

CHAPTER ONE

1.1 BACKGROUND TO THE STUDY

Fraud can be seen as the intentional misrepresentation, concealment, or omission of the truth for the purpose of deception or manipulation to the financial detriment of an individual or an organization (such as a bank) which also includes embezzlement, theft or any attempt to steal or unlawfully obtain, misuse or harm the asset of a bank. (Adeduro, 1998 and, Bostley and Drover 1972). Fraud and its management have been the main factor in the distress of banks, and as much as various measures have been taken to minimize the incidence of fraud, it still rises by the day because fraudsters always device strategic ways of committing fraud. This has become a point of great attention in the rural banking sector as well as every organization in Ghana. Although this phenomenon is not unique to the rural banking industry or peculiar to Ghana alone, the high incidence of fraud within the banking industry has become a problem to which solution must be provided in view of the large sums of money involved and its adverse implications on the economy. Fraud in its effects reduces the assets and increases the liability of any company. In the case of rural banks, this may result in the loss of potential customers or crisis of confidence of banking public and in the long run end up in another failed bank situation.

It is instructive to know that many banking operatives have different reasons for joining various banks. Many have the intention of working for a short time in the banking industry (get whatever they could and find another job that is less demanding), some are in the industry because of their love for banking and all it stands for, while majority are there to enrich themselves by fraudulent means. Due to the upsurge of great viability in the rural banking sector, its dynamic and fast expanding level of activities, rural banks are faced

with different kinds of challenges, among which is trying to prevent various fraudulent intentions of both staff and customers.

As it were frauds seem to have increased as new technology is born and more advanced techniques of enhancing business transactions have been developed.

Fraudsters are constantly devising new plans, updating old methods and trying out new techniques of bypassing these electronic systems meant to ensure high security of banking operations. The introduction of automated systems that lose handwriting and fingerprint trails have not helped matters either. In view of the staggering sums lost to fraudsters by the Ghanaian financial sector, in these recent times and the rate at which fraudsters appear to have shifted their attention and directed their energies to banks, devising all unimaginable tactics to exploit loopholes in the control measures and capitalize on carelessness of the staff and customers, fraud in the industry has prevented many banks from achieving their goals. Some banks were just seen in the physical as body and building whilst in reality they were already liquidated and many were already into distress. Taking a walk down memory lane, Atobiase Area Rural Bank and Tano Agya Rural Bank are some but a few of the rural banks that wound up distressed due to fraud.

The banking sector plays a very significant role in the development of any economy (Adeyemo, 2012). Banks in most economies are the principal depositories of the public's monetary savings, the nerve centre of the payment system, the vessel endowed with the ability of money creation and allocation of financial resources and conduit through which monetary and credit policies are implemented (Idolor, 2010 and Akindele, 2011). The success of monetary policy, to a large extent, depends on the health of the banking institutions through which the policies are implemented

Whatever problems which militate against the proper functioning of the banking sector will invariably have multiplier effects on the other sectors of the economy. This is one of the reasons why it is essential to quickly diagnose any factor which may hamper the smooth functioning of the rural banking sector and urgently address such issues. Fraud has been identified as a major threat to the growth and development of the banking sector, not only in Ghana but globally. This study examines fraud in the rural banking industry and how it can be prevented.

1.2 PROBLEM STATEMENT

Fraud is one of the numerous enemies of the business world today. It is in all works of life; in government, the export trade, shipping transactions, banking, insurance and everywhere. Special organizations have been formed to combat it and Interpol deals with it at the international level, but it has not and cannot be eradicated.

Fraud is a universal phenomenon which has been in existence for so long. Its magnitude cannot be known for sure, because much of it is undiscovered or undetected and not all that is detected is published. It is known facts that no area of banking system is immune to fraudsters not even the security team designed to prevent it. Its management has become a central point in banking like the management of risk because of the above facts.

Fraud is a major challenge to the entire business world, no company is immune to it and it is in all facets of life (Olorunsegun, 2010). The banking public expects accountability, fairness, transparency and effective intermediation from banks. The banks are expected to ensure that they carry out their responsibilities with sincerity of purpose which is devoid of fraudulent practices. This is relevant if the banking sector is to gain public trust and goodwill.

Fraud in the rural banking industry before recapitalization efforts, was at an alarming rate. It has caused many banks to collapse, and many investors and depositors funds were trapped in and indeed, many banks are still suffering as a result of these fraudulent activities. Infact it has prevented many banks from achieving their goals and many businesses has gone into liquidation as a result. Honestly speaking it has become a cankerworm that has eaten deep into the financial sector of the Ghanaian economy and

millions of Ghanaian Cedis has been lost to fraudsters through these activities. It is these problems that has necessitated this research

1.3 RESEARCH OBJECTIVES

The main aim of this study is to find a practical means of minimizing the incidences of fraud in banks, while specific objectives are to:

1. Identify various means employed in defrauding banks.
2. Determine the level of involvement of banks staff in fraudulent activities
3. Ascertain the factors which encourage staff involvement in fraudulent activities
4. Determine the effects of fraud on banking operations.
5. Suggest measures of reducing the incidence of bank fraud.

1.4 RESEARCH QUESTIONS

- i. Are the fraud detection systems in operation in banks adequate and effective in preventing fraud?
- ii. Does the recruitment method have a direct link with the rate of fraud in the banking sector?
- iii. Can the banks ever operate without an incidence of fraud?
- iv. Do the internal control systems in place so strong to determine fraud at its early stages?

