of fraud and corruption within the Nigerian deposit money banking system while evaluating the effectiveness and implications of various strategies adopted to mitigate these challenges. By analyzing existing literature, regulatory frameworks, and empirical studies, this research intends to provide insights into viable measures that can bolster the resilience of the banking system and restore public trust in financial institutions.

Research Problem

The Nigerian deposit money banking system grapples persistently with the challenges linked to fraud and corruption, substantially compromising its stability and credibility (Adeusi, 2019; Udeh, 2020). Despite continuous regulatory interventions, the sector remains afflicted by fraudulent activities, posing concerns regarding its effectiveness and eroding public trust (Abubakar & Rahman, 2018). The complex nature of fraudulent practices within Nigerian banks—ranging from insider collusion to cybercrimes and identity theft—poses grave threats (Okoye & Ezejiofor, 2021). These illicit actions not only impact the financial well-being of institutions but also undermine customer confidence, impeding the sector's ability to foster sustainable economic growth (Oladipupo & Sholarin, 2021). This study aims to delve deeper into the persistent challenge of fraud and corruption within the Nigerian deposit money banking system. It seeks to scrutinize the underlying causes, evolving patterns, and the effectiveness of existing strategies. Understanding these intricate aspects is crucial for devising comprehensive and targeted approaches to combat fraudulent practices and re-establish trust in the banking sector. The research seeks to explore the relationships between the strength of the accounting system and bank profitability, adequacy of supervision and asset valuation concerning capital adequacy, and the impact of the internal control system on overall bank performance in Nigeria. The investigation aims to ascertain whether a weakened accounting system significantly affects bank profitability, whether inadequate supervision and improper asset valuation have substantial impacts on capital adequacy, and the extent to which the internal control system influences operational efficiency and overall bank performance in Nigeria.

Research Objectives

1. To investigate the relationship between the strength of the accounting system and the profitability of banks in Nigeria.
2. To assess the impact of supervision adequacy and proper asset valuation on the capital adequacy of Nigerian banks.
3. To examine the influence of the internal control system on the overall performance of banks in Nigeria.

Research Questions

1. How does the quality of the accounting system relate to the profitability of banks in Nigeria?
2. What is the effect of adequate supervision and proper asset valuation on the capital adequacy of Nigerian banks?
3. How does the internal control system impact the operational efficiency and performance of banks in Nigeria?

Research Hypothesis

H_1: Weak Accounting System Does Not Have Significant Effect On Profitability Of Banks' In Nigeria.

H_1: Lack Of Adequate Supervision And Improper Valuation Of Assets Does Not Significantly Affect Capital Adequacy In Nigerian Banks.

H_1: Internal Control System Does Not Have a Significant Effect on commercial Banks

Significant and scope of the study

This research focuses on examining the multifaceted aspects of fraud and corruption within the Nigerian deposit money banking system, encompassing various forms of fraudulent activities such as insider collusion, cybercrimes, money laundering, and identity theft (Adeusi, 2019; Okoye & Ezejiofor, 2021). The study will explore these phenomena within the context of Nigerian banks, aiming to analyze historical trends, prevalent patterns, and the effectiveness of strategies employed to mitigate these challenges (Abubakar & Rahman, 2018; Udeh, 2020).Additionally, this research will assess the regulatory frameworks, technological innovations, and governance mechanisms implemented by Nigerian financial institutions to combat fraud and corruption (Adediran et al., 2020; Oladipupo & Sholarin, 2021). The scope includes an in-depth analysis of the strengths and weaknesses of existing approaches, aiming to provide insights into potential areas for improvement and innovation.The study's significance lies in its contribution to understanding the critical issues surrounding fraud and corruption within the Nigerian deposit money banking system. By investigating the root causes and evolving patterns of fraudulent activities, this research aims to offer valuable insights for policymakers, regulatory bodies, financial institutions, and stakeholders in devising more robust and effective strategies (Olayinka, 2019; Yahaya & Abubakar, 2020). This study holds significance in fostering public awareness and promoting transparency within the banking sector. By identifying gaps and evaluating the impact of existing measures, it endeavors to pave the way for recommendations that can enhance the resilience and integrity of Nigerian banks, ultimately restoring trust and confidence among customers and investors (Adediran et al., 2020; Okoye & Ezejiofor, 2021).

