

## DRIFT OF RISK ASSESSMENT ON PREVENTION OF FRAUD IN BANKS AND FINANCIAL INSTITUTIONS IN NIGERIA.

Adeoye M. & Adeoye E.  
Department of Accounting,  
Adeleke University  
Ede Osun State, Nigeria  
[muyiwaadeoye@gmail.com](mailto:muyiwaadeoye@gmail.com)  
[oebun@yahoo.com](mailto:oebun@yahoo.com)

---

### ABSTRACT

Bank financial institutions are the locomotive that drive the process in the financial sector of the economy and as such needs to operate in a fraud free atmosphere. The Nigerian banking sector has lately been faced with different reformations which should have eliminated or reduced, to the barest minimum the issue of bank fraud but this has not been the case. The internal control system put in place has not helped to achieve this. A close study of any fraud in banks reveals many common basic features such as negligence or dishonesty at some phase on the part of a single worker or more workers. Fraud has led to the collapse of countless banks; several depositors and financiers' funds were hemmed in (entombed in/confined in). Since an internal control failure seems to be the rationale for fraud in banks there is a need to assess it on fraud prevention. This study investigates the risk assessment as a component of internal control on fraud prevention and how it is being managed by bank financial institution specifically in Nigeria. How effective has this been in reducing the incidence of fraud in the banking industry? The research is empirically based depicting on extensive related literature ,contemporary issues relating to the study, extract from consultations with experts .Survey research design was adopted in carrying out the study well structured questionnaires comprising three sections were administered at the head offices of six banks in Nigeria. The data collected from the questionnaire were analyzed using both quantitative and an inductive qualitative approach. The results show that the risk assessment a component of internal control is significant for fraud prevention in Nigeria banks. Also the result showed a need for the banks to perform fraud risk assessment on an all-inclusive and habitual basis rather than in an unauthorized or unsystematic mode. The study also discovered that each bank must conduct risk assessment considering its own peculiarity. Additionally, the study found that acquiescence with governance regulations does not automatically transmute into good risk management.

**Key Words:** Fraud, Internal Control, Risk Assessment, Bank Financial Institution.

---

### 1. INTRODUCTION

A close scrutiny into the astounding amount lost to fraudsters by the Nigerian 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, there is a need to study fraud control, fraud in the industry has prevented many banks from achieving their goals. Some banks were just seen in the physical as body and building, they were already liquidated and many were already into distress (Akindele, 2011). The effectiveness of internal controls depends largely on management's integrity. They are expected to perform audit continually through the audit unit, risk assessment is very imperative before accepting an audit engagement even in auditing. According to ISA315 Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement, the auditor should perform risk assessment procedures to obtain an understanding of the entity and its environment, including its internal control. Evidence relating to the auditor's risk assessment of a material misstatement in the client's financial statements in which the auditor is expected to obtain initial evidence regarding the classes of transactions at the client and the operating effectiveness of the client's internal controls. (ISA).

The Nigerian bank financial institution has suffered a lot of impediment that one may begin to wonder if there are really professional in that sector of the economy, whether there are internal control system in place which is meant to be adopted by the management of an entity to assist in achieving management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information. Risk-taking is an inherent element of banking and, indeed, profits are in part the reward for successful risk taking in business. On the other hand, excessive and poorly managed risk can lead to losses and thus endanger the safety of a bank's deposits. Financial institutions face numerous types of risk, some of which are ; borrowers may submit payments late or fail altogether to make payments, depositors may demand the return of their money at a faster rate than the bank has reserved for, market interest rates may change and hurt the value of a bank's loans, investments made by the bank in securities or private companies may lose value, and also human input errors or fraud in computer systems can lead to losses. Business today is very competitive, and employees often stressed out. As a result, they have a feeling of being clichéd, underpaid, and unacknowledged. If employees are also struggling with serious personal problems, their motivation to commit fraud is very high.

Adding to the situation of poor internal controls, the readily available information technology also assists in the crime, and the opportunity to commit fraud becomes a reality. The Nigerian bank financial institution is a very important sector of the economy and as such needs to operate in a fraud free environment. As a matter of fact there has been an increase in bank fraud which is innumerable and needs urgent attention. In Nigeria, the injustice and displacement caused by fraud to the nation's value system, economic and socio-political order, is very large. The menace motivated this study with particular attention to how internal control can be used to curb the occurrence of fraud. The spate of fraud in the banking industry has lately become an embarrassment to the nation as apparent in the seeming inability of the law enforcement agents to successfully track down culprits. Whereas the activities of armed robbers is given widespread reviews in the pages of newspapers, especially during major thefts, it is an irony that what they cart away from banks is only a slice of what fraudsters remove from bank tills (Idolor, 2010).

Fraud is one of the most deadly evils in any business organization. In the case of bank, it can easily reverse its fortunes by wiping away the bank's liquidity overnight, eating off the current profit and completely eroding its capital fund. Fraud is widely known to be the greatest single cause of bank failure the world over (Ituwe, 1996). One may wonder if there are no internal controls put in place by the banks. A proactive preventive approach to the problem of bank fraud requires a critical evaluation of the existing internal control structures in banks and seeing to the effectiveness of such controls predominantly in the area of risk assessment. In the NDIC annual report 2010, there was a total of 1,532 reported cases of attempted frauds and forgeries involving over N21 billion in 2010. It was in that same report that the expected loss components of the reported cases of frauds and forgeries that is, those whose probability of recovery was low as well as those not fully covered by Fidelity Insurance Bond amounted to over N11.68 billion in 2010. Yet the banks had an Inspection Department and there was such increase in fraud in 2010 (NDIC, 2010).