1.5 SIGNIFICANCE OF THE STUDY

This study aims at finding practical means of minimizing the incidence of fraud in rural banks. During the course of the investigation efforts were made to identify various means employed in defrauding banks and at the same time determine the effects of fraud on the banking services. Findings revealed that so many factors contributed to incidence of fraud in the banks amongst which are

- i. poor management of policies and procedures
- ii. inadequate working conditions
- iii. bank's staff staying longer on a particular job
- iv. Staff feeling frustrated as a result of poor remunerations.

1.6 SCOPE OF THE STUDY

In understanding this work, two types of data were relied upon, namely primary and secondary. On the primary data, structured questionnaire were designed and constructed to gather information in realizing the objectives of the research. For secondary data, the researchers relied mostly on archival materials, internal records of banks, publications of bank staff and seminar papers.

Because fraud happens in so many institutions and thus making the scope very broad, the study was limited to Nwabiagya Rural Bank limited. The instrument adopted for this study was the questionnaire. The questionnaires were designed for all the staff members of each branch of the bank. Hence, the respondents were selected from the eight branches of the bank in the study area totaling One Hundred and Seventy-eight (178) although, there are one hundred and thirty-five (135) rural banks with over four hundred (400) branches in

Ghana presently. However, in this study the researcher looked into the eight (8) branches of the bank that are located in the Ashanti Region. The entire bank branches in the study area were selected in order to have good representation, that is, the researchers are of the opinion that those branches can serve as a reasonable representation of the bank as the same operating policies govern every branch.

CHAPTER TWO

2.0 LITERATURE REVIEW

In legal terms, fraud is seen as the act of depriving a person underhandedly of something, which such a person would or might be entitled to, but for the perpetration of fraud. In its lexical meaning, fraud is an act of trickery which is intentionally practiced in order to gain illegitimate advantage. Therefore, for any action to constitute a fraud there must be deceitful objective to benefit (on the part of the perpetrator) at the disadvantage of another person or group. Fraud typically requires stealing and manipulation of accounts, frequently accompanied by cover up of the theft. It also involves the translation of the stolen resources or property into own resources or property.

Young, (2002) says that, ample evidence exists that individual integrity of those running the banks today has never been at a higher level. Never before have we seen attention to the actual steps; procedures and control of monetary transactions. Employees' as well as firms in all industries engage in fraudulent practices all over the world. Although the existence of fraud in our banks is not an uncommon or unexpected behaviour, its prevalence is what is worrying because of all the various problems confronting the most untraceable' (Ogwuma, 1985) and Akindele R.I et al (2008). Frauds in banks lead to loss of monies that ordinarily belong to someone other than the banks. The loss results in some cases, in reducing the level of resources available for use in the operations of the banks. In very bad cases where frauds occur with crippling frequency and in wholesomeness, the bank may be forced to close down as a result. When the bank loses money and is wound up, the customers lose money. This leads to loss of confidence and eventually reduced patronage. Another reason for worrying in the banking industry is the vast variety of

nature, character and methodology employed in fraud. Moreover, the control of identified specie seems to give birth to another that is invariably more sophisticated and complex. Thus each case can be said to be a variant of another and undoubtedly an instructive study in human negative use of ingenuity and endowment.

There is a common agreement amongst criminologists that fraud is caused by three elements

called “WOE” (Idolor, 2010). For any fraud to take place there must be a Will, an Opportunity and Exit (escape route). A fraud will only come about if the perpetrators have the will to commit the fraud, if the occasion to commit the fraud is presented and if there is a way out or escape means from appropriate sanctions or institutions that are against fraud or related abnormal behaviour. Fraud is a global occurrence; it is not peculiar to the banking industry. With the collapse of foremost international corporations like Enron (in the United States of America) together with high level allegations and real cases of business fraud, a lot of organizations in their effort to advance their image have resorted to developing ethical guiding principles and codes of moral values. The whole essence of these is to guarantee that all organizational members irrespective of position or rank, complies with the least standard of ethical responsibility in order to encourage the reputation of such firms in their selected industry, earn the goodwill of clients and thus improve their competitive advantage (Unugbro & Idolor, 2007).

As logically anticipated, fraud is perpetrated in several forms and guises, and usually have insiders (staff) and outsiders conniving together to effectively execute the act.

2.1 TYPES OF BANK FRAUDS

Bank frauds can be classified into three types namely by flow, by victims and by act.

2.1.1 Flow Frauds

It is described by the frequency and the value involved in the fraud. They are of two types and they are

- i. Smash and Grab: these are frauds not frequently committed, but are high in value over a short period of time.
- ii. Drip: this is large in number, small in value and repetitive over a long period.

2.1.2 Victims Frauds

This is a classification based on the people affected by loss from fraud. This is also of two types and they are

- i. Against the company (bank): In this case, the bank is the victim of any loss incurred through the fraud.
- ii. Against outsiders: The victim of the fraud is an outsider to the company or bank, that is, bank customers.

2.1.3 Act Frauds

This is the action that takes place in cases of fraud, that is the people involved in the act and the methods or forms by which these people perpetrate fraud. The perpetrators could either be the bank's employees, executive management of board, armed robbers, or theft by outsiders perhaps in collusion with insiders.