Literature Review

In this review of the concept, the focus is on Deposit Money Banks (DMBs) in Nigeria, with the Central Bank of Nigeria (CBN) serving as the primary entity responsible for implementing monetary policies. The CBN has implemented various monetary policies aimed at facilitating better access to credit for industrial development. It is highlighted that the CBN's capacity to gather savings from surplus units in the economy and efficiently direct these funds through lending and investments to deficit units is essential to the stability of the banking system. This procedure is seen to be crucial for raising the economy's potential for production. As a result, the intermediary roles played by deposit money banks have significantly boosted both healthy competition and stakeholders' faith in the functionality of the banking system. The type of frauds and the factors that have enabled them have been the focus of several accounting and forensic accounting studies.All of the studies' primary goals were to inform audit and accounting professionals on the framework for fraud prevention, detection, and investigation and to offer advice on how to spot warning indicators and take appropriate action. Forms of fraud in corporate organisations like banks and manufacturing companies are called corporate frauds. Corporate frauds are caused by the WOE that is, Will, Opportunity and Exit.

1. Will: the mindset of individual targeted at committing a fraud.
2. Opportunity: the action of perpetrating fraud or act of attempting a fraud.
3. Exit: the means of avoiding penalty for fraud, whether successful or attempted.

The banking system in Nigeria has grappled persistently with challenges surrounding fraudulent activities and corruption, posing substantial threats to its reliability and standing (Adeusi, 2019; Udeh, 2020). Various forms of fraud, including insider collusion, cybercrimes, and money laundering schemes, have been documented within the Nigerian banking sector (Abubakar & Rahman, 2018; Okoye & Ezejiofor, 2021). These deceitful practices have detrimentally impacted the financial health of institutions and contributed to the erosion of trust in the banking system among the public (Oladipupo & Sholarin, 2021). Despite concerted regulatory efforts, fraudulent activities persist, demanding more robust strategies and interventions to preserve the sector's integrity (Adediran et al., 2020; Udeh, 2020). The literature emphasizes the pivotal role of regulatory frameworks in combating fraud and corruption within Nigerian banks (Adeusi, 2019; Abubakar & Rahman, 2018). Frauds affect all categories of businesses, (large scale or small scale, financial and non-financial institutions). The usage of internet and online bank transactions has rapidly increased fraudulent activities in deposit money banks in Nigeria.The introduction of these new technologies (electronic and on-line products) to curb fraudulent activities and enhance banks performance have been circumvented by fraudsters and scammers, using the same technologies to lure and deceive many customers of the banks and defraud them of their hard earned cash. For instance, con artists utilize the "Phishing" approach to deceive people. Phishing is the practice of tricking customers into purchasing bank goods by using phony websites and bogus emails. This is accomplished by forcing customers of those products to divulge private bank information in order to access their bank accounts, including account numbers, passwords for ATM cards, and other sensitive information. The concept of fraud in organizational settings, particularly in the banking industry, is a multifaceted issue with significant consequences. Fraud involves intentional, deceptive acts aimed at gaining undue advantages. The causes of fraud can be categorized into institutional and environmental factors. The fraud triangle, consisting of incentive or pressure, opportunity, and rationalization, is a framework used to understand the elements contributing to fraud. In the banking sector, technological advancements, such as e-banking, have created new challenges, leading to increased incidents of fraud. The Central Bank of Nigeria (CBN) has implemented various reforms to combat fraud and corruption, emphasizing the importance of strong internal controls. However, the complexity of fraud in the digital age poses difficulties in identifying root causes. The causes of bank fraud include poor internal control, inadequate staff training, staff negligence, and the use of sophisticated accounting machines. Environmental factors like the personality profile of fraudsters and societal values also contribute to fraud incidents. The CBN's reforms, particularly the consolidation program in 2005, aimed to strengthen the financial sector and prevent fraud. Technological advancements have both positive and negative impacts, as they offer opportunities for improved efficiency but also create new avenues for fraudsters. The Nigerian banking industry faces challenges in maintaining trust and confidence due to the endemic nature of fraud. Fraud prevention requires a combination of legislative measures, regulatory reforms, and effective internal controls.

The World Bank Group emphasizes the importance of governance and anti-corruption initiatives, focusing on building transparent and accountable institutions. The increasing trend of cybercrime and e-fraud poses a significant threat to the banking sector. The Nigerian Deposit Insurance Corporation (NDIC) reports a rise in fraud cases, especially related to online banking and ATM/card-related fraud. Fraud remains a pervasive issue in the Nigerian banking industry, necessitating continuous efforts to strengthen internal controls, regulatory frameworks, and technological safeguards to protect against evolving threats. The economic impact of fraud underscores the urgency of addressing these challenges to ensure the stability and integrity of the financial sector.

Technological advancements, such as biometrics and artificial intelligence, hold promise as tools to mitigate fraudulent activities (Okoye & Ezejiofor, 2021; Oladipupo & Sholarin, 2021). Studies underscore the significance of capacity building and ethical awareness programs in fostering a culture of compliance and transparency among stakeholders in the banking sector (Adediran et al., 2020; Udeh, 2020). Understanding the intricate nature and evolving dynamics of fraud within the Nigerian banking system is crucial for devising effective strategies to confront these challenges (Adeusi, 2019; Okoye & Ezejiofor, 2021).

