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CORPORATE FRAUD AND PERFORMANCE OF MICRO FINANCE BANKS IN NIGERIA

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Abstract

The study examines the influence of corporate fraud on the performance of micro finance banks in Nigeria. This is premised on the increasing fraudulent activities and practices in the banking sector which translate into the inability of microfinance banks to meet the expectations of various stakeholders. Three research hypotheses were formulated for the study, descriptive statistical design method was employed. The population of the study comprised forty licensed microfinance banks in Anambra State. Z test statistical method with the aid of SPSS version 20. The findings of the study revealed that corporate fraud has significant influence on bank performance in Nigeria. Consequent upon this study, it was recommended that there should be improvement in internal control systems to enable staff detect and prevent fraudulent activities, the regulatory and supervisory bodies of banks in Nigeria should improve their supervision on microfinance banks using all tools including ICT banking software at their disposal to appropriately check and curtail the incidence of fraud in the banking industry.

1.1 INTRODUCTION

For any economy to develop and grow, the financial sector must be strong, solid, effective and efficient. The existence of an effective banking industry is a panacea to growing any economy. The pivot of any economic development is the financial sector through its role in intermediating funds from the surplus units to deficit units. This also stimulates investment, economic growth and employment as well as international trade and payment. The significant roles played by financial institutions are responsible for the importance accorded them by every economy of the world. Over the years the Nigerian banking industry has witnessed several reforms in search of an efficient and effective financial system (Owolabi, 2010).

Fraud is a global phenomenon that has been in existence for long and it increases every day. Fraud is a deliberate act that causes a business or economy to suffer damages, often in the form of monetary losses. Fraud according to Adeniji (2004) and ICAN (2006) is an intentional act by one or more individuals among management, employees or third parties which results in a misrepresentation of financial statement. Fraud in banking industry is a global phenomenon and its growth in Nigeria economy has been astounding. Fraud is the number one enemy of business growth world over. The fear now is that the increase rate of fraud in the financial institutions, if not arrested mighty pose certain threats to the stability and the survival of individual financial institution and the performance of the industry as a whole and no area of the economy is immune from fraudsters (Nwankwo, 2005). Bank frauds is generally bringing untold hardship on bank owners, staff, customers and family members as most bank failures are always associated with large scale of frauds (Okoro, 2003).

According to Oseni (2006) the incessant frauds in the banking industry are getting to a level at which many stakeholders in the industry are losing their trust and confidence in the industry. Corroborating the view of Oseniand Idolor (2010), stressed that the spate of fraud in Nigerian banking sector has lately become a source of embarrassment to the nation as apparent in the seeming attempts of the law enforcement agencies to successfully track down culprits. Although the incidence of frauds is neither limited to the banking industry nor peculiar to Nigeria economy, however the high rate of fraud within the banking industry, calls for urgent attention with a view to finding solutions. Fraud in its effect reduces organizational assets and increases its liabilities. With regards to banking industry, it may engender crises of confidence among the banking public, impede the going concern status of the bank and ultimately lead to bank failure (Adeyemo, 2012).

The Nigeria Deposit Insurance Corporation (NDIC) 2007 annual report and statement of accounts report that cases of attempted frauds and forgeries in insured banks, as at 2007 exceeded what was recorded in the year 2006. For instance, the NDIC report for 2007 disclosed that a total of 1,553 reported cases of attempted frauds and forgeries involving over symbols ₦10 billion compare with 1,193 reported cases of fraud and forgeries involving ₦4,832.17 billion in the year 2006. The foregoing statistics clearly unfolds the extent to which fraud had had eaten deep into the financial strength benefit the perpetrators to the department of another person. Today, banks cannot withstand the growing pressure of competition among various banks due to the monster called bank frauds. If this act of fraud is not arrested, it might delete our resources because foreign investors might not find it wise to transact business via our banks.

1.2 STATEMENT OF PROBLEM

Banks generally have been experiencing fraud since its evolution. This affects the performance and the profitability of banks and may possibly lead to distress. The inability to identify the immediate and remote causes of continuous cases of bank frauds in Micro Finance banks in Nigeria is one of the problems brought to bare. Fraud is a major challenge to the entire banking industry; no bank is immune to it and in all facets of life (Olorunsegun, 2010). The banking public expects accountability, fairness, transparency in their day operation for effective intermediation.

Though there were known cases of fraud in the sector, one major question still remain unanswered which is what is the nature and different ways through which fraud can be perpetuated in banks. It is asserted by Adeyemo (2012) that fraud in the bank is possible with corroboration of an insider. 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.

In Nigeria, in spite of the banking regulation and bank examination by the Central Bank of Nigeria (CBN), the supervisory role of the Nigeria Deposit Insurance Corporation (NDIC), and The Chartered Institute of Bankers of Nigeria (CIBN), there is still a growing concern about fraud and other unethical practices in the banking industry. Evidence from the NDIC Report (2008) reveals that the report of the examinations and special investigations showed that some banks were still bedeviled with problems of fraud, weak board and management oversight; inaccurate financial reporting; poor book-keeping practices; nonperforming insider-related credits; declining asset quality and attendant large provisioning requirements; inadequate debt recovery; non-compliance with banking laws, rules and regulations; and significant exposure to the capital market through share and margin loans. Okpara (2009) found that one of the factors that impacted the most on the performance of the banking system in Nigeria was fraudulent practices. This study, thus, examines the influence of corporate fraud on the performance of Micro Finance banks.