2.2 METHODS OF PERPETRATING FRAUD

According to Idowu (2009), fraud can be seen as the deliberate falsification, camouflage, or exclusion of the truth for the purpose of dishonesty/stage management to the financial damage of an individual or an organization. It is dishonesty or an act of cheating aimed at causing a person or business to give up possessions or some lawful right. The Association of Certified Fraud Examiners (1999) further defines fraud as the use of one's' profession for personal enhancement through the conscious misuse, misapplication or employment of organizational possessions or property. To Fadipe-Joseph and Titiloye (2012), fraud is any action by which one person intends to gain a deceitful advantage over another. In other words, fraud is an act of commission which is planned to cause unlawful gain to one person and criminal loss to the other, either by way of concealment of information or otherwise.

There are various methods by which fraud can be perpetrated in the banks and other organizations. The list of methods is usually not exhaustive as new methods are devised with time. The most important and common methods according to Onkagba (1993) are:

2.2.1. Advance Fee Fraud

This may involve an agent approaching a bank, a company or individual with another to access large funds at below market interest rates often for long term. This purported source of funds is not specifically identified as the only way to have access to it through the agent who must receive a commission "in advance". As soon as the agent collects the fee, he disappears and the facility never comes through. Any bank desperate for fund

especially distressed banks and banks needing large funds to bid for foreign exchange can easily fall victim of this type of fraud. When the deal fails and the fees paid in advance are lost, these victims are not likely to report the losses to the police or to the authorities.

2.2.2. Forged Cheques

This is by far the commonest method by which customers and banks are defrauded. They occur mainly in company accounts and are invariably perpetrated by staffs within the company who have access to the company's cheque book. It also involves the deceptive copying and use of customer's signature to draw huge sums of money from the customer's account without previous permission of the customer. Such forgeries may be targeted at savings accounts, deposit accounts, current accounts or transfer instruments such as drafts. Experience has shown that most of such forgeries are perpetrated by internal staff or by outsiders who act in conspiracy with employees of the bank who usually are the ones who release the sample signatures being forged

2.2.3. Fund Diversion

In this case, bank staff sometimes diverts customers' deposits and loan repayment for personal use. Another case of this is the tapping of funds from interest in suspense accounts in banks.

2.2.4. Cheque Kitting

This happens when a depositor utilizes the time required for a cheque to clear to obtain an authorized loan without interest charge. The goal of the cheque kitter may be to use these uncollected bank funds' interest fees for a short time to overcome a temporary cash shortage or to withdraw the funds permanently for personal use. Competition among banks in the era of deregulation encourages bank to make funds available before collection of customers' cheque in order to attract special business accounts.

2.2.5. Account Opening Fraud

This involves the deposit and subsequent cashing of fraudulent cheques. It usually starts when a person not known to the bank asks to open a transaction account such as current and savings account with false identification but unknown to the bank.

2.2.6. Counterfeit Securities

Counterfeiting of commercial financial instruments is one of the oldest forms of crime. Modern photographic and printing equipment has greatly aided criminals in reproducing good quality forged instruments. The documents may be total counterfeit or may be genuine documents that are copied, forged or altered as to amount, payout date, pay or terms of payment. A common fraud is to present the counterfeit stocks or bonds as collateral for loan. The presenter would draw out the proceeds and disappear before the financial instruments are found to be counterfeit.

2.2.7. Money Transfer Fraud

Money transfer services are means of moving to or from a bank to beneficiary account at any bank point worldwide in accordance with the instructions from the banks' customers. Some common means of money transfer are mail, telephone, over-the-counter, electronic process and telex. Fraudulent money transfer may result from a request created solely for the purpose of committing a fraud or altered by changing the beneficiary's name or account number or changing the amount of the transfer.

2.2.8. Letter of Credit Fraud

This generally arises out of international trade and commerce. They stimulate trade across national borders providing a vehicle for ensuring prompt payment by financially sound institutions. Overseas suppliers continue to receive spurious letters of credit, which are usually accompanied by spurious bank drafts with fake endorsements which guarantee payments.

2.2.9. Computer Fraud

Computer Frauds involves the deceptive manipulation of the banks' computer, either at the data collection stage, the input processing stage or even the data dissemination stage. Computer frauds could also occur due to improper input system, virus, program manipulations, transaction manipulations and cyber thefts. It can also take the form of corruption of the programme or application packages and even breaking into the system through remote sensors. A banks' data can also be tampered with at the data centre to gain access to unauthorized areas or even give credit to accounts for which the funds

were not originally intended. This kind of fraud can remain undetected for a long time. In this epoch of enormous deployment of automated teller machines (ATMs) and online real time e-banking and commerce; computer frauds arising from cyber thefts and crimes has assumed a very threatening dimension (Olorunsegun, 2010). No bank seems to be invulnerable to it, and a considerable percentage of the enormous amount of money spent annually in the banking sector to help reduce fraud usually are channeled towards fighting computer frauds and cyber crimes and theft

2.2.10. Clearing Fraud

Most clearing frauds hinge on suppression of an instrument so that at the expiration of the clearing period application 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. Misrouting of clearing cheques can also assist fraudsters to complete a clearing fraud. Asukwo, (1991) states that, a local clearing item can be routed to an up country branch; the delay entailed will give the collecting bank the impression that the paying bank had paid the instrument.