This literature review amalgamates existing research, shedding light on the multifaceted nature of fraud and corruption within Nigerian banks. Through an analysis of empirical findings and scholarly perspectives, it aims to contribute to a deeper understanding of these issues and provide insights into viable strategies to reduce fraud and corruption in the Nigerian deposit money banking system.

Causes of Fraud

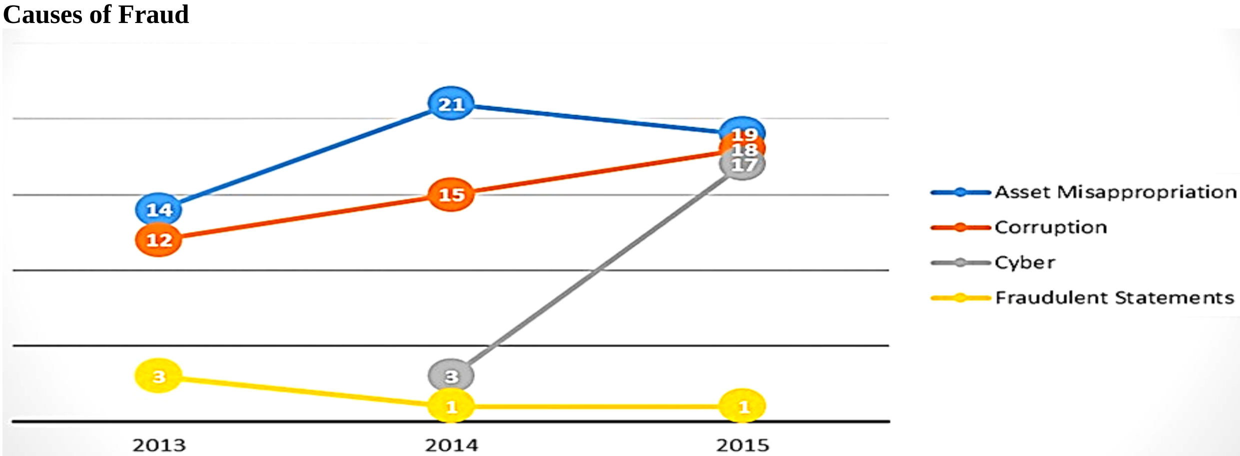

Figure 1

The significance of combatting fraud in the contemporary business arena is evident, notably in addressing cybercrime and e-fraud as pivotal concerns for 2020 and beyond. The surge in cybercrime and e-fraud cases from 3 to 17 between 2019 and 2021 underscores the urgency of this issue. Contrary to the misconception that cybercrime and e-fraud are purely technological challenges, tackling these activities necessitates comprehensive solutions encompassing People, Process, and Technology.

Although the Central Bank of Nigeria (CBN) reported a substantial reduction in fraud rates in Deposit Money Banks from N6.2 billion in 2019 to about N2.3 billion in 2021, reported losses due to cybercrime and e-fraud alone total approximately N199 billion between 2005 and 2022. To combat cybercrime, the CBN has implemented various initiatives, including introducing two-factor authentication for internal banking processes, reviewing NIBSS' Instant Payment System, establishing an industry fraud desk, implementing the Bank Verification (BVN), and deploying the Central Anti-Fraud Solution.

It's important to note that fraudsters and cybercriminals adapt to technological advancements, especially in the cloud and the Internet of Things (IoT). As businesses and consumers increasingly adopt the cloud for cost-effectiveness, fraudsters exploit vulnerabilities in cloud infrastructure and IoT devices. To secure cloud infrastructure and prevent unauthorized access to IoT devices, organizations must demand enhanced security measures from service providers and IoT manufacturers.

As channels for customer and consumer interactions become more portable, fraudsters adapt accordingly. Despite challenges, mobile payment platforms continue to offer convenient and cost-effective means for personal and business transactions, contributing to financial inclusion. However, the rise in mobile payment platform adoption is anticipated to correlate with increased fraud incidents. Thought Leadership material by KPMG, specifically "Payment Developments in Africa – Volume 1 / 2015," cites a CBN source indicating continuous growth in the value of transactions processed via mobile platforms. Vigilance in addressing fraud in this evolving landscape remains imperative for both consumers and operators.

