

# The Effect of Fraud on Financial Performance of Tier 1 Deposit Money Banks in Nigeria

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**Abstract-** *The study on the effect of fraud on financial performance of tier 1 deposit money banks in Nigeria aimed to determine the effect of fraud on return on assets (ROA) of tier 1 deposit money banks in Nigeria and to determine the effect of fraud on return on equity (ROE) of tier 1 deposit money banks in Nigeria. The study made use of secondary data which are gotten from the central bank statistical bulletin from 2010 to 2024. The study made use of the multiple regression method for the analysis. The study applied credit to private sector as a proxy for financial performance, while the number of fraud cases and the amount recorded were used as proxies for fraud within the period of 2010 to 2024. The results obtained revealed that the coefficient of total amount involved in fraud exhibited a significant positive relationship with return on asset (ROA) and return on equity (ROE) as measured by credit to private sector as a ratio of GDP. In addition, total number of fraud cases coefficient revealed that a relationship existed with financial performance, but the relationship was not statistically significant. The study recommend that tier 1 deposit money banks build strong internal control mechanisms, strengthen legal framework for fraud prevention, and conduct training in the aspect of honesty and integrity, and not only technical skills.*

**Index Terms** *Fraud, Financial Performance, Tier 1 Deposit Money Banks, Return on Assets (ROA) / Return on Equity (ROE)*

## I. INTRODUCTION

Fraud has been a timeless phenomenon in the history of human existence. In Biblical times, Jacob, working with his mother, deceived Isaac to receive the blessings meant for Esau. This historical perspective painted fraud as a complex deception problem since the perpetrators leave no trail. As such, fraud affects

organisations through loss of funds, loss of customer confidence, and time wasted through investigations. According to the 2012 Annual Survey of the Association of Certified Fraud Examiners (ACFE), a typical organisation loses 5% of its revenue to fraud each year. Also, Kroll (2013) submitted that globally 70% of companies reported suffering from at least one type of fraud representing, an increase from the previous 61% in 2012. It is, therefore, imperative that organisations minimize the chances of fraud occurring. Concerning Nigeria, Enofe et al. (2015) claimed that financial crime generally is believed to be a fundamental problem affecting the economy and hindering economic and development growth. More so, there has been a dramatic increase in financial crime across the globe with more occurrences in the tier 1 deposit money banking industry. Adeniyi (2016) stressed that despite the control and regulation in the Nigerian banking sector, financial crimes such as embezzlement, bribery, tier 1 deposit money bankruptcy, security fraud, employee theft, payroll fraud, and management theft take different forms in the tier 1 deposit money banking sector. According to Henry and Ganiyu (2017), a large number of financial statement frauds in the tier 1 deposit money banking industry emerged from the inability of the law enforcement agents to successfully track-down perpetrators. Gates and Jacob (2013) asserted that fraud has become a standard feature in most organisations. Hence, Gates and Jacob (2013) argued that the internet provided and strengthened the opportunities for fraudsters to commit fraud more often than before. According to the United States Department of Justice (2012), within six years, the Federal Bureau of Investigations (FBI) reported Suspicious Activity Reports (SARs) amounting to \$207,051 for crimes related to cheque fraud, kitting fake cheques, and imitated negotiable instruments. All these frauds pertained to activities amounted to 47 percent which is approximately \$7 billion in