In 2012 the NDIC reported in real terms, shows that Debt Management Board (DBM) reported 3,380 fraud cases involving the sum of 17.97 billion with expected/contingent loss of about 4.52 billion in 2012. Nevertheless, regardless of the 43.7 per cent increase in the number of fraud cases from 2,352 in 2011 to 3,380 in 2012, the amount of fraud cases decreased by 36.4 per cent from 28.40 billion in 2011 to 18.04 billion in 2012. (NDIC 2012). Although the number of cases increased in 2012 over 2011, but the amount involved was far less than the previous year. The Central Bank of Nigeria (CBN) in 2012 set up an Automated Teller Machine Fraud Prevention Committee to address risks associated with the use of alternative e-payment channels. The members of the committee include banks, the Economic and Financial Crimes Commission (EFCC), National Identity Management Commission (NIMC), Interswitch and Valucard. Setting up the committee had become imperative to address card frauds, especially the ones associated with the use of ATMs and Point of Sale (POS) terminals as a result of the prevalence of ATM fraud in Nigeria (Alawiye, 2012). Fraud, which is the major reason for establishing internal control systems, has become a topic of concern for many Nigerian bank managers. According to Olaoye (2009) it has also become an unfortunate staple in Nigeria's international reputation. There is a necessity for the bank financial institution to understand the concept of internal control in the banking industry with particular reference to one of the major component, risk assessment as this cannot be overemphasized because banks play crucial roles in the economic development of the nation.

### 1.1 Statement of the Problem

As an important institution of the economy, banks and financial institutions in general perform vital roles apart from financial intermediation within the economy. The sub-optimal performance of these roles is due to a number of problems such as identified by Dabwor (2010) via:

- a) Human capital development i.e. inadequate skilled manpower.
- b) The need to minimize the high rate of frauds and other malpractices.
- c) Insider dealings, market manipulations, false trading, market rigging and false representations.
- d) Problem of resource mobilization due to the idle cash balances outside the banking system.
- e) Inadequate capitalization.
- f) Lack of innovations.

The issue of fraud in Nigerian banks is so intractable and as such the magnitude of this problem and its implications for the industry has inspired this study on the drift of risk assessment on the prevention of bank fraud in banks financial institution in Nigeria. The symptoms of poor internal controls increase the likelihood of frauds. They include a poor control environment, lack of segregation of duties, lack of physical safeguards, lack of independent checks, lack of proper authorizations, lack of proper documents and records, the overriding of existing controls, and an inadequate accounting system.

## 1.2 Objectives of the Study

The study principally focused on investigation of the role of internal control with respect to the implications of the risk assessment on fraud prevention in the Nigerian banking sector. In achieving the main objective, there are specific objectives and they are to:

- i) Check what risk assessment means in a bank.
- ii) Examine how risk is being managed in the bank's financial institutions
- iii) Assess the formal approaches toward supervisory risk assessment. This will consider the recent and currently developed systems.
- iv) Examine the regulatory arrangements regarding the formulation of laws, policies, prescriptions, guidelines or directives applicable to banking institutions particularly in the area of risk management.

## 2. THEORETICAL UNDERPINNING AND LITERATURE REVIEW

Modernization, deregulation and globalization in the bank financial institutions have impacted the industry by making banking business more complex and potentially riskier. This has turned-out new encounters to bank supervisors in connection with the structuring of their supervision and pertaining to fraud prevention. In response, bank managers have developed new approaches and procedures for monitoring and assessing banks on a continuing basis. Specific consideration should be given to improving the quality of bank examinations and to the development of systems that can assist bank managers, supervisors, and examiners in identifying changes, particularly deterioration, in banks' financial condition as early as possible. In addition to the various new initiatives that have been taken or are being taken in this respect are the development of more formal, structured and quantified assessments not only of the financial performance of banks but also of the underlying risk profile and risk management capabilities of individual institutions. (Sahajwala & Bergh 2000).

Bank financial institutions in Nigeria have withered the storm of the preceding chaotic and unstable years and, as the sky becomes translucent and the dust settles down, the banking industry is gradually becoming profitable as expected. Nevertheless the issue of bank fraud is still prominent in the industry and this is as a result of various factors. This paper is concerned on the influence of risk assessment of the banks on the prevention of bank fraud. In response to the agreement that poor risk management regimes at the banks largely led to the crises that we witnessed before the hammer was applied in 2009, following the 2008 global financial meltdown, the Nigerian Deposit Insurance Corporation (NDIC) applied stringent risk management panaceas. These are now paying off, but the question is, has these reduced the incidences of fraud or has it prevented the occurrence of fraud in the banking industry.

In 2012 the Nigerian Deposit Insurance Corporation's Annual Report showed that the banking industry made a profit-before-tax of 525.34 billion in 2012, representing a significant improvement over the loss of 6.71 billion reported in 2011. In the same year the report issued on the surveillance of insured deposit-taking financial institutions in 2012 chronicles that during the year, the NDIC, in collaboration with the Central Bank of Nigeria (CBN) carried out risk assessment of nineteen (19) Deposit Money Banks (DMBs). They also monitored eleven (11) DMBs with Composite Risk Rating of above average, to determine the level of their implementation of examiners' recommendations in the previous risk-based examination exercise. In the same annual report the two institutions conducted the Risk-Based Examination of sixteen (16) DMBs during the year. Twelve (12) out of the 16 DMBs had international banking licenses, two (2) held national banking licenses while the remaining two (2) were regional banks. The NDIC led the examination of six (6) of the banks while the CBN led in ten (10). Despite all these the NDIC through the Debt Management Board (DBM) reported 3,380 fraud cases involving the sum of 17.97 billion with expected/contingent loss of about 4.52 billion in 2012 which is 36.4 percent reduction in comparison to 2011 as mentioned in the introductory paragraph of this paper (NDIC, 2012). On other hand one keeps wondering if there are actually internal control system in this bank, not forgetting that banks are expected to have a compliance Unit, whose function is to basically ensure that the bank adhere strictly to the rules and regulations and make sure they do not derail in order to prevent the sledge hammer of the bank's governing body and autonomy bank the CBN.