1.3 RESEARCH OBJECTIVES

The general objective of this study is to evaluate the extent to which corporate fraud has affected the performance of Micro Finance banks *in Nigeria*. However, it is set to achieve the following specific objectives.

To determine the extent to which fraud has affected the profitability of micro finance banks.

1. To ascertain the influence of fraud on the capital base of micro finance banks.
2. To determine the extent to which fraud has affected the liquidity position of micro finance banks.

REVIEW OF RELATED LITERATURE

2.1 CONCEPTUAL FRAMEWORK

2.1.1 CORPORATE FRAUD

The concept of fraud has been defined in various societies mostly in line with the culture or prescribed social life of the people. Hornby (2000) defined fraud as an action or an instance of checking somebody in order to make or obtain goods illegally. Olaoye (2009) noted that fraud consists of both the use of deception to obtain an unjust or illegal financial advantage and intentional misinterpretation, affecting the financial statement by one or more individuals among management, employees or other parties. This is similar to the definition of Olowookere (2003) who defined fraud as any activity that is painted with initial intention to cheat or deceive. According to Ogunleye (2004), the incidence of fraud in the Nigerian banking system has become a matter of serious concern to all.

Fraud can be defined as deliberate deceit or an act of deception aimed at causing a person or organization to give up property or some lawful right. The Association of Certified Fraud Examiners (1999) further defines fraud as the use of one's occupation for personal enrichment through the deliberate misuse, misapplication or employment of organizational resources or assets. Fraud can be defined as the fraudulent conversion and acquisition of money or property by false pretence (FBI, 1984). In legal terms, fraud is seen as the act of depriving a person dishonestly of something, which such an individual would or might be entitled to, but for the perpetration of fraud. In its lexical meaning, fraud is an act of deception which is deliberately practiced in order to gain unlawful advantage. Therefore, for any action to constitute a fraud there must be dishonest intention to benefit (on the part of the perpetrator) at the detriment of another person or organization. Fraud usually requires theft and manipulation of records, often accompanied by concealment of the theft. It also involves the conversion of the stolen assets or resources into personal assets or resources. There is a general consensus amongst criminologists that fraud is caused by three elements called "WOE" (Onibudo, (2007). For any fraud to occur there must be a will, an opportunity and exit (escape route). A fraud will only occur if the perpetrators have the will to commit the fraud, if the opportunity to commit the fraud is available and if there is an exit or escape route from relevant sections or institutions that are against fraud

or related deviant behaviour. Fraud is a global phenomenon. It is not unique to the banking industry or for that matter, peculiar to only Nigeria. With the crash of major multinational corporations like Enron (in the United States of America) coupled with high level allegations and actual cases of corporate fraud, many organizations in their attempt to improve their image have resorted to developing ethical guidelines and codes of ethics. The whole essence of these is to ensure that all organizational members irrespective of rank or status, complies with the minimum standard of ethical responsibility in order to promote the reputation of such firms in their chosen industry, earn the goodwill of customers and thus improve their competitive advantage (Unugbro and Idolor, 2007). In the present Nigerian epoch, many youths and elder citizens alike want to make it within the shortest possible time, because banks deal with money, and money related businesses, it is no wonder that they have become the targets of persistent fraudsters.
As naturally expected, fraud is perpetrated in many forms and guises, and usually have insiders (staff) and outsiders conniving together to successfully implement the act. The following types which are not in any way completely exhaustive are the most common types of bank frauds in Nigeria identified by Ovuakporie (1994);

2.1.1.1 Theft and Embezzlement
This is a form of fraud which involves the unlawful collection of monetary items such as cash, traveler's cheque and foreign currencies. It could also involve the deceitful collection of bank assets such as motor vehicles, computers, stationeries, equipments, and different types of electronics owned by the bank.

2.1.1.2 Defalcation
This involves the embezzlement of money that is held in trust by bankers on behalf of their customers. Defalcation of customers deposits either by conversion or fraudulent alteration of deposit vouchers by either the bank teller or customer is a common form of bank fraud. Where the bank teller and customer collude to defalcate, such fraud is usually neatly perpetrated and takes longer time to uncover. They can only easily be discovered during reconciliation of customers‟ bank account. Other forms of defalcation involves colluding with a customer's agent when he/she pays into the customer's account and when tellers steal some notes from the money which are billed to be paid to unsuspecting customers/clients.

2.1.1.3 Forgeries
Forgeries involve the fraudulent copying and use of customer's signature to draw huge amounts of money from the customer's account without prior consent 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 collusion with employees of the bank who usually are the ones who release the specimen signatures being forged (Onibudo, 2007).

2.1.1.4 Unofficial Borrowing
In some instances, bank employees borrow from the vaults and teller tills informally. Such unofficial borrowings are done in exchange of the staff post dated cheque or I.O.U. or even nothing. These borrowings are more prevalent on weekends and during the end of the month when salaries have not been paid. Some of the unofficial borrowings from the vault, which could run into thousands of naira, are used for quick businesses lasting a few hours or days after which the funds are replaced without any evidence in place that they were taken in the first place. Such

a practice when done frequently and without 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.