To enhance banking operations in Africa, deposit money banks in Nigeria have transitioned to full-time electronic platforms. The advent of advanced technology in the Nigerian banking industry has yielded positive results, making various forms of transactions more accessible and convenient for customers nationwide. Notably, the Nigeria public sector, especially government parastatals, introduced the Treasury Single Account (TSA) and Integrated Payroll and Personnel Information System (IPPIS) to counteract fraudulent activities by civil and public servants. Despite these advancements in payment systems, online fund transfers, mobile, and e-banking services, several deposit money banks remain susceptible to frauds.

Nigeria's deposit money banks have a major impact on the country's economic progress and expansion. Their role in financial mobilization, implementation of monetary policies, and provision of a competent payment system is crucial. However, the banking industry in Nigeria faces challenges, particularly in combating fraud and corrupt practices. These issues create a risky and potentially damaging environment for banking businesses, significantly impacting the Nigerian economy. Mitigating fraud and corruption cases has become a priority, requiring actionable recommendations.

The causes of bank fraud in Nigeria can be divided into internal and environmental/societal factors. Internally, financial problems, opportunities, the Differential Association theory, job dissatisfaction, capability of the offender, misfit between values and norms, bad management practices, recruitment systems, frustration, staff negligence, "sustenance of loss" belief, inadequate internal controls, sophisticated accounting systems operated by inadequately equipped staff, social engineering, and manipulation of emotions or social status contribute to fraudulent activities. Addressing these internal causes and implementing effective measures to strengthen internal controls are essential to mitigate fraud risks in the Nigerian banking sector.

There are three primary types of fraud: mixed, external, and internal. An organization's employees and directors may commit internal fraud, persons unrelated to the business may commit external fraud, and outsiders and the organization's employees or directors may collude to commit mixed fraud.

Defalcation, outright theft, embezzlement, tampering with reserves, insider abuses, forgeries, unauthorized lending, lending to ghost borrowers, kite flying, cross-firing, unofficial borrowing, impersonation, teeming and lading, fake payments, fraudulent use of the company's documents, fictitious accounts, false proceeds of collection, manipulation of vouchers, dry posting, over-invoicing, inflation of statistical data, fictitious contracts, duplicate checkbooks, computer fraud, misuse of suspense accounts, false declaration of cash shortages, and more are all considered fraudulent activities.Bank staff frequently engage in common types of fraud, including self-dealing, granting unauthorized overdrafts and loans, fraudulent transfers and withdrawals, and alteration/diversion/suppression of cash vouchers and cheques. Fraudulent practices extend to foreign exchange operations and posting fictitious credits. Bank customers are also involved in various fraudulent activities, such as advanced fee fraud, cheque kiting, account opening malpractice, ATM letters of credit malpractice, counterfeit securities, cheque malpractice, computer malpractice, money laundering, and account frauds. Loan frauds, posting of fictitious credits, and clearing fraud contribute to the diverse landscape of fraudulent activities.

Prevention and Control of Fraud and Corruption in Banks

A variety of physical, conceptual, and procedural barriers designed to discourage fraudulent activity are included in fraud prevention strategies. The goal is to use reasonably priced countermeasures that can stop or lessen the effects of fraud threats that have been discovered through risk assessment. Ensuring data confidentiality, integrity, availability, and accountability is a crucial aspect of information management. Strong corporate, environmental, and physical security measures are essential to information management and are necessary to uphold appropriate corporate care standards inside a company. Bank frauds in the recent past have frequently taken use of computer systems. The goal of fraud prevention initiatives is to protect computers and computer networks against manipulation and intervention, particularly in the context of electronic and online banking. Sustained endeavors are focused on averting computer fraud by efficient administration and observation of information technology infrastructures. For example, ATMs are placed in secure areas on purpose to keep consumers safe from those who could be looking over their shoulders for passwords and PINs. ATMs are frequently positioned in locations with restricted access and under security guard watch. In order to deter fraud, a number of procedural, logical, and physical obstacles are put in place as part of fraud prevention techniques. Their goal is to put into place reasonably priced defenses that can stop or lessen the effects of fraud risks found by risk analysis. Different tactics are used by Deposit Money Banks throughout the globe to manage and stop fraudulent activity. Here are a few of the tactics: Deposit Money Banks must have a strong fraud control system in place in order to successfully lower fraudulent activity. Important steps include addressing fraud risks that can be measured and those that cannot, spotting and disclosing possible fraudulent opportunities, and raising organizational knowledge of fraudulent activity. It's crucial to foster an environment where fraud control is seen as a shared duty. While employee monitoring acts as a deterrent, personnel and transaction monitoring, education, enhanced personal identification, and counterfeit avoidance are among the top methods in fraud management. An efficient fraud control system is facilitated by hiring competent people who are committed to the bank's success, allocating proper power at every level, and organizing staff members effectively. Employee discipline at banks guarantees responsibility, order, and compliance. Corporate fraud control include hiring people on the basis of their qualifications and experience, providing fair pay and opportunities for advancement, and outlining supervisory duties precisely. Effective fraud control in Deposit Money Banks is achieved through a variety of strategies, including developing an environment of integrity, assessing fraud risks, putting monitoring procedures in place, and offering rewards. It is advised to identify high-risk fraud areas and implement strategies such as permission processes, clear corporate and security rules, job segregation, and electronic transaction recording. A fraud management lifecycle, biometric identification systems, geolocation, facial recognition technology, electronic authorization, payer authentication, computer forensics, online verification systems, real-time payment authorization, secure electronic transactions, and positive pay systems are examples of contemporary strategies.