2.2.11 Fraudulent loans

One way to remove money from a bank is to take out a loan, a practice bankers would be more than willing to encourage if they know that the money will be repaid in full with interest. A fraudulent loan, however, is one in which the borrower is a business entity controlled by a dishonest bank officer or an accomplice; the "borrower" then declares

bankruptcy or vanishes and the money is gone. The borrower may even be a non-existent entity and the loan merely an artifice to conceal a theft of a large sum of money from the bank. This can also be seen as a component within mortgage fraud (Bell, 2010)

2.2.12 Forged or fraudulent documents

Forged documents are often used to conceal other thefts; banks tend to count their money meticulously so every pesewa must be accounted for. A document claiming that a sum of money has been borrowed as a loan, withdrawn by an individual depositor or transferred or invested can therefore be valuable to a thief who wishes to conceal the minor detail that the bank's money has in fact been stolen and is now gone.

2.2.13 Unofficial Borrowing

This occurs when bank employees borrow from the vaults and teller tills off the record. Such unauthorized borrowings are done in exchange of the staff post-dated cheque or I.O.U or even nothing. These borrowings are more rampant on weekends and during the end of the month when salaries have not been paid. Some of the unauthorized borrowings from the vault, which could run into thousands of cedis, are used for fast businesses lasting a few hours or days after which the resources are replaced without any substantiation in place that they were taken in the first place. Such a practice when done recurrently and with no official records, soon very easily becomes prone to manipulations, whereby they resort to other means of balancing the cash in the bank's vault without ever having to replace the sums of money collected.

2.2.14 Voucher Manipulation

Manipulation of Vouchers involves the replacement or alteration of entries of one account to another account being used to commit the fraud. This account would obviously be a fabricated account into which the funds of unsuspecting clients of the banks are transferred. The amounts taken are usually in small amounts so that it will not easily be noticed by top management or other unsuspicious staff of the bank. Manipulation of vouchers can thrive in a banking system saddled with inadequate checks and balances such as poor job segregation and lack of detailed daily examination of vouchers and all bank records.

2.3 CAUSES OF BANK FRAUD

There are two main sources of frauds in banks and these are the internal and the external. Though distinguishable in theory, these sources are very often inseparable in practice. That is to say, a successful fraud often takes place and succeeds as a result of the collaboration, intentional or unintentional (i.e. due to carelessness or error of judgment, of an insider, a bank employee or member of staff). Indeed it was recently affirmed that "the public believes and rightly too, that most frauds in banks are the active connivance of bank staff. Otherwise how does anybody explain for example, how a cheque drawn in favour of a named payee is paid into a different account and the funds withdrawn? Or how does one explain how a completely different institution or individual collects a draft prepared in the name of another institution or individual? This is not an exception of the rule, it is frequent occurrence" (Soneye, 1985), Botton et al (2002) The causes of bank fraud can be classified into two namely institutional factors, lapses or inadequacies and

environmental/societal factors or lapses, Adewunmi, (1985), Cahill, Chen and Lambert (2002) and Hulthen R et al (2002).

2.3.1 Institutional Factors

According to Nwaze (2008), the institutional factors or causes are those that can be traced to the internal environment of an organization. They are to a great extent factors within the control of the management of the bank.

Major institutional causes of fraud can be categorized as follows

i. Poor Management

This comes in a form of inadequate supervision. A junior staff with fraudulent tendencies that is not adequately supervised would get the impression that the environment is safe for the perpetration of fraud. Poor management would also manifest in ineffective policies and procedures, which a fraudulent minded operator in the system will capitalize on. Even where there are effective policies and procedures in place, fraud could still occur with sometimes deliberate skipping of these tested policies and procedures.

ii. Inexperienced Personnel

Inexperienced personnel are susceptible to committing unintentional fraud by falling for numerous tricks of fraudsters. Inexperienced personnel are unlikely to notice any fraud attempts and take necessary precautionary measures to checkmate the fraudster or set the detection process in motion.

iii. Overstretching

Overstretching is another reflection of poor management. This can aid perpetration of fraud to a large extent. A staff who is overstretched is not likely to perform at optimum level of efficiency.

iv. Job rotation

Ordinarily, the longer a man stays on a job, the more proficient he is likely to be. An operator who has spent so long on a particular job may be encouraged to think that no one else can uncover his fraud. The existence of this kind of situation in a bank is clear evidence of poor management and such situations encourage fraudulent practices.

v. Poor remuneration

Poor salaries and poor conditions of service can also cause and encourage fraud. Employees that are poorly paid are often tempted to fraudulently convert some of the employers' monies to their own use in order to meet their personal and social needs. This temptation is even stronger on bank employees who on daily basis have to deal with cash and near cash instruments. In our society, it is argued that greed rather than poor working conditions or poor salaries is what lures most people into fraudulent acts. This explains why fraud would still exist in the banking sector, which is reputed to be one of the highest paying sectors. Some people have an insatiable appetite to accumulate wealth and would therefore steal irrespective of how good their earnings are.

vi. Frustration

Frustration could also lead to fraud. Where a staff feels short-changed in terms of promotion and other financial rewards, they become frustrated and such frustration could lead to fraud as such employee would attempt to compensate himself in his own way.

vii. Inadequate Training and Re-Training

Lack of adequate training and retraining of human resources both on the practical and theoretical aspects of banking activities and operations more often than not leads to poor performance. Such inefficient performance creates a loophole which can very easily be exploited by fraudsters.

viii. Poor Book-keeping

Inability to maintain appropriate books of accounts together with failure to reconcile the various accounts of the bank on daily, weekly or monthly basis more often than not will attract fraud. This loophole can very easily be exploited by bank staff that is fraudulent. The prevalence of fraud and forgeries are an indication of weakness in a bank's internal control systems.