2.1.1.5 Foreign Exchange Malpractices

This involves the falsification of foreign exchange documents and diversion of foreign exchange that has been officially allocated to the bank, to meet customer's needs and demand, to the black market using some 'ghost customers" as fronts. Other foreign exchange malpractices include selling to unsuspecting and *naïve* customers at exchange rates that are higher than the official rate and thus claiming the balance once the unsuspecting customer has departed. These practices usually find fertile grounds to grow in banks which have weak control, recording and accounting systems and corrupt top management staff (Ovuakporie, 1994).

2.1.1.6 Impersonation

Impersonation involves assuming the role of another person with the intent of deceitfully committing fraud. Impersonation by third parties to fraudulently obtain new cheque books which are consequently utilized to commit fraud is another popular dimension of bank fraud. Cases of impersonation have been known to be particularly successful when done with conniving bank employees, who can readily make available, the specimen signatures and passport photograph of the unsuspecting customers.

2.1.1.7 Manipulation of Vouchers

This type of fraud involves the substitution or conversion of entries of one account to another account being used to commit the fraud. This account would naturally be a fictitious account into which the funds of unsuspecting clients of the banks are transferred. The amounts taken are usually in small sums so that it will not easily be noticed by top management or other unsuspecting 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.

2.1.1.8 Falsification of Status Report

A common type of fraud is falsification of status report and/or doctoring of status report. This is usually done with the intent of giving undeserved recommendation and opinion to unsuspecting clients who deal with the bank customers. Some clients for example will only award contracts to a bank customer if he/she providers evidence that he/she can do the work and that they are on a sound footing financially. Such a fraudulent customer connives with the bank staff to beef up the account all with the aim of portraying himself not only as being capable but also as a persons who will not abscond once the proceeds of the contracts has been paid. The inflation of statistical data of a customer's account performance to give deceptive impression to unsuspecting third parties (which is very common in Nigeria), for whatever reasons, is a fraudulent behavior (Ovuakporie, 1994).

2.1.1.9 Money Laundering

This involves the deceitful act of legitimizing money obtained from criminal activity by saving them in the bank for the criminals or helping them transfer it to foreign banks, or investing it in legitimate businesses. In the recent political dispensation (in Nigeria), money laundering by con men, politicians and fraudulent bank staff have assumed alarming dimension.

2.1.1.10 Fake Payments

A common type of fraud in the banking sector is fake payments, which involves the teller introducing a spurious cheque into his/her cage. It is done with or without the collaboration of other members of staff or bank customers. This type of fraud is however easy to detect if the bank has a policy of thoroughly examining all vouchers, checks, withdrawal slips and payments on a daily basis.

2.1.1.11 Computer Frauds

This involves the fraudulent manipulation of the bank's 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. In this epoch of massive utilization 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. No bank seems to be immune from it, and a significant proportion of the billions of naira spent annually in the banking sector to help reduce fraud usually are channeled towards combating compute frauds and cyber-crimes/thefts. According to Asukwo (1999), the immediate and remote causes of frauds in general include the following:

2.1.1.12 Greed

Greed refers to an inner drive by individuals to acquire financial gains far beyond their income and immediate or long-term needs. It is usually driven by a morbid desire to get rich quick in order to live a life of opulence and extravagant splendor. Greed has in many cases been regarded as the single most important cause of fraud in the banking sector.

2.1.1.13 Inadequate Staffing

A poorly staffed bank will usually have a problem of work planning and assignment of duties. The bank that is flooded with unqualified and inexperienced staff will of a necessity have to grapple with the problem of training and supervision of its officers. This situation can very easily be capitalized upon by the teeming fraudsters that the bank has to contend with in its day to day transactions.

2.1.1.14 Poor Internal Control

Inadequate internal control and checks usually creates a loophole for fraudulent staff, customers and non-customers to perpetrate frauds. Therefore to reduce or eliminate frauds, there is a need to always have effective audits, security systems and ever observant surveillance staff at all times during and after bank official operating hours.

2.1.1.15 Inadequate Training and Re-Training

Lack of adequate training and retraining of employees both on the technical and theoretical aspects of banking activities and operations usually leads to poor performance. Such inefficient performance creates a loophole which can very easily be exploited by fraudsters.

2.1.1.16 Poor Book Keeping

Inability to maintain proper books of accounts coupled with failure to reconcile the various accounts of the bank on daily, weekly or monthly basis usually will attract fraud. This loophole can very easily be exploited by bank employees who are fraudulent.

2.1.1.17 Genetic Traits

This has something to do with heredity: a situation whereby characteristics are passed on from parents to offspring. For instance a kleptomaniac who has a pathological desire to steal just for the sake of stealing would naturally not do well as a banker. It is therefore imperative for banks to trace such symptoms quickly among members of their staff in order to reduce the possibility of fraud among employees. Aside the aforementioned causes of fraud, the following factors suggested by Aderibigbe (1999) and Onibudo (2007), also contributes immensely to fraud:

i. Inadequate compensation, salaries and fringe benefits that are accruable to bank staff;
ii. The ease at which the stolen assets are converted after deceitful appropriation;
iii. Refusal to comply with laid-down procedures without any penalty or sanction;
iv. Collusion between interacting agents charged with the responsibility of protecting the assets and other interest of the bank;
v. Poor working conditions;
vi. Poverty and infidelity of employees.