Technology, such as geolocation and facial recognition, aids in preventing and detecting fraud. Electronic authorization and payer authentication ensure transaction validity, while computer forensic systems analyze electronic data without altering the original information. Online verification systems authenticate customer identity, and a fraud management lifecycle encompasses the entire fraud prevention process. Other effective strategies encompass audits, periodic risk assessments, and robust internal controls. Audits, whether internal or external, play a crucial role in reducing fraud, while regular risk assessments focus on high-risk areas. Internal controls, such as secure data storage and employee background checks, contribute significantly to fraud prevention. The banking system's modernization has been shaped by the implementation of World Bank rules for development lending, which have influenced the establishment of fraud detection systems in Nigerian banks. The World Bank has instituted comprehensive rules aimed at preventing and detecting fraud and corruption in its projects. These rules include specific anti-corruption policies designed to address corruption issues in bidding and loan processes within general bank operations. Additionally, the guidelines provide case studies to illustrate potential instances of fraud. The World Bank's rules also incorporate ethical guidance tailored for bank staff to address challenges related to ethical practices among employees and ensure the highest standards of conduct within the banking institution.

In the context of supervision, inadequate supervisory conditions often contribute to bank fraud. Supervision structures vary across jurisdictions, with the European Union employing a centralized and unified bank supervisory system, the United States utilizing shared bank supervision structures, and Nigeria employing a central supervisory framework. This diversity can lead to uncertainties surrounding bank management, particularly in the event of a bank failure, and raises questions about responsibility for losses resulting from fraud. The complexity is further heightened in the case of international banks, where different levels of supervision and various regulatory bodies may be involved in different countries. Consequently, a bank appropriately supervised in its home country may lack adequate oversight in other jurisdictions, creating potential vulnerabilities.

Theoretical Review

The study of fraud and corruption within the Nigerian deposit money banking system draws upon various theoretical frameworks to understand the complexities of these phenomena and propose effective strategies for mitigation (Adeusi, 2019; Udeh, 2020). Agency theory, a prominent framework in understanding organizational behavior, suggests that conflicts of interest between different stakeholders in the banking sector may lead to opportunistic behavior and fraudulent activities (Jensen & Meckling, 1976). This theory underscores the importance of aligning incentives and monitoring mechanisms to mitigate agency problems within banking institutions. Institutional theory posits that organizational structures, norms, and regulatory environments significantly influence behavior within institutions (Scott, 2014). Within the context of Nigerian banks, adherence to regulatory frameworks, institutionalized norms of ethical conduct, and the effectiveness of regulatory bodies play a pivotal role in deterring fraudulent behaviors (Abubakar & Rahman, 2018; Adediran et al., 2020).

The deterrence theory in criminology provides insights into the decision-making process of potential fraudsters by emphasizing the significance of the certainty, severity, and swiftness of punishments as deterrents for criminal behavior (Gibbs, 1975). In the banking sector, effective enforcement of regulations and imposition of consequences for fraudulent activities can serve as deterrents.Moreover, the technology acceptance model (TAM) is relevant in understanding the adoption and utilization of technological solutions within Nigerian banks to prevent fraud (Davis, 1989). TAM suggests that perceived usefulness and ease of use of technology influence its adoption, emphasizing the importance of user acceptance in implementing fraud prevention technologies (Oladipupo & Sholarin, 2021; Okoye & Ezejiofor, 2021).By integrating these theoretical perspectives, this review aims to provide a comprehensive understanding of the theoretical underpinnings relevant to the study of fraud and corruption within the Nigerian deposit money banking system.