Aside the above-mentioned causes of fraud, the following factors greatly contribute to fraud

- Inadequate compensation, salaries and fringe benefits which are accruable to bank staff
- Refusal to comply with laid-down procedures without any penalty or sanction;

- Conspiracy between interacting agents charged with the responsibility of protecting the assets and other interest of the bank;
- Poor working conditions;
- Poverty and infidelity of employees.

2.3.2. External Factors/Environmental Factors

Environmental factors are those that can be traced to the banks immediate and remote environment. If the whole society of which the bank is a part is morally bankrupt it will be difficult if not impossible to expect the banks to be insulated from the effects of such moral bankruptcy.

The banking industry is not immune from the going on in its external environment. Our present society is morally bankrupt. Little or no premium is put on things like honesty, integrity and good character. The society does not question the source of wealth. Any person who stumbles into wealth is instantly recognized and honoured. It is a fact of our time that fraud has its root firmly entrenched in the social setting where wealth is honoured without questions. Ours is a materialistic society which to a large extent encourages fraud. The desire to be with the high and mighty caliber of the society, extreme want that is often characterized by need, cultural demands or the cultivation of a life too expensive for the legitimate income of the individual. Our societies have debased the entire old moral standards and appear to be unconcerned with probity, honesty, integrity and “goodname”. The family friends, the religious houses and society at large seem not to care how you come about your riches but accept, accommodate and even respect you for your wealth, however, dishonestly it has been acquired. All these

encourage fraud as the end seems to justify the means, and no means seems to be morally unacceptable.

With reference to fraud, criminal motivation is said to be pathological when the state of mind of the criminal disposes and impels him to commit fraud even though he is not in dire need of the resources.

Bank frauds seriously endanger the organizational growth of a bank as it leads to bank distress. This is because fraud reduces the deposits of depositors and ultimately leads to the erosion of the capital base of banks. The cost of fraud is also usually difficult to estimate because not all frauds are discovered or even reported since most banks have a propensity to cover up the frauds emanating from their banks, all in a bid to continue to gain customers goodwill and stimulate their clients' confidence all the time (Asukwo, 1999).

2.4 EFFECTS OF FRAUD ON BANKS

2.4.1 Loss of Public Confidence in Banks

Fraud is perhaps the most fatal of all the risks confronting banks. The enormity of bank frauds in Ghana can be inferred from its value, volume and actual loss. A good number of banks' frauds never get reported to the appropriate authorities, rather they are suppressed partly because of the personalities involved or because of concern over the negative image effect that disclosure may cause if information is leaked to the banking public. The banks' customers may lose confidence in the bank and this could cause a setback in the growth of the bank in particular.

2.4.2 Loss of Money

Fraud leads to loss of money, which belong to either the bank or customers. Such losses may be absorbed by the profits for the affected trading period and this consequently reduces the amount of profit, which would have been available for distribution to shareholders. Losses from fraud which are absorbed to equity capital of the bank impairs the bank's financial health and constraints its ability to extend loans and advances for profitable operations. In extreme cases rampant and large incidents of fraud could lead to a bank's failure.

2.4.3 Increased Operating Cost

Fraud can increase the operating cost of a bank because of the added cost of installing the necessary machinery for its prevention, detection and protection of assets. Moreover, devoting valuable time to safeguarding its asset from fraudulent men distracts

management. Overall, this unproductive diversion of resources always reduces outputs and low profits which in turn could retard the growth of the bank.

2.4.4 Low Asset Quality

It also leads to a diminishing effect on the asset quality of banks. The problem is more dangerous when compounded by insider loan abuses. Indeed, the first generation of liquidated banks (Co-operative Bank and Bank for Housing and Construction) by the Bank of Ghana was largely a consequence of frauds perpetrated through insider loan abuses. If this problem is not adequately handled, it could lead to distress and bank failures.

2.5 CONTROLS OF FRAUD IN BANKS

In view of the gravity of fraud in banks, the management of various banks has employed different measures, such as establishment of internal control unit, fraud alerts, security measures etc. Yet fraud has continued in an upward trend, and this has called the effectiveness of these measures into question (Okubena, 1998). Though details may differ from one bank to another, it all depends on size, location and general environment nationally and internationally. Nwankwo (1991) was of the opinion that general procedures for the control should normally involve identification and detection, then lastly management.

2.5.1. Fraud Identification

Every bank is to be aware of and identify the types of frauds prevalent in the society, including the international society, the causes and modalities of the frauds and the potentials and prospects of some of them occurring in the bank. This will be a function of volume, types and concentration of the banks' operations and the management control systems.

There are the internal and external management controls. Internal management controls are carried out on the inside of the company while external controls are carried out on the outside. Internal management control is classified into two major groups: Internal Checks and Internal Audit.

i. Internal Checks

Internal checks are the operational controls, which are built into the banking system to simplify the processing of entries in order to secure prompt services, to help in minimizing clerical errors and to act as insurance against collusion.

ii. Internal Audit

Internal Audit on the other hand involves the review of operations and records undertaken within a business by specifically assigned staff, which is usually the Internal Auditor. There are people called external auditors too who examine the books of the bank to determine its truth and fairness. This kind of audit is mostly statutory in nature, which is called for by the law (Onkagba 1993).

