

## **Employee Frauds in Financial Institutions: Evidence from Deposit Money Banks (DMBS) in Nigeria**

**Dr. Joseph. F. Adebisi, Ph.D., FCNA, ACTI, MNIM, MACFEI, CPA Ireland**

*Nigerian College of Accountancy, Kwall near Jos, Plateau State, Nigeria*

**Okike B. Matthew, Bsc. M. Sc., CNA**

*Nigerian College of Accountancy, Kwall near Jos, Plateau State, Nigeria*

**Patricia O. Agbo, BSc. MBA**

*Nigerian Institute of Medical Research, Abuja*

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**Abstract :** *Fraud is a menace to people, business and economic development of a nation as a whole. The banks are seen as focal point for fraud frequency, because of the everyday cash handling by bank employees the temptation to perpetuate fraud is high. Fraud in bank can hardly be successful without the aid of an employee of the bank. The involvement of the bank staff result to employee fraud. More so the rate of fraud in the banking industry is disturbing. Thus, the objective of this study to evaluate and understand how employee fraud in banks impact the magnitude of fraud in the Nigerian Deposit Money Bank. The study employ non-experimental research design since it is aimed at studying the relationship between variables (dependent and independent). For the purpose of gathering comprehensive data secondary data is used. Secondary data is gathered from Nigerian Deposit Insurance Corporation (NDIC) reports covering 6 years (2009 -2014). The population for this study consists of the 22 Deposit Money Banks in Nigeria as at 31st December, 2014. The stated hypotheses were analysed using Panel Regression statistical tool. The Panel Regression analysis is executed with the aid of Statistical Package for Social Sciences (SPSS) 22. The study found that the number of employees of the bank engaged in fraud does not affect the magnitude of fraud of the Nigerian DMBs. Therefore study recommend that There should be more proactive control measures that will oversee the activities of the top management staff of the banks in order to reduce further fraud case that involve such class of staffs, enhance audit function to oversee the activities of middle level management employees of the banks and that lower level employees of the banks should be encourage by ensuring prompt promotion with the deserved package and absorbing the temporary staff as permanent staff.*

**Keywords:** Fraud, Employee Fraud, Deposit Money Banks, Forgeries

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### **I. Introduction**

Fraud is a menace to people, business and economic development of a nation as a whole. Financial frauds and forgeries abound in Nigerian banks which are manifested in different forms-outright theft and account manipulation in distinct operational areas of the banks such as credits, clearing, treasury and administration (Ogubunka, 2003). In the bank fraud can hardly be successful without the aid of an employee of the bank. This is supported by Wise (2013) that fraud in bank is a deliberate misrepresentation which requires some technical expertise (in most cases bank employee) to dishonestly obtain money or other assets from a bank for their personal interest. These can be attributed to weak control system in the banks' operations which create the windows of opportunity for fraud to take place. As identified by Ogubunka (2003) that there is lack of quality control in Nigerian banks' operations and this resulted in serious leakages in their financial system. Employee fraud in Nigerian banks can also be traced to the bankers' lifestyles.

Workers in the Nigerian banking industry are often seen to live a flamboyant life which in most cases is above their means, which may cause them to defraud the bank. Afolabi (2007) posit that certain habits which predispose employees to steal include living far beyond ones' means, high personal debts, excessive gambling, peer group pressures and excessive use of alcohol or drugs. Furthermore, Gbegi & Adebisi (2013) state that personal pressure to pay for lifestyle, employment pressure from continuous compensation structures, or management's financial interest, and external pressure such as threats to the business financial stability, financier covenants, and market expectations are some of the reasons for employee fraud.

The banks are seen as focal point for fraud frequency, because of the frequent cash handling by bank employees the temptation to perpetuate fraud is high. Employee fraud cannot completely be, there is not level of efficient control system that can ensure zero risks fraud by employees who are adequately informed of the loopholes and ways to override control system of the entity (McNeal, 2012).

Hence it is the objective of this study to evaluate and understand how employee fraud in banks impact the magnitude of fraud in the Nigerian Deposit Money Bank. For onward suggestion that will benefit variety of users.