2.1.2 IMPLICATIONS OF FRAUD ON BANK PERFORMANCE

The phenomenon of fraud has outrageous implications of bank performance in Nigeria. A bank's performance is measured by its capacity to maximize returns on investor's funds. According to Jeon and Miller cited in Abdullahi, (2011), bank performance is the bank profitability and productivity. Performance may refer to the development of the share price, profitability or the present valuation of a company Melvin and Hirt, (2005). Fraud in the banks leads to loss of confidence in business, insolvency or winding up business, bankruptcy, failure of creditors‟ business with attendant loss of employment.

Chibuke (2001) noted that the volume and frequency of fraudulent practice in Nigerian banks has been on the increase. Brunner et. al (2004) opined that the location of ATM is a high determinant to fraud carried out at ATM point. According to them, ATM within the banking premises is more secure than ATMs outside the bank premises. Diebold (2002) noted that the major form of ATM fraud is PIN theft which is carried out by various means like skimming, shoulder surfing, camera, key pad recorder etc. Dickson (2009) declared that fraudulent practices have led to the fall of so many banks in time past. In 2005, there was total of 1,229 reported cases of bank fraud. This shows an increase in the level of fraud in 2004 which recorded 1,175 cases of bank frauds.
According to Ndi-Okereke (2004), fraud in banks nearly and always leads to loss of monies that ordinarily belong to someone other than the banks. The loss results in reduced level of resources available for use in operations. In very bad cases where fraud occurs with crippling frequency and in wholesome sizes, the banks may be forced to close down and under such circumstances, the customer lose money. Frequent occurrences of frauds ultimately distract the attention of the management and led to increased running cost. Time and energies that would have been spent improving customer services would be expended on preventing frauds. Monies that would have also gone into service management activities would be expended in setting fraud control procedures and systems Shehu, (2006). The development of banking in Nigeria has been greatly hampered by fraud.
Frauds can destroy the economy of a nation and its sovereignty. We are all living witnesses to how Nigerian sovereignty was called into question and its international trade threatened when a foreign power issued an ultimatum to its (Nigerian) national assembly to pass bill on financial

malpractice. Had the national assembly failed to pass the bill, the country would have faced international sanctions.

The effect of fraud in bank are far reaching and include among others huge financial loses to both bank and their customers, the depletion of shareholders fund and bank capital base is a source of extreme embarrassment to book management and loss of confidence in our bank. The time energy and money that would have been expended in improving customer services are being expended in setting up fraud control and prevention system. All these lead to the bank, indeed, it is on record that fraud has led the closure of some bank in other parts of the world and this may not be impossible in Nigeria if the current trend is not stemmed.
Undoubtedly, fraud leads to loss of money which belongs to either the bank or customers. This loss results in a decline of productive resources available to the bank. Adewunmi (1986), identified the under listed effects of bank frauds and forgeries:
a) It destroys the bank's reputation
b) It discourages banking habit among the banking public.
c) The bank ceases to meet up with staff welfare
d) The trust and understanding among staff is reduced
e) The bank will lack the ability to compete favourably with its competitors
f) Fraud reduces bank's profitability
g) It places emotional and psychological burdens on the fraud victims.

Others include:
Increased operating expenses, reduced operational efficiency, damage to credibility, public criticisms, endangered bank's plans and strategies, bank's liquidation, a decrease in foreign direct investments (FDI) and foreign investors, depletion of shareholders' funds and banks' capital base, and bad national image. Summarily, it can be said that the Cost of Fraud in Banks = Instantaneous loss due to fraud + Cost of fraud preclusion and exposure + Cost of lost business + Opportunity cost of fraud avoidance and uncovering + deterrent effect on spread of e-commerce.

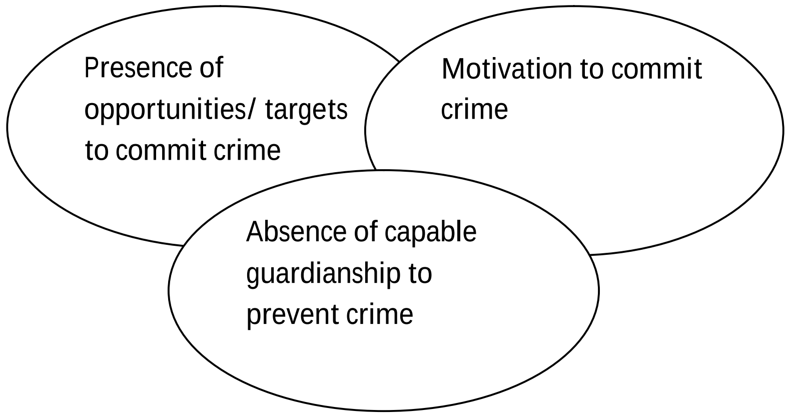
2.2 THEORETICAL FRAMEWORK

2.2.1 Routine activities theory

Routine activities theory examines the environmental context in which crimes occur. Routine activities are theory of place, where different social actors intersect in space and time. The people we interact with, the places we travel to, and the activities we engage in influence the likelihood and distribution of criminal behavior. Specifically, routine activities theory focuses on the intersections of motivated offenders, suitable targets, and the absence of capable guardians. It is important to note that routine activities theory offers suggestions about the probability of criminal behavior rather making definite claims about when crime will occur. The presence of a motivated offender, a suitable target, and a lack of guardianship does not mean that crime is inevitable. Instead, the theory argues that the likelihood of crime increases or decreases based on the existence of these three elements. Moreover, Cohen and Felson (1979) suggest how their theory applies to studying crime trends at varying macro and micro levels of analysis, ranging from national crime rates to a particular individual or location.