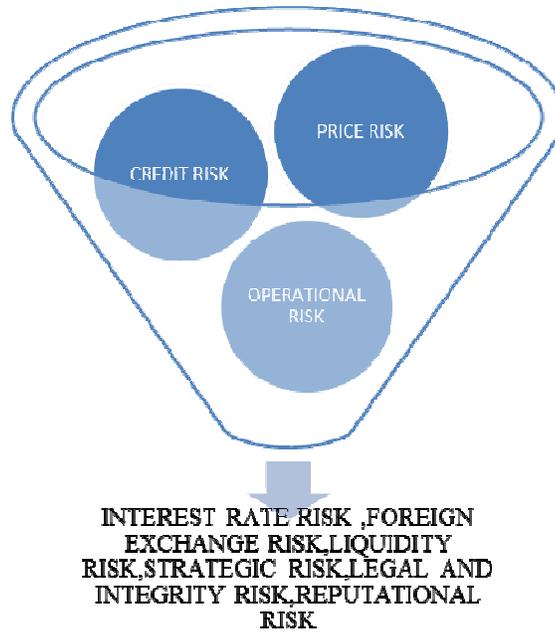
Furthermore in the same year the NDIC conducted on-site routine examination of two hundred and forty six (246) Micro-finance banks (MFB's) out of which six (6) were discovered to have stopped operation. The NDIC also outline risk-based examinations of forty (40) Primary Mortgage banks (PMBs) in 2012 out of which three (3) were found to have voluntarily liquidated. (NDIC, 2012) Sequel to the banking reforms introduced in 2009, the banking industry in 2012 continued in a good state of health while its performance remained relatively stable during the period under review as depicted by relevant indices. At this juncture it is germane to define the term Risk assessment. To have a better understanding this it is appropriate to define Risk. According to the Encarta dictionaries risk can be defined as the chance of something going wrong i.e. the danger that injury, damage, or loss will occur. To a finance personnel risk is the possibility of investment loss. Risk assessment according to the Information Systems Audit and Control Association (ISACA) is defined as the determination of quantitative or qualitative value of risk related to a concrete situation and a recognized threat. Quantitative risk assessment requires calculations of two components of risk (R), the magnitude of the potential loss (L), and the probability (p) that the loss will occur. Acceptable risk is a risk that is understood and tolerated usually because the cost or difficulty of implementing an effective countermeasure for the associated vulnerability exceeds the expectation of loss. (ISACA, 2006).

Risk assessment take account of an objective evaluation of risk in which assumptions and uncertainties are clearly well thought out and presented. Part of the complexity in risk management is that measurement of both of the quantities in which risk assessment is concerned, potential loss and probability of occurrence can be very difficult to appraise. The possibility of error in measuring these two concepts is enormous. Risk with a large potential loss and a low probability of occurring is often handled differently from one with a low potential loss and a high likelihood of occurring. In principle both are of almost same priority but in practice it may be very complex to handle when faced with the scarcity of resources remarkably time, in which to conduct the risk management process. The fact that Risk management is now a focus of attention for regulators, politicians, investors and the broader public can only be regarded as now a good thing. It is implied that bank directors and managers face the immediate challenge of how to ensure that they are exercising effective control over corporate risks whilst still taking the opportunities to expand and develop their banks. (Woods, 2011).

Recent financial catastrophe in the financial institutions indicates the necessity for various forms of risk assessment with particular reference to the banks financial institutions. Financial calamities are barely a fresh or new occurrence, but the briskness with which economic units can get into problem is. According to Curry and Shibut (2000) in their review titled the cost of the savings and loan crisis, between 1980-1990 a major crisis occurred in the united state of America in which banks savings and loan was adversely affected. Out of the 3,234 savings and loan institutions existing 1,043 failed completely from 1986 to 1995: Federal Savings and Loan Insurance Corporation(FSLIC) closed or otherwise resolved 296 institutions from 1986-1989 and the Resolution Trust Corporation(RTC) closed or otherwise resolved 747 institutions from 1989-1995. The United States general accounting office revealed that by 1995, the RTC had closed 747 failed institutions, worth a book value of between \$402 and \$407 billion, with an estimated cost to taxpayers of \$160 billion.[2] In 1996, the General Accounting Office estimated the total cost to be \$160 billion, including \$132.1 billion taken from taxpayers. Norman & Fred (1988) in his book titled where deregulation went wrong: a look at the causes behind savings and loan failures in the 1980s identified the major causes of this bank crisis, they are:

1. Lack of net worth for many institutions as they entered the 1980s, and a wholly inadequate net worth regulation.
2. Decline in the effectiveness of regulation in preserving the spread between the cost of money and the rate of return on assets, basically stemming from inflation and the accompanying increase in market interest rates.
3. Absence of an ability to vary the return on assets with increases in the rate of interest required to be paid for deposits.
4. Increased competition on the deposit gathering and mortgage origination sides of the business, with a sudden burst of new technology making possible a whole new way of conducting financial institutions generally and the mortgage business specifically.
5. Savings and Loans gained a wide range of new investment powers with the passage of the Depository Institutions Deregulation and Monetary Control Act and the Garn–St. Germain Depository Institutions Act.
6. Elimination of regulations initially designed to prevent lending excesses and minimize failures. Fraud and insider transaction abuses.
7. Dereliction of duty on the part of the board of directors of some savings associations.
8. A virtual end of inflation in the American economy, together with overbuilding in multifamily, condominium type residences and in commercial real estate in many cities.
9. Pressures felt by the management of many associations to restore net worth ratios. Anxious to improve earnings, they departed from their traditional lending practices into credits and markets involving higher risks, but with which they had little experience.
10. The lack of appropriate, accurate, and effective evaluations of the savings and loan business by public accounting firms, security analysts, and the financial community.
11. Federal and state examination and supervisory staffs insufficient in number, experience, or ability to deal with the new world of savings and loan operations.
12. The inability or unwillingness of the Bank Board and its legal and supervisory staff to deal with problem institutions in a timely manner.

According to Sahajwala and Bergh (2000) in their paper titled supervisory risk assessment and early warning systems banking risk assessment categories can be related into the following risks which is shown in the diagram below and explained subsequently:



**Figure 1: Categories of Bank Risk**  
(Source: Field Survey 2014)

- a) Credit risk: This is the potential that a bank borrower will fail to meet its obligations in accordance with agreed terms.
- b) Operational risk: Operational risk is the potential loss resulting from inadequate or failed internal processes or systems, errors, or external events.
- c) Price risk: This is the risk of losses in on and off- balance-sheet positions arising from movements in market prices.
- d) Interest rate risk: This is the potential loss due to movements in interest rates. This risk arises because bank assets (loans and bonds) usually have a significantly longer maturity than bank liabilities (deposits).
- e) Foreign exchange risk: This is the risk that the value of the bank's assets or liabilities changes due to currency exchange rate fluctuations. Banks buy and sell foreign exchange on behalf of their customers (who need foreign currency to pay for their international transactions or receive foreign currency and want to exchange it to their own currency) or for the banks' own accounts.
- f) Liquidity risk: relates to the bank's ability to meet its continuing obligations, including financing its assets.
- g) Information Technology risk: Information systems audit and control association defines it as a risk that does not only encompasses the negative impact of operations and service delivery which can bring destruction or reduction of the value of the organization, but also the benefit/value enabling risk associated to missing opportunities to use technology to enable or enhance business or the IT project management for aspects like overspending or late delivery with adverse business impact.
- h) Strategic risk: These are risks that are deemed critical to the organization achieving its strategic business objectives.
- i) Legal and integrity risk: Legal risk is the risk of loss to an institution which is primarily caused by a defective transaction, a claim being made or some other event occurring which results in a liability for the institution or other loss, failing to take appropriate measures to protect assets owned by the institution or change in law. (McCormick, 2004) While integrity risk is the probability that, at any moment, the position error exceeds the alert limit (Navipedia,2014)
- j) Reputational risk: This is the potential loss resulting from a decrease in a bank's standing in public opinion recovering from a reputation problem, real or perceived, is not easy.

The first three are the major broad type of risk while the other risks are risks that banks encounter and must manage appropriately. According to a publication online on the website [financialangle.com](http://financialangle.com) Ayoko (2011) suggested the problems of risk assessment in banks on the part of the depositors as the inability of small unsophisticated depositors to assess the risks of the institution in which depositor chooses to put his or her savings. This is so either because, depositors are not generally able to undertake such risk assessment or there is insufficient information available to them, even if they were able to do so. Secondly, non specific and bleary information given in the annual report make it impossible for sophisticated or rich depositors conduct an effective risk assessment in order to have a true and fair view of the state of their banks. The lack of an adequate assessment could be the basis of an enforcement action or criticism of internal controls; it could compel the examiners to conduct their own assessment for the bank. Banks must therefore take the agency's mandate as seriously as they must take the Bank Secrecy Act compliance program and the customer identification program. (Serino 2005).

The Statement of Accounting Standards (SAS) 99 (2002) requires the auditor to use the information gathered to identify risks that may result in a material misstatement. This was expatiated upon that guidance and support on how to identify and assess risks should be done. It challenges auditors to change the way they think about assessing fraud risks. Auditors should identify risks and synthesize how those risks could lead to a material misstatement. In summary SAS 99(2002) significantly extend the documentation requirements of the previous standard, Auditors must document:

- 1) How and when the brainstorming session occurred and who participated.
- 2) Procedures performed to obtain information to identify and assess fraud risk.
- 3) Specific risks of material misstatement due to fraud (must specifically include discussion of
- 4) revenue recognition) and the auditor's response to those risks.
- 5) Results of the procedures performed to address the risk of management overrides the controls
- 6) in place.
- 7) Conditions and analytical relationships that led to additional audit procedures or other responses.
- 8) Nature of communications about fraud made to management and others.

### 3. METHODOLOGY

In adopting any method in research study, it is imperative to put into consideration the approach that will yield the most productive result relevant to the problems at hand. In this regard, data for this paper were gathered from the following sources primary and secondary .The questionnaire distributed were one hundred and twenty (twenty to each bank),out of which 50% were correctly filled,15% were not valid and the remaining 35% was not returned. The entire head offices in the study area were selected in order to have good representation, that is, the researcher is of the opinion that those head office can serve as a reasonable representation of the entire branches as the same operating policies govern every branch nationwide.

#### 3.1 The hypothesis formulated for the purpose of the study:

Ho1: Risk assessment has no significant impact on fraud prevention in Nigerian banks.

#### 3.2 Model Specification

The regression general equation given as  $y=f(x)$  where  $y$  is the dependent variable is a function of  $x$  the independent variable and  $a$ , is a constant the slope of the gradient, the equation is given below for a straight line:

$$Y= a + bx$$

This was adopted because regression derives from the equation on a straight line to measure the relationship between the variables identified and tested to establish their relationship. This equation is translated into a regression equation as:

$$Y= \beta_0 + \beta_1 x + \mu$$

Model: FP = f (RA)  
FP=  $\beta_0 + \beta_1 RA + \mu$

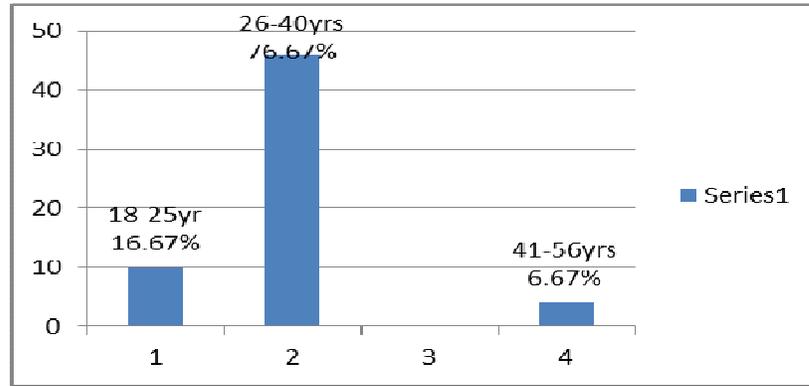
#### Where

FP= Fraud Prevention the dependent variable  
 $\beta_0$ = a constant  
 $\beta_1$ =slope  
 $\mu$ = Standard error  
RA= Risk assessment the independent variable.

The a priori expectation of the model is that  $\beta_1$  is expected to have a positive relationship since the independent variable in question is expected to reduce the occurrence of fraud in the banks by preventing it.