2.4.2. Fraud Prevention and Detection

The process of identification of frauds will enable the bank to assess its susceptibility and identify which types it has to address particularly. Having done so, the next stage would be to evolve measures to prevent the occurrence of such frauds. The existing control systems can be classified into two, those aimed at prevention and those aimed at detection. Ekechi (1990) stated that measures aimed at fraud prevention include dual control, operational manual, graduated limits of authority, lending units, reporting systems, close circuit television, establishment of inspectorate units, referencing on presentation of document of value, segregation of duties, verification of signatures, controls of dormant accounts, detection of passport sized photos, close watch on the lifestyle of staff and coding/decoding and testing of telex messages.

Measures aimed at fraud detection include checking of cashiers, call-over, reconciliation and balancing of accounts at branches, interbank at head office levels, periodical submission of statement of accounts, stock taking of security items and cash in the vaults and inspection by bank inspectors (Ojeigbede, 2000).

The Bank of Ghana as the supervisor and regulator of the banking systems is interested in ensuring that banks put in place comprehensive and effective internal control systems to minimize the incidence of frauds and whenever they occur to ensure that they are detected. From the point of view of supervisors, a good internal control system must have the following attributes:

- Dual control
- Segregation and rotation of duties,
- An effective and independent inspection functions
- Clearly defined levels of authority and responsibility
- Existence of an efficient Audit Committee
- Adequate fidelity insurance cover

It is also the responsibility of the supervisor to determine banks' compliance with rules and bureaus to monitor fraudulent customers and accomplices

The supervisors are also to cooperate with the external auditors of banks to ensure that the internal audit programme of banks is comprehensive, adequate and effectively executed. The supervisors should also conduct an in-depth investigation into activities of a bank when put on enquiry.

In order to enhance the ability of supervisors to carry out their responsibility effectively, they must be adequately trained and equipped with modern tools for supervision.

2.5.3. Fraud Management

In devising the general preventive measures, the bank should appreciate the main feature of fraud, one of which is that fraud is rapidly increasing and it is a highly profitable industry. According to Ekeiqwe (2000), computer technology facilitates and accentuates the growth. Other features are that frauds involve misappropriation of assets and manipulation or distortion of data and most frauds result from basic failure and inadequacies of internal controls. This was rightly confirmed in a report by the Bank of Ghana annual reports and statement of accounts, where it said that most frauds are committed by insider usually in collusion with outside third parties, and mostly are discovered by accident or tip offs rather than internal and external auditors.

It was suggested by Nwankwo (1991) that on the discussion of the anatomy of frauds, management should evolve positive attitudes towards safeguarding the banks' assets and ensuring that staff does not exploit the weakness in internal control. He further said that the policies should stress the cardinal principles of segregation of duties to ensure that one person does not originate and complete an assignment or entry. The policy should also emphasize dual control of sensitive areas such as strong rooms and locks to security documents and account, the need for daily balancing of account and the various precautions which include necessary references for opening of accounts.

Ekechi (1990) was of the opinion that, in order to attain the objective of fraud management, there is need for full compliance with established policies, rules and procedures. Also employees should be made aware of the risks of attempting to defraud the bank and the action expected if caught.

Finally the policy should incorporate and emphasize investigation and possible prosecution of suspected frauds. In controlling fraud in the banks, the boards of directors play a major role because the leadership responsibilities must be clearly spelt out and formally explained to them. This responsibility should include the directing of the overall policy and management of the bank, fiduciary duty to act honestly and with utmost good faith, and exercise of skill and care in discharging the statutory obligations of the bank. In particular, the board has the collective responsibility of the members to ensure that suitable security systems exist, there are adequate accounting records and internal control measures and there are adequate precautions to prevent falsification of accounting records and facilitate the discovery of any falsification (Asukwo, 1991 and Oyeyiola, 1996).

The Bank of Ghana plays its own role in helping banks manage fraud through its monetary policy and guidelines. Bank of Ghana demands that banks should make provisions for loss through frauds from its gross profit. This policy was enacted to safeguard the depositor's money since it is obvious that depositor's money will be lost when there is an incidence of fraud.

CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

In understanding this work, two types of data were relied upon, namely primary and secondary. On the primary data, structured questionnaires were designed and constructed to gather the relevant information needed in realizing the objectives of the research. For secondary data, the researchers relied mostly on archival materials, internal records of banks, publications of bank staff and seminar papers. The questionnaire was tested for content validity before it was administered. This was carried out by sending the questionnaire to four management staff of the bank, requesting them to assess the questionnaire for adequate coverage of relevant dimensions of the research objectives. After their suggestions, the final questionnaire, which was applied for this study was produced.

3.2 RESEARCH DESIGN

Descriptive study which used qualitative tool was used for this study. Based on the use of questionnaires, this approach was used because it was the appropriate and satisfied tool for data collection from the sampled population

3.3 POPULATION

The research area used for this study is the Ashanti region where all the eight (8) branches of the bank comprising of One Hundred and Ninety-nine (199) members of staff are

located. It was a preferred choice because of the availability and accessibility of the necessary information needed to conduct this research.

3.4 SAMPLING

Questionnaires were administered to five staff members comprising of the Branch Manager, Deputy Branch Manager, Head teller, teller and Monitor of mobile bankers of each of the eight (8) branches of the bank totaling forty (40). The entire bank branches in the study area were selected in order to have good representation, that is, the researchers are of the opinion that those branches can serve as a reasonable representation of the bank as the same operating policies govern every branch.