Cohen and Felson (1979) state that each successful crime event minimally requires an offender who is motivated to commit the crime and able to act on this motivation. Simple intent is not sufficient for a crime to occur -- a motivated offender must be capable of carrying out his desires. Routine activities theory does not explain *why* an offender is motivated to commit a crime, but instead assumes that motivation is constant. In other words, the theory presumes that some members of society will be motivated toward criminal behaviour and will seek to act on these motivations when opportunities arise. If a motivated offender identifies a viable target, the question becomes whether the offender is able to carry out his intentions and commit the crime.

Fig.1. Application of Routine Activity Theory in crime



Source: Choo, K.K.R (2011), the cyber threat landscape: challenges and future research directions, computer and security.

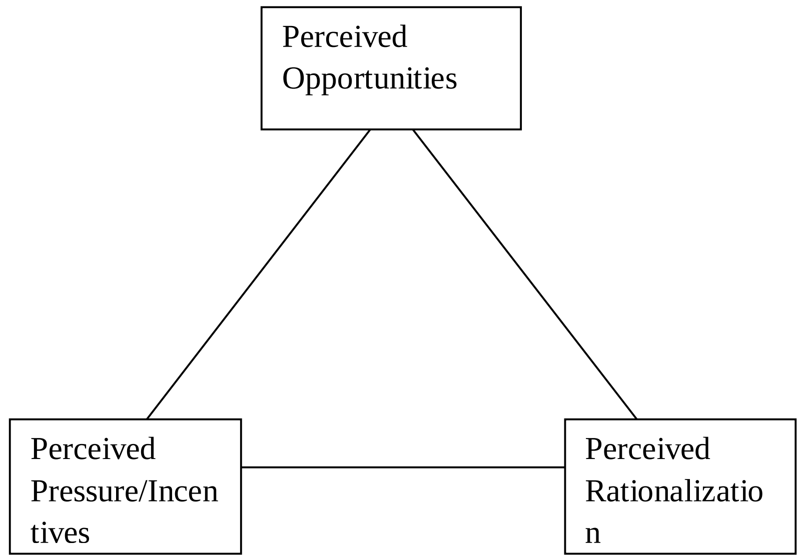
In order for a crime to occur, a motivated offender must also identify and engage a suitable target. Suitable targets can take a number of forms depending on the nature of the crime (i.e. the particular intent of the offender) and the situational context (i.e. the available opportunities). A suitable target might be an object, such as a piece of valuable property to steal or a home to burglarize. Or, another person might serve as a lucrative target, such as someone wearing flashy jewellery who catches the attention of a robber. As noted earlier, one might consider suitable targets at varying levels of analysis. Cohen and Felson (1979) suggest how large-scale societal changes influence the quantity of suitable targets nationally. At the micro-level, the evaluation of what is and is not a suitable target largely depends on the perceptions and preferences of an individual offender.

The final component of routine activities theory consists of capable guardianship, which bears the potential to dissuade or prevent crime even in the presence of a motivated offender with a selected suitable target. Capable guardianship is an expansive concept that researchers interpret and study in a variety of ways. Formal types of guardianship, such as police officers and other types of law enforcement, symbolize a well-recognized form of protection from crime and victimization. Routine activities theory suggests that the presence of these agents might prevent a crime from happening. Many potential offenders, despite being motivated to commit a crime, would be hesitant to engage in criminal behavior with a police officer nearby.

2.2.3 The Fraud Triangle Theory

Cressey (1971) described the classical fraud theory and designated the propensities for fraud as a triangle of perceived opportunity, perceived pressure and perceived rationalization. The model is shown in Figure 1thus:

Fig.2: Classical Fraud Motivation Model



Sources: Wells, Joseph T. (1997). Occupational Fraud Abuse. In Albrecht, W. Steve (Ed.). Fraud Examination. Thomson: South-Western Publishing, 2003.

Every fraud executor is confronted with some kind of pressure or "need". Pressures that motivate individuals to commit fraud are financial pressures (high medical bills or debts),vices (drugs, gambling, alcohol), work-related pressures (high pressure for good results at work or a need to cover up someone's poor performance, or to report results that are better than actual performance compared to those of competitors) and other pressures (frustration with the nature of work, or even a challenge to beat the system). This „need" or greed usually as a combination of other factors such as the opportunity and the attitude to commit the fraud.