losses. Fraud is also evident in many African countries' financial institutions as indicated by KPMG Barometer (2012), Nigeria, Kenya, Zimbabwe, and South Africa make up 74 percent of all misrepresentation cases detailed in Africa. In the East African area, Kenya emerged with 7.75 percent of detailed misrepresentation cases, Uganda has 2.98 percent, and Tanzania with 2.78 percent. In Nigeria, deception is referred to as one of the significant factors that have impacted the overall performance of tier 1 deposit money banks (Okpara, 2012). The Nigeria Deposit Insurance Corporation 2015 annual reports and statement of accounts for the tier 1 deposit money banking sector stated that 12,279 reported fraud cases occurred in 2015. This figure represented an increase of 15.71 percent over the 10,612 recorded in 2014 (Ebhodaghe, 2015). According to Akinyomi (2014), management causes of fraud are those actions or omissions by management of organisations resulting from weak internal control systems. Personal causes of fraud are those perpetrated by individuals due to undeveloped character resulting from poor upbringing. Social causes of fraud are those enhanced due to poor societal values where the society adores a rich person without checking the sources of wealth. Finerty et al. (2016) also argued that financial fraud forces the actors or the agents involved to act fraudulently to portray an excellent image to enhance the firm's financial performance. It indicates that firms affected by financial fraud could have exhibited attractive or a positive performance after fraud as one way of covering up the fraud. Finerty et al. (2016) argued that a firm's performance after some time preceding the fraud could face inevitable adverse shock, an indication that fraud could probably have a negative effect on the performance of an organisation. It is against this background that this study investigated the effect of fraud on the financial performance of tier 1 deposit money bank in Nigeria.

#### Objectives Of the Paper

The study seeks to determine the effect of fraud on financial performance of tier 1 deposit money banks in Nigeria. The objectives of the paper are:

1. to determine the effect of fraud on return on assets (ROA) of tier 1 deposit money banks in Nigeria
2. to determine the effect of fraud on return on equity (ROE) of tier 1 deposit money banks in Nigeria
3. to identify the factors affecting the financial performance of tier 1 deposit money banks in Nigeria

## II. REVIEW OF RELATED LITERATURE

### A. Fraud

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 (2013) 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 further described as the fraudulent conversion and acquisition of money or property by false pretense (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. Nevertheless, 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 among criminologists that fraud is caused by three elements called "WOE" (Onibudo, 2013). 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 and 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, 2013). It is noteworthy that in the present Nigerian epoch, many youths and elder citizens alike indulge in sharp practices in order to get financially rich as quickly as possible and because tier 1 deposit money banks deal with money, and money related businesses, the tier 1 deposit money banking sector have become the targets of persistent fraudsters. Akinyomi (2010) view fraud as the act of depriving a person underhandedly of something, which such a person would or might be entitled to but for the perpetration of fraud in its lexical meaning, fraud is an act of trickery which is intentionally practiced in order to gain illegitimate advantage. Therefore, for any action to constitute a fraud there must be deceitful objective to benefit (on the part of the perpetrator) at the disadvantage of another person or group.

Fraud typically requires stealing and manipulation of accounts, frequently accompanied by cover up of the theft. It also involves the translation of the stolen resources or property into own resources or property. In view of the gravity of fraud in tier 1 deposit money banks coupled with the different mechanisms put in place by tier 1 deposit money banks, such as establishment of internal control unit, fraud alerts, security measures etc., yet fraud detection and prevention has continued to be a serious challenge in Nigeria and this has questioned the effectiveness of these measures (Okubena, 2013). Employees as well as firms in all industries and tier 1 deposit money banking activities engage in fraudulent practices all over the world. Furthermore, Adeoti (2011) said that fraud is a global occurrence; it is not peculiar to the tier 1 deposit money banking industry or for that matter, peculiar to only Nigeria. Ogidefa (2013) reported that the problem of fraud in our tier 1

deposit money banking system may have some attachments which are:

- i. Tier 1 deposit money bank malpractices
- ii. Failure to appoint trusted and honest official as the representative in the clearing house
- iii. Failure to change representative on regular basis
- iv. Failure to provide locked boxes or bags for carrying cheques to and from the central tier 1 deposit money banks
- v. Inadequate training facilities for clearing staff both in the offices and central tier 1 deposit money bank
- vi. Negligence in checking clearing cheques from the tier 1 deposit money banks to avoid a case of possible short
- vii. Change of cheque.