3.5 SAMPLING STRATEGY

The respondents were selected using a purposive non-probability sampling technique. This was used because it was the appropriate tool needed to gather the information needed for the study

3.6 DATA COLLECTION TECHNIQUE

As already stated, in undertaking this work, two types of data were relied upon, namely primary and secondary. On the primary data, structured questionnaire were designed and constructed to gather the relevant information needed in realizing the objectives of the research. For secondary data, the researchers relied mostly on archival materials, internal records of banks, write-ups, publications of bank staff and seminar papers.

The primary data obtained was essentially through the administration of well designed questionnaire to forty (40) staff members of all the eight (8) branches of Nwabiagya Rural Bank in the Ashanti Region. A period of six (6) months was used to conduct the research. In conducting this research, permission was sought from the General Manager of Nwabiagya Rural Bank Limited with a letter signed by the Head of Business Department of the Christian Service University College. This exercise was very necessary to the research in the sense that respondents felt free to give out the needed information knowing that the information that would be given could be kept confidential. Members of the research team also contributed funds purposely to meet the financial obligations of the research. Time is of essence to every research and members tried as much as possible to devote their time however small to the success of the research

3.7 DATA ANALYSIS

Data received from respondents was organized into tables based on the questionnaires supplied with the help of Microsoft excel spreadsheet. They were then analysed and converted into percentages and the results approximated to two decimal places. Points were used for ratings where high=3, moderate=2 and low=1 to get the total score for each category. The scores were then used to do the ranking

CHAPTER FOUR

4.0 ANALYSIS AND INTERPRETATION OF DATA

4.1: Respondents views about the adequacy/Inadequacy of staff remuneration

Table 1

Category	Number	Very adequate	Adequate	Uncertain	Inadequate	Very inadequate
Senior staff	16	2	8	2	3	1
Junior staff	24	6	13	1	3	1
Total	40	8	21	3	6	2

The results in Table 1 above revealed that 21 staff members, representing 72.50% of the respondents agreed that the remuneration of bank staff is adequate. This supports the general knowledge that banking job is one of the attractive and best paid jobs in Ghana today.

4.2: Respondents' view on the level of bank staff involvement in initiation, execution and concealment of bank fraud

Table 2

Stage	Staff Number	High (3)	Moderate (2)	Low (1)	Score	Rank
Initiation	40	27	9	4	103	3
Execution	40	29	8	3	106	2
Concealing	40	33	4	3	108	1

Table 2 above showed the respondents' view on the level of bank staff involvement in initiation, execution and concealment of bank fraud. The result

revealed that bank staff members are equally engaged in fraud initiation, execution and concealment (almost in the same degree).

4.3: Respondents views on the type(s) of fraud plaguing the banking industry

Table 3

Type of Fraud	Percentage (%)
Advance Fee Fraud	0.03
Forged Cheques	5.60
Fund Diversion	4.70
Cheque Kitting	0.11
Account Opening Fraud	0.41
Counterfeit Securities	0.04
Money Transfer Fraud	16.30
Letters of Credit Fraud	0.01
Computer Fraud	62.45
Cheque Clearing Fraud	1.01
Fraudulent Loans	7.25
Forged or Fraudulent Documents	0.05
Unofficial Borrowing	0.00
Voucher Manipulation	2.04

Fourteen types of fraud extracted from the literature were presented in the questionnaire as the types of fraud currently prevalent in the banking industry. The result obtained from the respondents is produced in table 3 above. Among all the types of fraud listed, computer fraud had the highest percentage making it the highest perceived type of fraud

currently affecting banks. Forged cheques, fund diversion, money transfer fraud and fraudulent loans also had statistically significant percentages, qualifying them as types of bank fraud. No percentage was recorded for unofficial borrowing and this stems from the fact that bank employees no longer view it as fraud since the practice is common and widespread in the industry. Bank employees regard unofficial borrowing as a form of informal borrowing that is resorted to in times of dire need when the employee may not be liquid enough to meet his/her financial obligations. Also, the fact that they pay later or issue a post dated cheque to clear the amount taken, is another cogent reason why it is viewed as perfectly normal and therefore not a fraudulent activity.

4.4: Respondents views on the factors which encourage involvement in bank frauds

Table 4

Factors	Percentage (%)
Poor Management	12.09
Inexperienced Personnel	3.99
Overstretching	12.75
Job Rotation	4.10
Poor Remuneration	5.51
Frustration	1.85
Inadequate Training	1.01
Greed	47.08
Poor Internal Controls	11.62

Table 4 above shows the respondents' views on the factors which encourage involvement in banking fraud. Nine factors derived from the literature were presented as basic motivators towards engaging in fraudulent banking practices. The statistically significant percentages indicate that overall, respondents agree that all the factors listed acts as motivators towards committing fraud. There is however a high degree of consensus among them that greed is the highest motivation for committing fraud

4.5: Consequences of bank fraud ranked in order of importance

Table 5

Effect of bank fraud	Staff Number	Points					Score	Rank
		1	2	3	4	5		
Loss of public confidence	40	15	12	9	2	2	84	2
Loss of money	40	19	10	5	4	2	80	1
Increased operating cost	40	13	11	8	5	3	94	3
Low asset quality	40	13	10	9	3	5	97	4

Tables 5 above shows the respondents' ranking of the consequences of bank fraud. The most important consequence of bank fraud as demonstrated by the respondents is loss of money as shown in the table with 80 points. This is followed by loss of public confidence with 84 points, increased operating cost and low asset quality with 94 and 97 points respectively.