The executor of fraud must believe that he or she can commit the fraud without being caught (or if caught, nothing grave will happen). The opportunity to commit fraud is possible when employees have access to assets and information that allow them to both commit and conceal fraud. Opportunities are provided by a weak internal control environment, lack of internal control procedures, failure to enforce internal controls and various other factors such as apathy, ignorance, lack of punishment and inadequate infrastructure. Access must ,therefore, be limited to only those systems, information, and assets that are truly necessary for an employee to complete his or her job.

The third driver of fraud is ability of the perpetrators to find a way to rationalize their actions as acceptable. Rationalization/Absence of guardians refers to the manner in which people think about their work, performance and contribution within the workplace. They, therefore, attach a value that they should derive from the company for being productive or delivering something of value. Absence of guardians, on the other hand, refers to the situation where there are limited or no processes in the organization to test the integrity of the financial information or processes.

2.3 EMPIRICAL REVIEW

In a study conducted by Wole and Couisa (2009) tested the attributes of the theory of diffusion of innovation empirically, using automated teller machines (ATMs) as the target innovation. The study found that attitudinal dispositions significantly influence the use of ATM in any bank and thereby affecting the performance of the bank.

Adewunmi (2007) in his explanation of bank fraud identify socio-economic lapse in society such as misplacement of societal values, the unquestioning attitude of society towards the sources of wealth, the rising societal expectations from bank staff and the subsequent desire of the staff to live up to such explanations as contributory factors of fraud. Otusanya (2008) carried out a study on the role of Bank CEO in the perpetration of corporate executive frauds in the Nigerian Banking sector. The study reveals that recent banking crises in Nigeria have exposed the activities of bank executives in corruption and fraudulent practices using institutional anomie theory called American dream theory, whereby the pursuit of monetary success has come to dominate society.

Idowu (2009) did a research on the means of minimizing the incidence of fraud in Nigerian banking industry. Findings of the study revealed that, so many factors contributed to the incidence of frauds in banks amongst which are poor management of policies and procedures, inadequate working conditions, bank staff staying longer on a particular job and staff feeling frustrated as a result of poor remunerations. Adepoju and Alhassan (2010) opined that bank customers have come to depend on and trust the Automatic teller machine (ATM) to conveniently meet their banking needs, but that in recent times; there have been a proliferation of ATM frauds in the country. Managing the risks associated with ATM fraud as well as diminishing its impact is an important issue that face banks as fraud techniques have become more advanced with increased occurrences.

Akindele (2010) conducted a research on the "challenges of automated teller machine (ATM) usage and fraud occurrence in Nigeria banking industry". The study posits that lack of adequate training, communication gap, and poor leadership skills were the greatest causes of fraud in banks. He advised that adequate internal control mechanism be put in place and that workers satisfaction and comfort be taking care of.

Onuorah and Ebimobowei (2011) investigate fraudulent activities and forensic accounting in Nigeria. The study found that there is need for the banks in Nigeria to adopt more proactive measures such as the use of forensic accounting techniques in banks.

Abdulrasheed, Babaitu and Yinusa (2012) examined the impact of fraud on bank performance in Nigeria. Result of the study shows that, there is a significant relationship between banks profit and total amount of funds involved in fraud. Finally, Kanu and Okorafor (2013) did a work on the nature, extent and economic impact of fraud on bank deposit in Nigeria using descriptive and inference statistics. The study revealed that there is appositive significant relationship between bank deposit and fraud in Nigerian banking industry.

METHODOLOGY

3.1 RESEARCH DESIGN

The study adopted the descriptive survey research design. According to Chukwuemeka (2006), descriptive research 'tries to unravel the essential elements or characteristics of any phenomenon'. For the purpose of this study, the survey method of descriptive research design was employed by the researcher.

(a) 3.2 POPULATION OF THE STUDY

The population of the study is made up of micro finance banks registered with the central bank of Nigeria as at 2013; the figures were respectively 75 for Anambra State. The respondent consists of Senior Management Staff, operation department (Accountant, internal Auditor, cashiers and other finance personnel.

3.3 SAMPLE SIZE DETERMINATION

In determining the sample size of the study, the researcher employed the purposive or judgmental sampling techniques in determining the sample size. A total of 40 licensed microfinance banks representing about 2/3 of microfinance banks in Anambra state as at 2013 were selected from the information provided by the central bank of Nigeria report (2013). See appendix II

In determining the sample size of the study, Taro-Yamene (1964) formula for finite population was applied.

$$n = \frac{N}{1 + N * (e)^2}$$

$$N = \frac{274}{1 + 274 \times (0.05)^2} = 162.61 \text{ (approx 163).}$$

The finite sample size is mathematically derive to be 163, the numbers of questionnaires distributed among microfinance banks mentioned above is now determined.

3.5 INSTRUMENT OF DATA COLLECTION

The main research instrument is a structured questionnaire. A structured questionnaire is one in which the researcher only wants specific, clear-cut answers to the questions posed (Osaze and Izedonmi, 2008). The questionnaire was designed using the Likert-scale format on a continuum of 5 to 1, the options are as follows: strongly agree (SA); agree (A); disagree (D), strongly disagree (SD). The questionnaire was divided into three parts. Questionnaire distribution was done with the aid of research assistants.