Empirical Review

Numerous empirical studies have investigated the prevalence and impact of fraud and corruption within the Nigerian deposit money banking system, shedding light on various aspects and offering insights into potential strategies for mitigation (Adeusi, 2019; Udeh, 2020).Empirical evidence suggests that fraudulent activities in Nigerian banks encompass diverse forms, including insider collusion, cybercrimes, identity theft, and money laundering schemes (Abubakar & Rahman, 2018; Okoye & Ezejiofor, 2021). These studies highlight the detrimental effects of fraudulent practices on financial institutions, such as decreased profitability, reputational damage, and erosion of public trust (Oladipupo & Sholarin, 2021).Research examining the regulatory landscape and governance mechanisms within Nigerian banks indicates that deficiencies in regulatory oversight and enforcement contribute to the persistence of fraudulent activities (Adediran et al., 2020; Udeh, 2020). Weaknesses in regulatory frameworks often create loopholes that fraudsters exploit, necessitating reforms to strengthen regulatory bodies and improve compliance mechanisms. Moreover, empirical studies focusing on technological interventions in fraud prevention have highlighted the adoption of advanced technologies like biometrics, artificial intelligence, and blockchain as effective tools in detecting and preventing fraudulent activities (Oladipupo & Sholarin, 2021; Okoye & Ezejiofor, 2021). These technologies have demonstrated potential in enhancing security measures and reducing vulnerabilities within the banking sector.Furthermore, empirical investigations into the effectiveness of capacity building and ethical awareness programs in Nigerian banks underscore their role in promoting a culture of compliance and transparency among banking stakeholders (Adediran et al., 2020; Udeh, 2020).This empirical review synthesizes findings from various studies, providing valuable insights into the empirical evidence surrounding fraud and corruption within the Nigerian deposit money banking system and offering potential directions for addressing these challenges.

Methodology

Research design is a crucial process employed by researchers to conduct a study, and in this case, the ex-post facto research design was chosen due to the availability of existing information. This design is particularly suitable for studying cause-and-effect relationships, such as the causes of fraud and its impact on performance. It allows the investigation to begin after the occurrence of fraud without researcher interference. Although it deals with past events, ex-post facto research shares some logic with experimental research design, utilizing qualitative analysis techniques for result interpretation, with a focus on quantitative parameters. The study utilized both primary and secondary data sources. Primary data, gathered specifically for the research, was complemented by secondary data, collected for other purposes. The population consisted of all deposit money banks in Southwest Nigeria from 2014 to 2017, totaling 22 active banks. Simple random sampling, an unbiased method, was employed to select 11 banks randomly from the region for questionnaire administration to their staff. Two methods of data collection were identified: quantitative and qualitative. The study opted for the qualitative method, employing a structured questionnaire using a 5-point Likert scale. This approach sought accurate information on strategies to mitigate fraud in Nigerian money deposit banks. The questionnaire, divided into personal characteristics and issues related to fraud mitigation, facilitated comprehensive data collection. Validity and reliability were addressed in the research instruments. Validity ensured that the questionnaire accurately measured intended constructs, and pilot testing was conducted for appropriateness and relevance. Reliability, evaluated through the test-retest method, confirmed the consistent results of repeated measurements.

Data analysis involved a pool panel data methodology, specifically linear data regression analysis. The Statistical Package for Social Sciences (SPSS) was employed to run the linear regression model of fixed effects, using the Ordinary Least Square (OLS) method for parameter estimation. The model specifications focused on Return on Asset (ROA), Capital Adequacy (CAD), and Liquidity (LIQ) as dependent variables, with Weak Accounting System (WACS), Supervision and Valuation of Assets (SVA), and Internal Control (INTCR) as independent variables. The expected positive relationship between explanatory and dependent variables was stated, with the coefficient of correlation indicating the strength of the relationship.

Data Presentation and Analysis

Table 4.1 Response Rate Of Questionnaire Administered

		Administered Frequency	Administered Percent	Retrieved frequency	Retrieved Percent
Valid	First Bank	20	10.0	20	10.0
	UBA	20	10.0	20	10.0
	Union Bank	15	7.5	15	7.5
	Access Diamond	15	7.5	15	7.5
	GTB	20	10.0	20	10.0
	Wema Bank	15	7.5	15	7.5
	Zenith	20	10.0	20	10.0
	Sterling Bank	15	7.5	15	7.5
	Eco Bank	20	10.0	20	10.0
	Polaris	20	10.0	20	10.0
	Stanbic IBTC	20	10.0	20	10.0
	Total	200	100.0	200	100.0

Source: field survey, 2024

The response rate as shown in the table 4.1 above, indicate that all respondents responded very well to the questionnaire. The rationale for the success rate was borne out from the fact that the questions were not cumbersome that will take all the respondents time and distract them from focusing on their daily activities. Similarly, the questions were precise and understandable.

Regression Analysis

Ho₁: Weak Accounting System has no appreciable impact on Nigerian banks' profitability.