## **II. Literature Review**

The Nigerian criminal code of conduct (1990) describes fraud as a generic term which embraces all available means, which human ingenuity can devise, that are purported by one individual to get an advantage over another by false pretence. Hopwood, Leiner & Young (2012) who defined fraud as the means by which a person can achieve an advantage over another by false suggestions or suppression of the truth. Fraud can simply be put a systematic and process of untruthfully taking possession of another person's right in form of money, assets or intangible assets.

## **III. Corporate Fraud**

Penny (2002) defined corporate fraud as "all fraud affecting companies, business and other similar organizations". Three different categories were identified as Management Fraud, Employee Fraud and External Frauds.

- i. Management Fraud* comprising all frauds committed by the top levels of management and covering not only the direct misappropriation of funds but also the manipulation of the accounts of the entity. This type of fraud enables top management retain their jobs and favourable rating with shareholders, creditors, security market operatives, and so on. This type of fraud is most difficult to detect because they mostly involve executives overriding of internal controls of the firm;
- ii. Employee Fraud* is Fraud committed by all other employees apart from top management and is often easily dealt with by the common types of control in the organization. This type of fraud is simple to commit when there is a lack of proper control over procedures. Whereas management fraud can be dealt with by outside bodies such as audit committees, employee frauds are usually dealt with by internal management of the firm;
- iii. External Frauds* are external to the firm, covering areas such as investment and pension funds, money laundering and transnational frauds.

## **IV. Fraud in the Banking Industry**

Because of the uniqueness of their operations, the nature of frauds in banks are different to that of other industries. The following types of fraud are the most common types of bank frauds in Nigeria identified by Ovuakporie (1994)

- a. **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, equipment and different types of electronics owned by the bank (Eseoghene, 2010).
- b. **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 (Ajayi, 2011). Due to its complexity, this type of fraud may only be discovered when reconciling the customer's 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.
- c. **Forgeries:** Forgeries encompass the fraudulent copying and use of customer's signature to draw money from the customer's account without seeking the permission of the customer. Such forgeries may be targeted at savings accounts, deposit accounts, current accounts or transfer instruments such as drafts.

Experiences 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)

- d. **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 postdated 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
- e. **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 customers' 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. This practice usually find fertile grounds to grow in banks which have weak control, recording and accounting systems and corrupt top management staff
- f. **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.
- g. **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 provides 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 person 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 behaviour.
- h. **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.
- i. **Fake Payment:** 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.
- j. **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 have 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 computer frauds and cybercrimes/thefts.
- k. **Cheque Fraud:** Woods (1998) states that from the banks' viewpoint there are two main types of cheque fraud. The first is the situation where the customer is the victim. A criminal either steals or falsifies the customers' cheques. The second situation is where the customer and the criminal are one and the same. In this situation the criminal opens an account with the intention of crediting and then drawing against worthless cheques. Banks are in a bit of a fix, they face the increasingly difficult task of separating good cheques from fraudulent cheques. On the one hand their role is to protect the assets of the customer and the bank. Conversely they need to provide fast high quality service to customers. The challenge is to find the correct balance between good customer service and risk assessment

### **THEORETICAL FRAMEWORK**

Fraud detection in bank is a critical activity that can span a series of fraud schemes and fraudulent activities from bank employees and customers alike. There are also a number of theories that explain fraud in the banks as are explained in this section, the study is focused on white collar fraud theory on which the study is anchored.

#### **White Collar Crime Theory**

This is the foundation of fraud theories. Dorminey, Fleming, Kranacher, & Riley (2012) stated that the 1940 work of Edwin H. Sutherland is credited with the term “white-collar crime.” While earlier criminologists and sociologists examined the broad topic of crime, focusing mainly on street and violent crime, Sutherland was the first to integrate crimes of the upper white-collar class with economics and business activity. White-collar offenses are viewed as equally serious as street crimes, there may be a tendency among some to view white-collar criminals as similar to street criminals (Payne, 2003). Such an assumption, however, is misguided and represents an inaccurate portrait of “the white-collar criminal.”