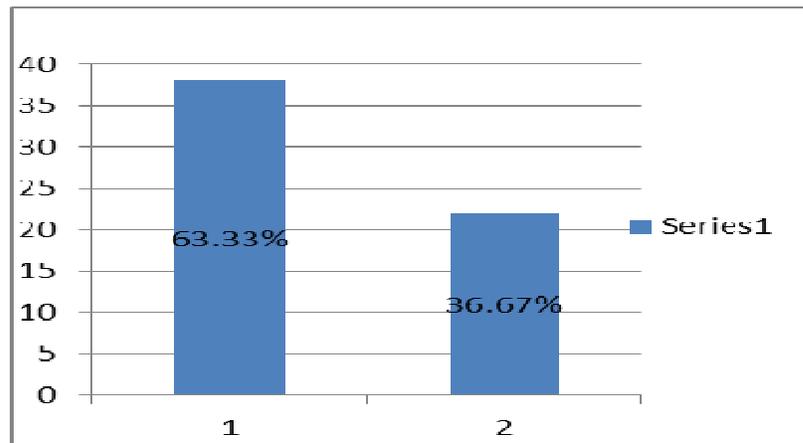
### 4. DATA DESCRIPTION AND ANALYSIS

The data collected were from six banks in Nigeria carefully chosen for the study and the results of the regression analysis are presented in appendix 1. The statistics used in analyzing the data are T test, Coefficient of variations,  $\beta_0$ ,  $\beta_1$  and  $R^2$ . The statistical analysis of the questionnaires administered is given below. In carrying out this research, primary data (questionnaire) were administered and used for the analysis of the models defined. The data collected was fed into the Statistical Package for Social Science for the estimation of the variables defined in the model.



**Figure 2: Column Chart Showing the Age Distribution of the Respondents (Field Survey, 2014)**

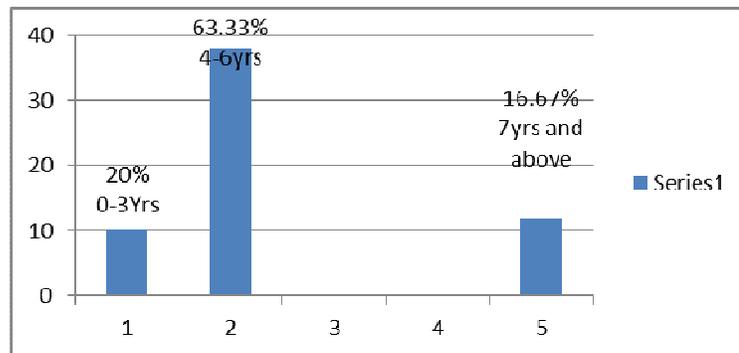
This column chart in figure 2 shows that 6.67% of the respondents are between the age 41-56, 16.67% are between 18-25, while 76.67% are between 26-40.



**Figure 3: Column Chart Describing the Gender of Respondents (Source: Field Survey, 2014)**

The column chart above in Fig 3 shows that 63.33% of the respondents were male while 36.67% are female, 1 and 2 represents male and female respectively. This indicates that we have more male than females in the banks in Nigeria.

Figure 4: Column Chart Describing the Working Experience of Respondents.



**Figure 4: Column Chart Describing the Working Experience of Respondents (Source: Field Survey, 2014)**

The Chart in figure 4 shows that 16.67% of the respondents have worked for more than 7yrs, 20% have worked between 0-3yrs and lastly 63.33% have worked between 4-6yrs.

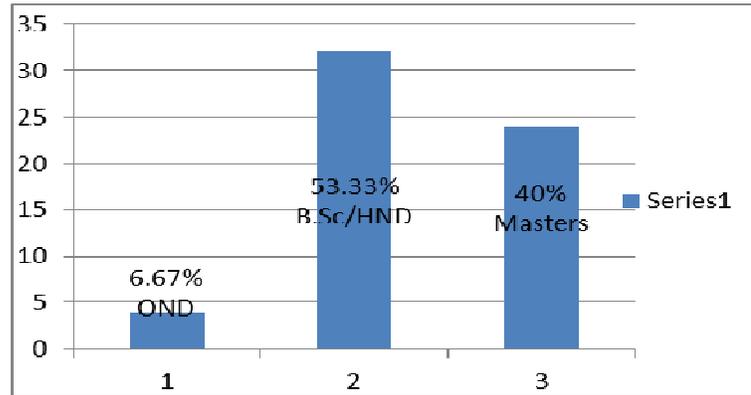


Figure 5 Column Chart Describing the Educational Background of Respondents  
 (Source: Field Survey, 2014)

From the Column Chart in figure 5 above 6.67% of the respondents have OND, 40% of them are Masters Holders while 53.33% are either B.Sc./HND holders. This shows that the respondents are knowledgeable on the issue at hand.

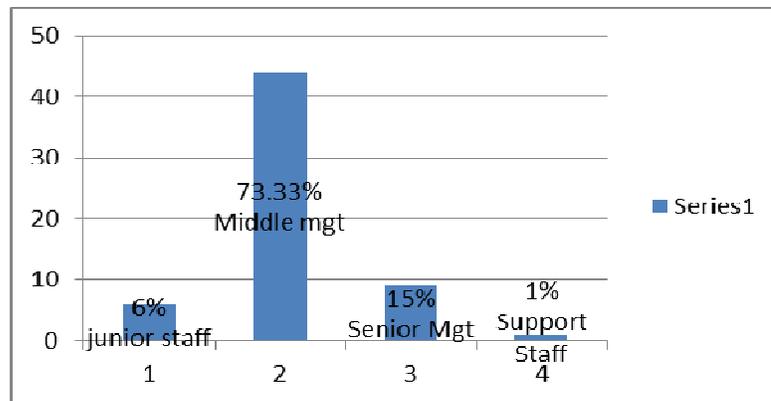


Figure 6 Column Chart Showing the Present Rank of the Respondents  
 (Source: Field Survey, 2014)

The column chart in figure 6 shows the Present Rank of the respondents. 6% of them were junior staff, 1% support staff, 73.33% were middle management level while 15% of them were the Senior management level. This is so due to the busy nature of bankers, the senior management staff did not fill most of the questionnaires given to them.