Dependent Variable: liquidity
Method: Least Squares
Date: 02/11/23 Time: 01:10
Sample : 4
Included observations: 3

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	29.10552	0.493069	59.02925	0.0000
Weak accounting	0.000847	0.000148	5.724119	0.0004
R-squared	0.803756	Mean dependent var	31.88000	
Adjusted R-squared	0.779225	S.D. dependent var	0.608824	
S.E. of regression	0.286066	Akaike info criterion	0.511669	
Sum squared resid	0.654671	Schwarz criterion	0.572186	
Log likelihood	-0.558345	Hannan-Quinn criter.	0.445282	
F-statistic	32.76554	Durbin-Watson stat	1.484211	
Prob(F-statistic)		0.000442		

Source: Author 2024

The relationship between inadequate accounting systems and their effects on the dependent variable, liquidity, in the banking industry is clarified by the statistical analysis carried out in this study. The regression coefficient of 0.000847 suggests that a one-unit increase in weak accounting systems results in a 0.000847 unit increase in liquidity levels. This indicates a noteworthy but minute impact of weak accounting systems on liquidity within the banking context. The R-squared value of 80% indicates that a substantial 80% of the variation in liquidity can be accounted for by the influence of weak accounting systems. The remaining 20% of variability might be attributed to other external factors not encompassed within this model. This high R-squared value signifies that the model effectively represents the data, establishing a considerable relationship between weak accounting systems and liquidity. The agreement between the results of the R-squared value, F-statistic (32.766), and T-statistic (5.724) against their respective critical values from the F and T distribution tables validates the reliability and significance of the findings. The computed statistics surpass the critical values, confirming the statistical significance of the relationship between weak accounting systems and liquidity within the banking sector. The analysis highlights that the Durbin Watson statistic resulted in a value of 1.484211, indicating no issue of autocorrelation. This suggests a strong positive correlation between management control and internal audit, contributing to the robustness of the findings and their coherence. As a result, the study's findings lead to the rejection of the null hypothesis, indicating a significant relationship between weak accounting systems and liquidity within the banking sector. This echoes the viewpoint expressed by Zervos (1999), emphasizing the critical nature of identifying weaknesses in fraud prevention strategies and advocating for innovative approaches to address corporate fraud. Zervos stresses the necessity for fresh, broad-based strategies to effectively combat fraudulent practices, aligning with the significance of this study's findings and their implications for the banking sector.In summary, this statistical analysis highlights the notable impact of weak accounting systems on liquidity in banks, emphasizing the importance of robust strategies and innovative approaches to strengthen accounting practices and enhance overall financial liquidity within the banking sector.

Ho₂: Lack Of Adequate Supervision And Improper Valuation Of Assets Does Not Significantly Affect Capital Adequacy In Nigerian Banks.

Included observations: 3

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	31.65460	0.232813	135.9655	0.0000
Lack of adequate supervision	0.029958	0.019661	1.823744	0.0001
R-squared	0.884941	Mean dependent var	31.88000	
Adjusted R-squared	0.128059	S.D. dependent var	0.608824	

S.E. of regression	0.568506	Akaike info criterion	1.885248
Sum squared resid	2.585597	Schwarz criterion	1.945765
Log likelihood	-7.426241	Hannan-Quinn criter.	1.818861
F-statistic	5.321795	Durbin-Watson stat	0.812344
Prob(F-statistic)		0.000117	

Source: Author 2024

A robust representation of the data is indicated by the high R-squared value of 88.4%, which indicates that a substantial 88% of the variation in the dependent variable can be explained by the independent variable, lack of adequate supervision. The remaining 20% of the variation may be influenced by other external factors not taken into account within this model. The statistical analysis presented in the study offers valuable insights into the relationship between variables and their impact on the dependent variable, capital adequacy, within the banking framework.The analysis also shows that the Durbin Watson statistic yielded a value of 1.484211, suggesting no problem of autocorrelation. This suggests that both management control and internal audit, being components of the study, exhibit a strong positive influence on each other, enhancing the reliability and coherence of the findings. Additionally, the agreement between the results of the R-squared value, F-statistic (32.766), and T-statistic (5.724) against their respective critical values from the F and T distribution tables indicates the reliability and significance of the findings.Thus, the study's results lead to the null hypothesis being rejected, meaning that there is a significant relationship between inadequate supervision and capital adequacy in the banking industry. This is consistent with Zervos's (1999) perspective, which highlights the significance of identifying gaps in fraud prevention strategies and suggesting novel approaches for improvement. Zervos advocates for new, creative, and comprehensive approaches to effectively combat corporate fraud, which resonates with the significance of this study's results and their implications for the banking industry. In summary, this statistical analysis highlights the critical role that adequate supervision plays in influencing capital adequacy within commercial banks

Ho_3: Fraud Could Not Affect the Profitability of Nigerian Banks Regression Coefficients

Ho_3: Internal Control System Does Not Have a Significant Effect on Banks' Liquidity

Model		Inconsistent Coefficients		consistent Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	-.084	.034		-2.463	.015
	Fraud	.009	.002	-.416	4.640	.000

Dependent Variable: Profitability

Source: Author 2024

The study's regression analysis provides informative results about how different factors affect deposit money banks' performance measures. Notably, the study highlights a negative and significant effect of fraud on profitability, emphasizing this effect's significance at a 5% level (β = -.416, p = 0.000). This significant negative impact, despite its statistical significance, raises concerns about the detrimental influence of fraudulent activities on banks' profitability.