As well, focusing narrowly on white-collar offenders may result in individuals failing to recognize the interactions between the offenders’ background characteristics and their offensive behavior. White-collar criminals are not like typical bank robbers/street criminals, who are often described as “young and dumb.” Bank robbers and other strong-arm artists often make comic mistakes like writing the holdup note on the back of a probation identification card, leaving the getaway car keys on the convenience store counter, using a zucchini as a holdup weapon, and timing the holdup to get stuck in rush hour traffic. Then there is the classic about the robber who ran into his own mother at the bank (Robertson, & Timothy, 1999).

Consider efforts to prevent crime. Strategies to prevent street crimes might focus on community building and poverty reduction; preventing white-collar crime is much “more complex (Johnstone, 1999). The impact of convictions and incarceration is also different between street offenders and white-collar offenders. While such events may actually allow street offenders to gain “peer group status,” the white-collar offender would not experience the same increase in status as the result of a conviction. At the most basic level, recognizing the differences between street offenders and white-collar offenders helps to promote more useful prevention and intervention strategies. On a more complex level, recognizing these differences fosters a more objective and accurate understanding about the dynamics, causes, and consequences of white-collar offenders’ behavior.

In the context of overt lawbreaking by many of the nineteenth century robber barons, Sutherland describes the white-collar criminal as the suave professional who principally violates “delegated or implied trust. Sutherland noted that prior theories of criminality tend to describe poverty as a primary driver of crime, but poverty is seldom central to white-collar crime. White collar criminals were differentiated from street or violent criminals in three major ways.

First, Sutherland argues that the status of a professional within society creates an atmosphere of both admiration and intimidation. Members of society admire the professional, but are also afraid of retribution if they antagonize such individuals. Admiration and fear lead to lesser punishments for white-collar criminals. Secondly, because of the status of the professional, there is less reliance on the traditional criminal justice system, and lesser penalties are typically applied. Thirdly, white-collar crimes are less obvious than violent crimes for several reasons: the consequences borne by the public may be diffused over a longer period, the act may be spread among more individuals, and the victims may be more difficult to identify and not well organized. Robertson et al, (1999) states that Burglars and robbers average about \$400-\$500 for each hit. Employee frauds average \$20,000 on up to \$500,000 if a computer is used. Yet, employee frauds are not usually the intricate, well-disguised ploys you find in espionage novels.

### **EMPIRICAL REVIEW**

There have been researches in the area of fraud. Dimejesi (1994) examined that the effect of the epidemic called fraud had hit the banking industry leading to the loss of confidence by the public in banking institutions. He pointed out that the incidence of fraud is universal and permeates the society as a whole. However, in his research study, he narrowed down his scope to the commercial and merchant banks in order to take a meaningful study between the periods of 1985 and 1994, within which period cases of fraud were much in the news. Research data used were extracted from two out of four types of banks that make up the banking industry in Nigeria. The four categories include-commercial banks, merchant banks, development banks and the central bank of Nigeria.

This was considered necessary since the banks render different types of services and as a result, prone to different kinds of frauds. The study revealed that fraud has mainly accounted for the decline in the profits of banks. Okoye & Gbegi, (2013) analysed the impact of fraud and related financial crimes on the growth and development of Nigerian economy. Analysing the secondary data generated using regression analysis. The research findings revealed that, fraud and related financial crime has significant effect on the Nigerian economy while fraud and financial crime have no significant effect on inflation. The research recommended that auditors



and accountants in financial institutions should be trained on how to carry out forensic investigation given the current trend and strengthen their internal control systems.

Olaoye & Dada (2014) in their research assessed the nature, causes, effects, detection and prevention measure for bank frauds in Nigeria. The methodology employed for data collection was majorly primary source, which involved the use of questionnaire. The researchers made use of the Nigerian Deposit Insurance Corporation (NDIC) annual reports for data relating to total amount involved in frauds and forgeries, ten banks with the highest fraud cases and categories of bank staff involved in frauds and forgeries. The researchers concluded that in the fight for the prevention of fraud, banks should have in place sound/effective internal control mechanism/checks and balances and provide adequate remuneration and reward for excellence and good conduct while the incessant and periodic downsizing of bank staff should be discouraged. There should be steadfastness in punishing offenders and adoption of zero tolerance to corruption. The society should imbibe cultural value system of treating fraudsters with contempt.