#### 4.1 Data Presentation and Analysis

Table 1: Statistical Regression Results of Banks (Individually)

STATISTICS	BANK001 RA	BANK002 RA	BANK003 RA	BANK 004 RA	BANK 005 RA	BANK 006 RA
$\beta_0$	101.443	105.01	112.55	57.204	39.401	20.615
T	3.125	2.522	3.117	2.192	0.482	0.787
$\beta_1$	-0.687	-0.490	-1.150	0.106	0.433	0.695
t*	-1.257	-0.814	-1.652	0.253	0.365	1.590
$R^2$	0.345	0.181	0.476	0.021	0.043	0.457

Field Survey, 2014 (appendix1-6)

The following equations are derived from table 1 above:

$$FP = 101.443 + 0.687(RA) \text{ -----1}$$

$$FP = 105.01 + 0.490(RA) \text{ -----2}$$

$$FP = 112.55 + 1.150(RA) \text{ -----3}$$

$$FP = 57.204 - 0.106(RA) \text{ -----4}$$

$$FP = 39.401 - 0.433(RA) \text{ -----5}$$

$$FP = 20.615 - 0.695(RA) \text{ -----6}$$

The above data was not analyzed due to the fact that only 50% (out of the one hundred and twenty questionnaires distributed) were 50% correctly filled, 15% were not valid and the remaining 35% was not returned this will not be representative of the population. Due to this reason the data collected from the entire banks was analyzed using Regression on Statistical Package for Social Sciences (SPSS) and the result is shown on table 2 below (details in appendix 7). This was done in order to give a generalization for Nigerian banks and to enable the research to be relevant particularly to the banking industry as a whole.

**Table 2: ANALYSIS OF THE STATISTICAL REGRESSION RESULTS OF ALL THE BANKS**

Statistics	$\beta_0$	T	$\beta_1$	t*	R <sup>2</sup>
Risk Assessment(RA)	26.775	2.435	0.535	3.35	0.286

$$FP = 26.775 + 0.535RA.$$

The equations were derived from the group analysis that is analysis on the six banks together. This was done in order to get a general view of the effect the assessment of risk on fraud prevention in the banks generally. The t\* for the variable shows that it is significant for fraud prevention in the banks because the t calculated for the variable is 3.35 which is greater than t tabulated given as 1.671 at 5% level of significance. So we reject H0 and accept H1 this says that risk assessment is significant for fraud prevention in Nigerian banks. This alludes to the a priori expectation stated earlier that  $\beta_1$  for the models is expected to have a positive relationship since the explanatory variable in question is expected to reduce the occurrence of fraud in the banks by preventing it. Furthermore, the values of  $\beta_1$  for the banks generally for risk assessment is given as follows: for a one percent increase in Risk Assessment, fraud in banks is prevented by 53.5%. From this the banks should put in place measures that will boost these areas because the percentage is quite high. The value of  $\beta_0$  shows the level at which fraud will exist if risk assessment does not exist. In this analysis this is given as 26.78%. Finally the R<sup>2</sup> show the variation of risk assessment on the prevention of fraud in Nigerian banks. 28.6% of variation of fraud prevention can be explained by risk assessment while 71.4% can be accounted for by some other factors which are not covered by the variable used. These other factors may include other components of internal control (such as control environment, control activities, monitoring), bribery, corruption, insider abuse etc.

## 5. RECOMMENDATION AND CONCLUSIONS

Internal control systems is a topical issue following global fraudulent financial reporting and accounting scandals in both developed and developing countries. A proactive preventive approach to the problem requires a critical evaluation of existing internal control structures particularly in the area of risk assessment an important component of internal control in organizations to determine their capacity to ensure that the organization's activities are carried out in accordance with established goals, policies and procedures. When a bank suddenly fails, the frequent-reverberating question is what went wrong? A breakdown in the internal control system is the usual cause. Internal control is a process that guides an organization towards achieving its objectives. These objectives include operational efficiency and effectiveness, reliability of financial reporting, and compliance with relevant laws and regulations (COSO 2011).

Bank management should regularly perform risk assessments on all the types of risk they are exposed to, which includes operating risk, market risk, credit risk, interest rate risk, foreign exchange risk, liquidity risk, strategic risk, legal and integrity risk and reputational risk. They should make sure they comply constantly with the outcome given by the Bank secrecy Act compliance program, ensuring an adequate assessment which could be on the basis of an enforcement action or criticism of internal controls. Also, banks should develop their own detailed and appropriate risk assessment programs, which should be conducted regularly by experienced facilitators in the field of internal control. On the part of the depositors they must ensure that their banks comply with the International Financial reporting Standards (IFRS) by given adequate information that gives adequate disclosures that can be used in the risk assessment, which will show the state of their banks.

The European Banks Authority (EBA) gave the following recommendation in order to enhance the risk assessment of European banks; this can also be applied to Banks in Nigeria. They are listed below.

- a) Continuous monitoring of the escalating credit risks and the even and timely transition to the CRR/CRD framework.
- b) As regards the asset side of banks, there should be a de-risking process through the reduction of balance sheets and loan books, and the optimal pace of deleveraging justifies close attention.
- c) Supervisors should conduct an asset quality reviews in order to dispel concerns over the deterioration of asset quality.
- d) With reference to reputational concerns linked to the relationship between banks and consumers, some detrimental business practices were identified which they considered inappropriate conduct and they should be addressed. They include mis-selling of products, failures with regard to rate benchmark setting processes and taxation issues.
- e) Also with respect to the liabilities side of banks, it should present the general positive evolution of funding conditions, the rethinking of dependence on less stable funding sources, the higher reliance on deposit funding and potential in-market competition for new deposits. (EBA ,2013)

The Enterprise Risk Management Unit (ERMU) inaugurated in 2011 by the National Deposit and Insurance Corporation (NDIC) which is saddled with the responsibility of continuously identify, assess, manage, monitor and control the significant risks that could impede the achievement of the Corporation's mandate should perform their role effectively .The risk assessment should be done regularly so that each bank know its status and knows their individual risk profiles. Also the financial operations should be based on sound financial management techniques, which will include a strong enterprise-wide risk management and internal control program. Likewise, the following assessment should be embarked upon Assessment of current financial condition, inclusion of qualitative assessments, Forecasting future financial condition, use of quantitative analysis and statistical procedures, Specific focus on risk categories and link with formal Supervisory action. Management of banks should ensure that their fraud risk assessment includes a formal procedure for detecting and recording fraud risk, Consideration of hypothetical fraud plans and scenarios ,define the level at which risk is considered, likewise the level of significance of fraud. It is essential that management reviews the identified risk alongside the audit committee of the banks in order to receive guidance from the experts on other risks that may be associated with the ones identified.