According to Eseoghene (2010) there are various types of frauds perpetrated in tier 1 deposit money banks which embezzlement 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 tier 1 deposit money banks assets such as motor vehicles, computers, stationary, equipment and different types of electronics owned by the tier 1 deposit money bank. While defalcation, involves the embezzlement of money held in trust by tier 1 deposit money bankers on behalf of their customers. Defalcation of customers deposits either by conversion or fraudulent alteration of deposit vouchers by either the tier 1 deposit money bank teller or customer is the common form of tier 1 deposit money bank fraud. Where the tier 1 deposit money bank teller and customer collude to defalcate, such fraud is usually neatly perpetrated and takes longer time to discover. They can only, easily be discovered during reconciliation of customers tier 1 deposit money bank account. Given the conceptual clarifications espouse, the next section of this discourse will focus on the causes and salient categories of frauds in the tier 1 deposit money banking industry. This is necessary for the purpose of policy formulation and guidelines to guide against frauds and to assist in the early detection of frauds perpetration.

## Types Of Fraud

Fraud can mean many things and result from many varied relationships between offenders and victims. Examples of fraud include:

- Crimes by individuals against consumers, clients or other business people, e.g. misrepresentation of the quality of goods; pyramid trading schemes
- Employee fraud against employers, e.g. payroll fraud; falsifying expense claims; thefts of cash, assets or intellectual property (IP); false accounting
- crimes by businesses against investors, consumers and employees, e.g. financial statement fraud; selling counterfeit goods as genuine ones; not paying over tax or National Insurance contributions paid by staff
- Crimes against financial institutions, e.g. using lost and stolen credit cards; cheque frauds; fraudulent insurance claims
- Crimes by individuals or businesses against government, e.g. grant fraud; social security benefit claim frauds; tax evasion
- crimes by professional criminals against major organisations, e.g. major counterfeiting rings; mortgage frauds; 'advance fee' frauds; corporate identity fraud; money laundering
- E-crime by people using computers and technology to commit crimes, e.g. phishing; spamming; copyright crimes; hacking; social engineering frauds.

### III. FACTORS THAT FACILITATE FRAUD

#### The Love of Money

Money is the instrument of commerce and the measure value (Tang, 2013). Money has been used in the world for a long time. Managers use the money to attract, hold, and motivate employees to achieve organizational goals (Luna-Arocas and Tang, 2012). Money is a motivator to evil (unethical behaviors) (Sardzoska and Tang, 2011; Tang and Chiu, 2011). Studies have been conducted to determine relation of love of money in manager-level (Sardzoska and Tang, 2013), in public and private companies and based on gender (Sardzoska and Tang, 2011). There

are the questions, "Is money the important things?" And "Is money a symbol of success?". A very important question is "what is love money?" and "how to measure the love of money" (Luna-Arocas and Tang, 2012).

#### Morality Leadership

Leadership is a drive toward organizational goals. There is a people's question "what is leadership?" And the implicit question "what is ethical leadership?". Leader must have something that can influence others to achieve goals. Leaders are not only competent but also ethical in everyday conduct (Ciulla, 2012). Leadership is more than a skill, more than knowledge of theory, more than analytical faculties. It is an ability to act purposively and ethically as the situation requires on the basis of the knowledge universals, experience, perception, and intuition. Ethical leadership should be based on the effective and successful for a long time. Leaders must demonstrate the highest standard of moral and ethical conduct in every day in talks, behavior, actions, and make decisions so that others in the organization can follow (Toor and Ofori, 2013).

#### Work Environment

Work environment is about everything influence employees in the workplace (Taiwo, 2013). Work environment describe how the situation in workplace influence employees' behavior. A person involved in one environment will imitate what person see in that environment. For example, if person involved in ethical environment so person will conduct ethically. According to subjective norms in TPB normative, Ajzen (2010) explains individuals or groups of referents approve or disaccept to perform the behavior. In work environment a person will tend to adjust to what has become a culture in a company. A person will be indirectly influenced by a work environment to follow the culture in this environment. As an example, suppliers give things to employee in order to accept their offers. Because it is the habit in environment so this gratuity becomes a natural thing and employees have justification to approve this gratuity.