Eseoghene (2010) stipulates that “nowhere are frauds more serious and more pronounced than in the banking sector of the economy; they are one of the biggest single causes of bank failure and distress in the Nigerian banking system.” His work sets out to find the common types of bank fraud that are frequently carried out in the banking system, the underlying causes, level of staff involvement, consequences and possible means of ameliorating the problem. Analyses of data collated through questionnaire were tested for significance using the “t-test”. The analysis revealed that respondents did not view unofficial borrowing and foreign exchange malpractice as forms of bank fraud since they were common and an industry wide practice. It also revealed that there was an equal level of staff involvement in initiating and executing fraud, with the concealment of fraud coming last in their agenda.

Among the factors hypothesized to encourage bank fraud; the major individual based factors were greed, infidelity and poverty, while organizational factors were inadequate staffing, poor internal controls, inadequate training and poor working conditions.

Abdulraheem, Isiaka, & Muhammed (2012) examine the problem of fraud and its implications for bank performance in Nigeria through empirical analysis. The data were extracted from the Nigerian Deposit Insurance Corporation (NDIC) Annual Report from 2004 to 2009 while Pearson Correlation was employed in the evaluation of the data. The study revealed that Nigerian banks recorded the highest fraud cases in 2008 and that, there is a significant relationship between total amount involved in fraud cases and banks profit. On this note the researchers recommended that fraud can be reduced by complying effectively with the policy measures which the government, monetary and supervisory authorities designed to curb the menace of bank fraud in Nigeria.

Adeyemo (2012) examined frauds in Nigerian banks: nature, deep-seated causes, aftermaths and probable remedies for banks in Nigeria. The research study leaned heavily on the Nigerian Deposit Insurance Corporation (NDIC) annual reports for data relating to total amount involved in frauds and forgeries. Ten banks with the highest fraud cases and categories of bank staff involved in frauds and forgeries from 2000-2009 were examined. He concluded that the battle for the preclusion, uncovering and retribution of fraud offenders must be fought on two extensive fronts: First is to reduce the temptation to commit fraud and second to increase the chances of detection. While a positive work environment will help to achieve the former, the latter can be achieved by sound internal control system.

Tugas (2012) in his work stated that auditors serve as the protector of many stakeholders that depend on financial statements being issued by businesses annually at the very least. He posed that what auditors usually do is to enhance the degree of confidence that stakeholders can place on the financial reports. But recent incidents of financial accounting fraud involving auditors have placed the accounting profession in bad light due to questions on competence and integrity of auditors in today’s dynamic business environment. This study is an exploratory research. It employs qualitative research design to position the occurrence of financial accounting fraud in the context of the fraud triangle and fraud diamond frameworks in the hope of exploring a new element of fraud evident in the eight cases that were thoroughly discussed.

Known of the studies was conducted to investigate the impact of employee fraud on the magnitude of fraud in Nigerian Deposit Money Banks hence the need for this study.

## **METHODOLOGY**

Research design serves as a guide to collect, analyse and interpret research observations. The study employ non-experimental research design since it is aimed at studying the relationship between variables (dependent and independent). For the purpose of gathering comprehensive data secondary data is used. Secondary data is gathered from Nigerian Deposit Insurance Corporation (NDIC) reports covering 6 years (2009 -2014). The population for this study consists of the 22 Deposit Money Banks in Nigeria as at 31st December, 2014. The sample size in view of the nature of the data and size of the population will be the same as the population of the study. For the data collected to achieve the objective of the research via agreeing or disagreeing

with the stated hypotheses, the data is analysed using Panel Regression statistical tool. The Panel Regression analysis is executed with the aid of Statistical Package for Social Sciences (SPSS) 22.