## REFERENCES

1. Akindele R.I (2011).Fraud As a Negative Catalyst in the Nigerian Banking Industry, Journal of Emerging Trends in Economics and Management Sciences (JETEMS) Vol.2, No5, pp357- 363.
2. Alawiye, A. (2012).Cash-less Policy: CBN Sets up Fraud Prevention Committee. Punch Newspaper.
3. Ayoko.D (2011).The old and failing pillars destroying NDIC.Retrieved from <http://financialangle.com/2011/11/10/the-old-and-failing-pillars-destroying-ndic/> on 26 March 2014.
4. COSO, (2011).Internal Control Integrated Framework. Retrieved from: [http://www.coso.org/publications/executive\\_summary\\_integrated\\_framework.htm](http://www.coso.org/publications/executive_summary_integrated_framework.htm) on March 13, 2014 @3.30p.m.
5. Curry, T., & Shibut, L. (2000). The Cost of the Savings and Loan Crisis. FDIC Banking Review, 13(2), 26-35.
6. Dabwor.T.D (2010).The Nigerian banking system and the challenges of financial intermediation in the twenty first century. Journal of Economics, Vol 4 No1 Department of Economics. University of Jos.
7. EBA, (2013).Risk assessment of the European banking system: European Banking Authority. Luxembourg Publications Office of the European Union.
8. Idolor E.J (2010), Bank Frauds in Nigeria; Underlying Causes, Effects and Possible Remedies. African Journal of Accounting, Economics, Finance and Finance and Banking Research Vol.6, No.6, pp62-80.
9. ISACA (2006). CISA Review Manual 2006. Information Systems Audit and Control Association. ISBN 1-933284-15-3. ISACA The Risk It Framework
10. Ituwe, C.E. (1996). Bank management today & tomorrow. Lagos, P.Numoda &Company. Pp129-130.
11. Margaret Woods (2011). Risk management in organizations.Routledge Publishers USA.
12. McCormick.R (2004). Legal Risk in the Financial Markets. Oxford University Press. London.
13. Microsoft® Encarta® 2009. © 1993-2008 Microsoft Corporation. All rights reserved
14. Navipedia (2014).Definition of integrity risk.Retrieved from [http://www.navipedia.net/index.php/Integrity#Integrity\\_Risk](http://www.navipedia.net/index.php/Integrity#Integrity_Risk).March 24,2014.
15. NDIC (2014). Enterprise risk management committee retrieved from <http://www.ndic.org.ng/ndic-inaugurates-enterprise-risk-management-committee.html> on 22/04/2014.
16. Norman S.,& Fred C. (1988). Where Deregulation went wrong: a Look at the Causes behind Savings and Loan Failures in the 1980s. Chicago: United States League of Savings Institutions. pp. 15–16.
17. Olaoye C.O, (2009).Impact Of Internal Control System in Banking Sector in Nigeria. Pakistan Journal of Social Sciences Vol.6, No 4, pp181-189.
18. Sahajwala R & Bergh P (2000). Supervisory risk assessment and early warning systems: Basel Committee on banking supervision working papers No. 4 – December 2000.Bank for International settlements information, press & library services, Switzerland.
19. Serino R.B. (2005).Now Every Bank Must Do a BSA Risk Assessment. American Banker, April 2005, Vol. 170, Issue 213.

## ANNUAL REPORTS

1. Financial Audit: Resolution Trust Corporation's 1995 and 1994 Financial Statements"(PDF).
2. U.S. General Accounting Office. July 1996. pp. 8, 13, table 3.
3. Nigerian Deposit Insurance Corporation (NDIC) annual report and statement of accounts,1999,2010,2011,2012.

**APPENDICES**

Appendix 1 regression of 001 bank

**Variables Entered/Removed**

Model	Variables Entered	Variables Removed	Method
1	risk assessment	.	Enter

- a. All requested variables entered.
- b. Dependent Variable: fraud prevention

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.587 <sup>a</sup>	.345	.126	6.24896	2.862

- a. Predictors: (Constant), risk assessment
- b. Dependent Variable: fraud prevention

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	61.652	1	61.652	1.579	.298 <sup>a</sup>
	Residual	117.148	3	39.049		
	Total	178.800	4			

- a. Predictors: (Constant), risk assessment
- b. Dependent Variable: fraud prevention

**Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	101.443	32.467		3.125	.052
	risk assessment	-.687	.546	-.587	-1.257	.298

- a. Dependent Variable: fraud prevention

**Residuals Statistics**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	56.8180	67.1162	60.8000	3.92593	5
Residual	-6.81804	6.37615	.00000	5.41175	5
Std. Predicted Value	-1.014	1.609	.000	1.000	5
Std. Residual	-1.091	1.020	.000	.866	5

- a. Dependent Variable: fraud prevention

Appendix 2 regression of 002bank

**Variables Entered/Removed<sup>b</sup>**

Model	Variables Entered	Variables Removed	Method
1	risk assessment <sup>a</sup>	.	Enter

- a. All requested variables entered.
- b. Dependent Variable: fraud prevention

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.425 <sup>a</sup>	.181	-.092	6.02190	2.977

- a. Predictors: (Constant), risk assessment
- b. Dependent Variable: fraud prevention

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	61.652	1	61.652	1.579	.298 <sup>a</sup>
	Residual	117.148	3	39.049		
	Total	178.800	4			

a. Predictors: (Constant), risk assessment

**ANOVA<sup>b</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	24.010	1	24.010	.662	.475 <sup>a</sup>
	Residual	108.790	3	36.263		
	Total	132.800	4			

a. Predictors: (Constant), risk assessment

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	105.010	41.638		2.522	.086
	risk assessment	-.490	.602	-.425	-.814	.475

a. Dependent Variable: fraud prevention

**Residuals Statistics<sup>a</sup>**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	68.7500	74.6300	71.2000	2.45000	5
Residual	-8.24000	5.25000	.00000	5.21512	5
Std. Predicted Value	-1.000	1.400	.000	1.000	5
Std. Residual	-1.368	.872	.000	.866	5

a. Dependent Variable: fraud prevention

Appendix 3 regression of 003bank

**Variables Entered/Removed<sup>b</sup>**

Model	Variables Entered	Variables Removed	Method
1	risk assessment <sup>a</sup>		Enter

a. All requested variables entered.