However, it's essential to note that the effect of fraud was found to be insignificant at a 5% level (β = -0.221, p = 0.687) on another variable, indicating complexities in assessing its influence across different metrics.

Moreover, the study also examines the effects of other parameters such as LR, MRR, and BCRD on the Gross Domestic Product (GDP). It finds a negative and insignificant effect of LR on the GDP (β = -4.349, p = 0.622), whereas MRR displayed a positive but statistically insignificant impact (β = .462, p =.238). On the other hand, it was discovered that BCRD significantly and favorably affected GDP (β = 0.009, p <0.05).

The study situates itself within the backdrop of deposit money institutions, which have witnessed a rise in fraud instances due in part to the computerization of Nigerian financial services. The shift in technology towards online banking and online systems has led to a rise in fraudulent activities, which has caused the banking sector to suffer large financial losses in a short period of time.In seeking to investigate the impact of fraud on commercial bank performance, with a specific focus on weaknesses in accounting and internal control systems, the study unveils crucial insights. It sheds light on the presence of various corporate fraud control and prevention systems in commercial banks. These systems range from electronic authentication and authorization of payment systems to credit and debit alert mechanisms. Additionally, the study indicates that while these fraud prevention systems are present, their effectiveness in curbing fraudulent activities remains a concern.

The investigation backs up the claim that inadequate internal control and accounting procedures have a direct impact on liquidity, highlighting the need of locating and fixing these flaws in fraud prevention measures. The study also highlights the negative effects of insufficient fraud detection systems on capital adequacy in the Nigerian banking sector, which have an influence on the country's financial stability and the banks' ability to offer lucrative loans.

The study indicates that even though there are many corporate fraud control systems in place, many of them may not be able to stop fraudulent activity. It offers suggestions for improving the efficient use of these systems, emphasizing the hiring of qualified personnel, offering appropriate incentives, and routinely planning thorough programs for the awareness and education of bank stakeholders about fraud. These strategies are envisioned to bolster the efficacy of existing fraud prevention mechanisms within deposit money banks in Nigeria.

Conclusion

The study's conclusions provide insight into the existence, application, and efficacy of corporate fraud prevention and control systems in deposit money banks. These results hold significant positive implications, serving as a valuable benchmark for bank customers, investors, and stakeholders seeking guidance to navigate banking services and transactions more securely and avoid falling victim to fraudulent activities. The conclusions drawn from this study emphasize the presence and functionality of these systems within deposit money banks. It addresses the challenges faced by commercial banks in this regard and proposes strategies aimed at enhancing the efficient utilization of these systems. The study comes to the conclusion that although deposit money institutions have certain corporate fraud control and prevention systems in place, their availability is inadequate throughout the industry. Factors contributing to this inadequacy include high acquisition costs and expenses associated with personnel training. Additionally, the effectiveness of these systems might be constrained due to underutilization. Issues such as management overriding controls, negative perceptions among customers and employees regarding anti-fraud systems, collusion between bank officials and external parties, and errors stemming from excessive workloads contribute to this underutilization. The study's overall findings highlight the difficulties faced by commercial banks in setting up and utilizing corporate fraud control and prevention systems. It does, however, offer practical solutions like targeted training, seminars, and workshops for both employees and management avenues to enhance the efficient utilization of these systems. These initiatives could potentially mitigate the barriers and limitations faced by deposit money banks, fostering a more robust and effective framework for combatting fraud within the banking sector

Recommendation

Policy recommendations to reduce fraud and corruption in Nigerian banks include: establishing independent and competent internal audit and surveillance systems; ensuring staff recruitment is based on merit and integrity; reviewing the role of auditors and holding them liable for negligence; addressing societal expectations that contribute to corruption; emphasizing compliance with guidelines for employees, management, and auditors; advocating for transparency in management statements to shareholders; enhancing law enforcement training to deal with fraud cases; implementing attractive pay packages and compensation schemes; promoting good management practices at all levels; addressing moral decadence and the get-rich-quick syndrome through surveillance; emphasizing thorough risk management for credit facilities; implementing effective internet surveillance; and requiring adequate insurance, like Fidelity Guarantee, for staff with access to cash.

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