### 3.5.4 Model Specification

In order to test the hypothesis stated and achieve the objectives of the study, Panel Regression model employed is as stated below: The regression models involve the following variable. Unknown parameter, denoted as  $\beta$  which may represent scalar or a vector.

$$Y_i = \beta_0 + \beta_1 X_{i1} + \beta_2 X_{i2} + \dots + \beta_p X_{ip} + \varepsilon_i$$

Source: Francis and Michael (2012)

### Applicable Model

$$FMag_{it} = f(TMgEp_t, MMgEmp_t, LMgEmp_t) \dots \dots \dots (1)$$

$$FMag_{it} = \beta_0 + \beta_1 TMgEp_t + \beta_2 MMgEmp_t + \beta_3 LMgEmp_t + e_t \dots \dots \dots (2)$$

Where:

FMag: Fraud magnitude, which is the amount that the Deposit Money Banks (DMB) was defrauded

SupMt: Number of bank Supervisors and Management and officers, accountants and executive assistant employees of the Nigerian Deposit Money Banks (DMB) involved in fraud

TMgEp: Number of bank Clerks & Cashiers and Typists, Technicians & Stenographers employees of Nigerian Deposit Money Banks (DMB) involved in fraud

LMgEp: Number of Messengers, Drivers, Cleaners, Security Guards & Stewards and temporary employees of Nigerian Deposit Money Banks (DMB) involved in fraud

$e_t$  = is the error term which account for other possible factors that could influence FMag that are not captured in the model.

## DATA ANALYSIS

### Statement of Hypotheses

**H<sub>01</sub>:** the number of top management employees involved in fraud does not significantly affect the magnitude of fraud in Nigerian Deposit Money Banks (DMB)

**H<sub>02</sub>:** the number of middle management employees involved in fraud does not significantly affect the magnitude of fraud in Nigerian Deposit Money Banks (DMB).

**H<sub>03</sub>:** the number of lower management employees involved in fraud does not significantly affect the magnitude of fraud in Nigerian Deposit Money Banks (DMB).

Appendix 2 model summary shows that R Square value indicates that 98.6% of the variance in Fraud can be predicted from the independent variables (TMgEp, MMgEmp and LMgEmp). The coefficient table (Appendix 4) show that the p-values of .621, .058 and .661 for hypotheses 1, 2 and 3 respectively are more than 0.05, therefore, the null hypotheses are accepted.

## CONCLUSION AND RECOMMENDATION

Being that the findings of the study, employee frauds in financial institutions, which is focused on Deposit Money Banks (DBMs) in Nigeria reveal that the number of the banks employee involved in fraud does not affect the magnitude of the fraud in the industry as indicated by the result of hypotheses test. Therefore, the researcher concludes that the number of employees of the bank engaged in fraud does not affect the magnitude of fraud of the DBMs.

Therefore study makes the following recommendations in line with the finding of the study:

- There should be more proactive control measures that will oversee the activities of the top management staff of the banks in order to reduce further fraud case that involve such class of staffs;
- There should be enhance audit function to oversee the activities of middle level management employees of the banks, to ensure that loop holes in the internal control system are covered as well as instil discipline on them; and

- The lower level employees of the banks should be encourage by ensuring prompt promotion with the deserved package and absorbing the temporary staff as permanent staff so others can focus on improving their performance rather than focus on defrauding the bank.

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## Appendixes

### Appendix 1: Variables Entered/Removed<sup>a</sup>

Model	Variables Entered	Variables Removed	Method
1	LMgEmp, MMgEmp, TMgEp <sup>b</sup>	.	Enter

a. Dependent Variable: FMag

b. All requested variables entered.

Source: Researcher's Computation 2016

## Appendix 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.993 <sup>a</sup>	.986	.972	5762.69097

a. Predictors: (Constant), LMgEmp, MMgEmp, TMgEp

Source: Researcher's Computation 2016

## Appendix 3: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	7033950674.467	3	2344650224.822	70.604	.003 <sup>b</sup>
Residual	99625821.711	3	33208607.237		
Total	7133576496.177	6			

a. Dependent Variable: FMag

b. Predictors: (Constant), LMgEmp, MMgEmp, TMgEp

Source: Researcher's Computation 2016

## Appendix 4: Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	8258.749	3041.329		2.716	.073	-1420.118	17937.617
	TMgEp	16.990	30.901	.211	.550	.621	-81.352	115.332
	MMgEmp	109.368	36.413	.929	3.004	.058	-6.515	225.251
	LMgEmp	-18.249	37.672	-.148	-.484	.661	-138.137	101.639

a. Dependent Variable: FMag

Source: Researcher's Computation 2016