DATA PRESENTATION AND ANALYSIS

4.1 Test of hypotheses

Hypothesis one

H_0: Bank fraud has not in any way affected the profitability of micro finance banks

H_I: Bank fraud has affected the profitability of micro finance banks

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Mgt fraud have more effect	120	1.683	.8791	.0803
Banks staff and customer do collide	120	1.667	.8131	.0742
Downsizing increase the tendency of fraud	120	1.633	.8089	.0738

Effective internal control actually prevent	120	1.650	.7293	.0666
Fraud actually affect	120	1.542	.6847	.0625
Management fraud have more impact on meeting financial obligations of the banks	120	1.975	.8931	.0815
Whistle blowing policy is effective in our microfinance banks	120	1.783	.8320	.0759

Source: SPSS Ver. 20

One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Mgt fraud have more effect	20.976	119	.000	1.6833	1.524	1.842
Banks staff and customer do collide	22.455	119	.000	1.6667	1.520	1.814
Downsizing increase the tendency of fraud	22.119	119	.000	1.6333	1.487	1.780
Effective internal control actually prevent	24.783	119	.000	1.6500	1.518	1.782
Fraud actually affect	24.664	119	.000	1.5417	1.418	1.665
Management fraud have more impact on meeting financial obligations of the banks	24.224	119	.000	1.9750	1.814	2.136
Whistle blowing policy is effective in our microfinance banks	23.481	119	.000	1.7833	1.633	1.934

Source: SPSS Ver. 20

From the above table, the seven questions give a positive result. There was statistical significant difference between means i.e. $p< 0.05$ in all the questions raised. It shows that Management fraud have more effect on profitability of the bank, Staff downsizing fraud increase and also result in reducing gross earnings others, this means that bank fraud has reap into the profitability of micro finance banks, we therefore reject null hypothesis and uphold alternative hypothesis which states that bank fraud has affected the profitability of micro finance banks.

Hypothesis two

H_0: Bank fraud does not affect the capital based of micro finance banks.
H_I: Bank fraud affect the capital based of micro finance banks.

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Fraud reduces the capital base of the bank	120	1.817	.6734	.0615
Siting effective control unit in all the micro finance banks will reduce the level of fraud.	120	1.850	.6817	.0622
professionals , qualified and competent staff will reduce deliberate fraud practices	120	1.750	.6642	.0606
Fraudulent practices among banks can lead to reduction in gross earnings	120	1.750	.5976	.0546
Increased corporate fraud can actually deplete shareholder's funds and bank capital base	120	1.775	.6669	.0609
fraud at management level can lead to increase	120	1.750	.6251	.0571
Strict screening of staff and satisfactory references	120	1.817	.5795	.0529

Source: SPSS Ver. 20

One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Fraud reduces the capital base of the bank	29.551	119	.000	1.8167	1.695	1.938

Sitting effective control unit in all the micro finance banks will reduce the level of fraud.	29.729	119	.000	1.8500	1.727	1.973
professionals , qualified and competent staff will reduce deliberate fraud practices	28.862	119	.000	1.7500	1.630	1.870
Fraudulent practices among banks can lead to reduction in gross earnings	32.078	119	.000	1.7500	1.642	1.858
Increased corporate fraud can actually deplete shareholder's funds and bank capital base	29.156	119	.000	1.7750	1.654	1.896
fraud at management level can lead to increase	30.667	119	.000	1.7500	1.637	1.863
Strict screening of staff and satisfactory references	34.339	119	.000	1.8167	1.712	1.921

Source: SPSS Ver. 20

From the above table, the seven questions give a positive result. There was statistical significant difference between means i.e. $p< 0.05$ in all the questions raised. It shows that Fraud reduced capital based, Management fraud have more impact on meeting financial obligation and obligation of the bank among others, this means that bank fraud affect the capital based of micro finance banks., we therefore reject null hypothesis and uphold alternative hypothesis which states that bank fraud affects the capital base of micro finance banks.

'Hypothesis Three

H_0: Fraud has not affected the liquidity position of micro finance banks.

H_I: Fraud has affected the liquidity position of micro finance banks.

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
credible investors, public criticisms, endangered bank's plans and strategies	120	1.875	.6293	.0574
ICT and other bank software that will enable bank staff	120	1.808	.6648	.0607
Corporate fraud is more practice on the management level than others	120	1.925	.5821	.0531
foreign direct investment (FDI), bank's liquidation and foreign investors	120	1.875	.5879	.0537
fraud practices in MFB lead to withdrawal of operational license.	120	1.908	.6080	.0555
prevention mechanism and policy by the CBN can actually reduce fraud	119	1.866	.6096	.0559

One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
credible investors, public criticisms, endangered bank's plans and strategies	32.639	119	.000	1.8750	1.761	1.989
ICT and other bank software that will enable bank staff	29.798	119	.000	1.8083	1.688	1.928
Corporate fraud is more practice on the management level than others	36.225	119	.000	1.9250	1.820	2.030

foreign direct investment (FDI), bank's liquidation and foreign investors	34.939	119	.000	1.8750	1.769	1.981
fraud practices in MFB lead to withdrawal of operational license.	34.382	119	.000	1.9083	1.798	2.018
prevention mechanism and policy by the CBN can actually reduce fraud	33.384	118	.000	1.8655	1.755	1.976

Source: SPSS Ver. 20

From the above table, the seven questions give a positive result. There was statistical significant difference between means i.e $p< 0.05$ in all the questions raised. It shows that Fraud increase operating expenses and affect level of Foreign Direct Investment at the same time leads to withdrawal of operating license among others, this means that bank fraud affect the capital based of micro finance banks., we therefore reject null hypothesis and uphold alternative hypothesis which states that fraud has affected the liquidity position of micro finance banks.