CHAPTER FIVE

5.1 FINDINGS

Greed is a major cause of fraud, according to the findings from the review of related literature and data analysis coupled with the fact that majority of the staff members considered their remuneration as adequate. Some of the other causes that contribute immensely to fraud are overstretching, poor management and poor internal controls. It was also observed that staff members of banks are involved at all the three (3) stages of fraud namely, initiation, execution and concealment. The study also revealed that computer fraud accounted for the majority of the frauds perpetuated in banks. Other prevalent causes of fraud that is plaguing the industry are money transfer fraud, fraudulent loans, forged cheques and fund diversion. Meanwhile, among the consequences of fraud, loss of funds and loss of public confidence topped the list

5.2 CONCLUSION

Fraud has been identified as a major threat to the growth and development of the banking sector globally. This study examines fraud in the Ghanaian banking sector and its prevention. From the review of related literature and data analysis, this study concludes by stating that fraud remains a major threat to the growth and development of the banking industry. Urgent and appropriate actions must therefore be taken both by the government, regulatory agencies and management of banks to ensure sanity in the system.

In view of the craze for money, and the prevailing harsh economic environment, big time frauds are on the increase in Ghana. Banks are losing amounts running into millions of

cedis to fraudsters on a daily basis. In most cases, when the frauds are detected early, amounts already drawn are usually difficult to recover. Even where bank inspectors discover fraud and there is the possibility of recovering some of the funds lost as a result of the fraud, the cooperation of the police has not been particularly encouraging. Also in some cases top levels of management that do not want negative publicity for their banks try to smoothen certain cases and some are very reluctant to bring such cases to the attention of the general public because of the negativity such cases may bring to the bank . Time is of essence in effecting control of frauds therefore, a sound and effective control system will not only prevent fraud but will at an early stage detect it.

In a nutshell, the impact of fraud is so great that all hands must be on deck to ensure that there are no loopholes for perpetrators. Even though, from studies, it is gathered that for as long as people including Ghanaians are money craze, there will always be fraudsters, one can only attempt to minimize fraud in the banking industry. It is our opinion that banks can only reduce the occurrence of fraud by ensuring conclusive, satisfactory and comfortable working conditions of staff and also to prepare for the inevitability of the occurrence so as not to lose too much operating time whilst dealing with the occurrence.

5.3 RECOMMENDATIONS

The following are the recommended means of preventing bank fraud:

- a. Applicants should be properly screened to test their morality, trustworthiness, sincerity and fear of God before employment is offered to them by banks
- b. Establishment of adequate internal control systems and monitoring has also been identified as necessary in fraud prevention.
- c. Particulars of proposed account-holders should be obtained and verified before any account is opened.
- d. Segregation of duties should be adopted across board and management must ensure that it is strictly adhered to
- e. Effective reconciliation of inter branch accounts should be emphasized. There is the need to equip the reconciliation section of the bank with highly experienced and skilled staff.
- f. All payment instruments with huge amounts should be referred to the issuing bank before payment.
- g. Staff members should be provided with the necessary logistics and infrastructure to enable them perform their duties diligently.

- h. Reward should also form part of every bank's policy to encourage staff and customers who have helped to frustrate intended fraud cases in the past.

The task of bank management is challenging enough without the ever present risk of fraud, so awareness should also be created so as to nip the situation in the bud before anything serious occurs. This requires more than just sound judgment and dynamic action; it calls for commitment that can only be gained if the management has ensured that all the motivational incentives have been put in place. A total alertness that takes nothing for granted and awareness that trust could be misplaced, this being a diligent and painstaking approach. Furthermore, training techniques should be upgraded to test honesty and integrity and not just technical skills. This should entail extensive training programme regularly done, as well as personality tests and IQ tests so as to understand the personality and character of the trainee. This would reduce negligence and carelessness in carrying out basic procedures that could pose as loopholes for fraud.

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AN ASSESSMENT OF FRAUD AND ITS MANAGEMENT IN A RURAL BANKING
INDUSTRY

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RESEARCH REPORT SUBMITTED TO THE BUSINESS DEPARTMENT OF THE
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ADMINSTRATION

SUPERVISOR: MR STEPHEN ALEWABA

STATEMENT OF AUTHENTICITY

We have read the university's regulation in relation to plagiarism and clarify that this report is all our own work and does not contain any acknowledged work from any other source.

We also declare that we have been under supervision for this report herein submitted.

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DEDICATION

We dedicate this project to the Almighty God whose care and protection have brought us
this far

ABSTRACT

Fraud in the rural banking industry before recapitalization efforts and even now is at an alarming rate. It has caused many banks to collapse, and many investors and depositors funds have been locked in these collapsed banks. Infact it has prevented many banks from achieving their goals and many businesses has gone into liquidation. Honestly speaking it has become a cankerworm that is eating deep into the financial sector of the Ghanaian economy. This called for the need for this study and the purpose of this study therefore is to identify the causes of fraud, measure its impact and identify means of controlling it. The study is a survey research and questionnaire was used for the collection of primary data while libraries, journals, write-ups, seminar papers and books by popular authors were used for secondary data. The findings show that poor management, inexperienced personnel, overstretching, job rotation, poor remuneration, frustration, poor book-keeping, inadequate training, communication gap and poor leadership skills are the greatest causes of fraud in the rural banking industry. It was concluded that adequate internal control systems should be put in place and that workers satisfaction and comfort should be taken care off.

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