b. Dependent Variable: fraud prevention

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.690 <sup>a</sup>	.476	.302	5.15018	3.131

a. Predictors: (Constant), risk assessment

b. Dependent Variable: fraud prevention

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	72.427	1	72.427	2.731	.197 <sup>a</sup>
	Residual	79.573	3	26.524		
	Total	152.000	4			

a. Predictors: (Constant), risk assessment

b. Dependent Variable: fraud prevention

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	112.551	36.112		3.117	.053
	risk assessment	-1.150	.696	-.690	-1.652	.197

a. Dependent Variable: fraud prevention

**Residuals Statistics<sup>a</sup>**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	48.1715	58.5182	53.0000	4.25520	5
Residual	-5.17153	3.78102	.00000	4.46018	5
Std. Predicted Value	-1.135	1.297	.000	1.000	5
Std. Residual	-1.004	.734	.000	.866	5

a. Dependent Variable: fraud prevention

Appendix 4 regression of 004 bank

**Variables Entered/Removed<sup>b</sup>**

Model	Variables Entered	Variables Removed	Method
1	risk assessment <sup>a</sup>		Enter

a. All requested variables entered.

b. Dependent Variable: fraud prevention

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.145 <sup>a</sup>	.021	-.305	4.07170	2.643

a. Predictors: (Constant), risk assessment

b. Dependent Variable: fraud prevention

**ANOVA<sup>b</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.064	1	1.064	.064	.816 <sup>a</sup>
	Residual	49.736	3	16.579		
	Total	50.800	4			

a. Predictors: (Constant), risk assessment

b. Dependent Variable: fraud prevention

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	57.204	26.101		2.192	.116
	risk assessment	.106	.420	.145	.253	.816

a. Dependent Variable: fraud prevention

**Residuals Statistics<sup>a</sup>**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	63.0553	64.4383	63.8000	.51571	5
Residual	-6.01277	2.56170	.00000	3.52619	5
Std. Predicted Value	-1.444	1.238	.000	1.000	5
Std. Residual	-1.477	.629	.000	.866	5

a. Dependent Variable: fraud prevention  
 Appendix 5 regression of 005 bank

**Variables Entered/Removed<sup>b</sup>**

Model	Variables Entered	Variables Removed	Method
1	risk assessment <sup>a</sup>		Enter

a. All requested variables entered.  
 b. Dependent Variable: fraud prevention

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.206 <sup>a</sup>	.043	-.277	9.39892	2.297

a. Predictors: (Constant), risk assessment  
 b. Dependent Variable: fraud prevention

**ANOVA<sup>b</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	11.781	1	11.781	.133	.739 <sup>a</sup>
	Residual	265.019	3	88.340		
	Total	276.800	4			

a. Predictors: (Constant), risk assessment  
 b. Dependent Variable: fraud prevention

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	39.401	81.708		.482	.663
	risk assessment	.433	1.186	.206	.365	.739

a. Dependent Variable: fraud prevention

**Residuals Statistics<sup>a</sup>**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	66.6879	71.4522	69.2000	1.71617	5
Residual	-14.28662	6.14650	.00000	8.13970	5
Std. Predicted Value	-1.464	1.312	.000	1.000	5
Std. Residual	-1.520	.654	.000	.866	5

a. Dependent Variable: fraud prevention  
 Appendix 6 regression of 006 bank

**Variables Entered/Removed<sup>b</sup>**

Model	Variables Entered	Variables Removed	Method
1	risk assessment <sup>a</sup>	.	Enter

a. All requested variables entered.

b. Dependent Variable: fraud prevention

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.676 <sup>a</sup>	.457	.276	2.58013	1.885

a. Predictors: (Constant), risk assessment

b. Dependent Variable: fraud prevention

**ANOVA<sup>b</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	16.829	1	16.829	2.528	.210 <sup>a</sup>
	Residual	19.971	3	6.657		
	Total	36.800	4			

a. Predictors: (Constant), risk assessment

b. Dependent Variable: fraud prevention

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	20.615	26.180		.787	.489
	risk assessment	.695	.437	.676	1.590	.210

a. Dependent Variable: fraud prevention

**Residuals Statistics<sup>a</sup>**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	59.5575	65.1207	62.2000	2.05114	5
Residual	-3.64368	2.35632	.00000	2.23446	5
Std. Predicted Value	-1.288	1.424	.000	1.000	5
Std. Residual	-1.412	.913	.000	.866	5

a. Dependent Variable: fraud prevention

**Variables Entered/Removed<sup>b</sup>**

Model	Variables Entered	Variables Removed	Method
1	risk assessment <sup>a</sup>	.	Enter

a. All requested variables entered.

b. Dependent Variable: fraud prevention

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.676 <sup>a</sup>	.457	.276	2.58013	1.885

a. Predictors: (Constant), risk assessment

b. Dependent Variable: fraud prevention

**ANOVA<sup>b</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	16.829	1	16.829	2.528	.210 <sup>a</sup>
	Residual	19.971	3	6.657		
	Total	36.800	4			

a. Predictors: (Constant), risk assessment

b. Dependent Variable: fraud prevention

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	20.615	26.180		.787	.489
	risk assessment	.695	.437	.676	1.590	.210

a. Dependent Variable: fraud prevention

**Residuals Statistics<sup>a</sup>**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	59.5575	65.1207	62.2000	2.05114	5
Residual	-3.64368	2.35632	.00000	2.23446	5
Std. Predicted Value	-1.288	1.424	.000	1.000	5
Std. Residual	-1.412	.913	.000	.866	5

a. Dependent Variable: fraud prevention

Appendix 7

Group Regression (for the banks analyzed)

**Variables Entered/Removed<sup>b</sup>**

Model	Variables Entered	Variables Removed	Method
1	RA <sup>a</sup>		. Enter

a. All requested variables entered.

b. Dependent Variable: FP

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.535 <sup>a</sup>	.286	.261	6.92854

a. Predictors: (Constant), RA

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	538.836	1	538.836	11.225	.002 <sup>a</sup>
	Residual	1344.130	28	48.005		
	Total	1882.967	29			

a. Predictors: (Constant), RA

b. Dependent Variable: FP

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	26.775	10.995		2.435	.022
	RA	.592	.177	.535	3.350	.002

a. Dependent Variable: FP