SUMMARY OF FINDINGS, CONCLUSION & RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS:

1. Bank fraud has significantly affected the profitability of micro-finance banks in Nigeria.
2. Bank fraud has a significant impact on the capital base of micro finance bank in Nigeria.
3. Bank fraud has a significant effect on the liquidity of micro finance bank in Nigeria.

5.2 CONCLUSION

The foregoing analysis shows that corporate fraud has adverse effects on banks performance in Nigeria. Without doubt, the menace of fraud has been the major source of bank distress. Fraud inflicts severe financial difficulty on banks and their customers. It also leads to the depletion of shareholder's funds and bank's capital base as well as loss of customer's money and confidence in banks. Such losses may be absorbed by the profits for the affected trading period and this consequently reduces the dividend available to shareholders. Losses from fraud which are absorbed by the equity capital of the bank impair the banks financial health and constrain 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.

The loss in funds affected the economy. It reduced the amount of money available to small or medium scale firms for developing the economy. The costs of fraud are always passed on to the society in the form of increased customer inconvenience, opportunity costs, unnecessary high prices of goods and services and lack of infrastructure. Fraud can increase the operating cost of a bank because of the added cost of installing the necessary machinery for its provision, detection and protection of assets. Moreover, devoting valuable time to safeguarding its assets from fraudulent men distracts management. This unproductive diversion of resources always reduces output and low profits which in turn could retard the growth of the bank. It also leads to a diminishing effect on the asset quality of banks.

5.3 RECOMMENDATIONS:

In view of the devastating effect of fraud and fraudulent practices on the performance of banks in Nigeria, the following recommendations are made:

Banks need to strengthen their internal control systems to be able to detect and prevent fraud and fraudulent activities and to protect its assets.

1 The regulatory and supervisory bodies of banks in Nigeria need to improve their supervision using all tools at their disposal to appropriately check and curtain the incidence of fraud and fraudulent practices in the banking industry in Nigeria.

2 The Government, in every society, plays a key role in financial and other crime prevention. In this regard, the relevant institutions established to fight fraud including the Central Bank of Nigeria (CBN), Nigeria Deposit and Insurance Corporation (NDIC), Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM), Economic and Financial Crimes Commission (EFCC), Independent Corrupt Practices Commission (ICPC), the Police, Judiciary, National Agency for Food, Drug Administration and Control (NAFDAC) and Standard Organization of Nigeria (SON), among others, should ensure the enforcement of various legal provisions in the fight against fraud in Nigeria.

3 The capacity building for the practitioners which the CBN and NDIC are undertaking is a welcome development and should be extended to the Board of Directors of these banks. This will ensure that the Directors who craft the policies for these banks are on the same page with their management staff. They should be made to understand the operational limits, modalities and objectives of microfinance banks. Particularly, they should be made to realize that these banks are not mini commercial banks and that microfinance banks pursue social motives in addition to financial sustainability.

4 Since poor banking culture is one of the fundamental problem plaguing microfinance banking in Nigeria, it becomes expedient that these banks should train their staff competently to understand the preventing measures of fraud occurrence.

5 Considering the importance of MFB at the grassroots level which being sometimes could be the only financial institution in a whole local government, the federal government of Nigeria should continue to sustain, invigorate and financially empower the MFB scheme with CBN as supervisory body.

6 One way of achieving this is by ensuring that additional security devices are incorporated, not only within the bank premises but also in the cheque books given to their numerous clients. This not only helps reduce their vulnerability to forgeries and other fraudulent acts but also makes early detection of such nefarious acts easy.

7 Also in recruiting key personnel's who are to handle certain sensitive operations, it is essential that banks make concerted efforts at conducting a proper background check on the status and nature of the employee in his or her neighbourhood, as this would help them establish the probability of the employee engaging in fraudulent activities.

8 There is a need for banks to increase the ability of their staff in detecting fraud especially those related to cheques and money transfers. This can be achieved through a combination of internal and external modules of on the job training and off the job training exercises. Banks are also advised to continuously review their compensation packages to reduce the tendency for fraudulent behaviour by their employees. It is believed that if employees are well remunerated the incidence of frauds will reduce.

9 Also, favourable financial awards and recognition should be given to employees who show dexterity in identifying and preventing fraud. Furthermore, we recommend that sound corporate governance characterized by effective operational practices comparable to international standards, be adopted by top management of banks as an essential ingredient for the prevention of fraud in the banking sector. Top management must also strive to maintain a high degree of ethical standards in the performance of their duties, in view of the fiduciary nature of their functions. This is imperative as they are by law required to safeguard the assets of their banks. Also the internal audit department of banks should not be seen as a dumping ground for non-performing staff. Staff deployed into this department should be sufficiently qualified, properly trained and adequately experienced in all facets of banking operation.

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