### Religious Faith

Religious faith is a belief in God who creates and controls the universe. Glock and Stark (1965) define religion as a system of symbols, belief systems, value system, and a system of behavior. Religious faith divide to 5 dimensions are experiential, ritualistic, ideological, intellectual, and consequential (Glock and Stark, 1965). There is a question of “Is morality possible without religion?”. Although people without religion can do good deeds, then what the basis of moral norms underlie their actions? may be everything is permissible without God. The relation between morality and religion is the complex thing. Religion may refer to a set of belief involving supernatural agent, code of conduct, set of rituals and self-transcendent experiences, or sense-belonging in a community of believers. Morality refers to prosocial behavior (an aspect of practical ethics), intuitive and reflective judgment of act as rights, permissible or wrong (normative ethics) or beliefs about the basis on moral can be true or justified (meta-ethics) (Yilmaz and Bahçekapili, 2015). Researchers assume that religion can be a deterrent to unethical behavior. In religion there is a prohibition to do unethical because it is a sin. There are the different of religious faith one person with others. Someone with high level of religious faith not to conduct unethical behavior because they believe unethical is prohibited by their religion. To measure religious faith, Mature Religiosity Scale (MRS) (Vries-Scott, Pieper, and Van Uden, 2011) was developed to ask how religious influence person in his life. MRS provides the criteria for the assessment of a person’s faith.

### Organizational Culture

Culture is an abstraction, yet the forces that are created in social and organizational situations that derive from culture are powerful. If don’t understand the operation of these forces, we become victim to them (Schein, 2012). Organizational culture represents an active, living, phenomenon by key members of the organization, such as executives create a culture and shared to other members to how to conduct (Morgan, 2013). Member continuously interpret aspects of their work environment and this interpretation, as well as the ways in which they are

enacted, form the organizational culture (Martin, 2011). Organizational culture is a complex combination of formal and informal systems, processes, and interactions (Cohen, 2011). Organizational culture consists formal component of the leadership, structure, policies, reward systems, mechanisms of socialization, and the decision process among other things. Formal organizational culture means organizational culture is formed from the direct and explicit process and set to be culture in the organization. Informal organizational culture including implicit behavioral norms, role of models, rituals, and language (Schein, 2012). Informal elements of the culture is intangible of organizational behavior such as norms of behavior consistent with ethical standards or code of conduct (Trevino and Brown, 2012). Researchers assert that organizations embed a culture for employees to perform an appropriate behavior in organization. A fraud can occur when a bad thing in an organization becomes a habit. This research will examine the direct path organizational culture to fraud intention and hypothesize that good organization will reduce fraud intention.

### Financial Performance of Tier 1 Deposit Money Banks

Financial performance is a broad indicator of a company’s overall financial health, strength, and capacities throughout time (Kiaritha, 2015). It is a monetary measurement of the outcomes of an organization’s policies and operations (Adam, 2014). Tier 1 deposit money bank financial performance is the cornerstone and objective of any tier 1 deposit money banking activity (Ferrouhi, 2018), and firms’ financial performance is judged by their profit-earning capacity (Al-Homaidi, Tabash, Farhan, & Almaqtari, 2018; Ebenezer, Omar, & Kamil, 2017). The return on assets is a real-world indicator of financial performance (Ledhem, 2021). Previous studies focused on tier 1 deposit money bank-specific and macroeconomic determinants when studying the financial performance of the tier 1 deposit money banking industry (Khalifaturafi’ah, 2021; Amene & Alemu, 2019; Al-Homaidi et al., 2018; Javaid, 2016; Ebenezer et al., 2017). According to Parvin, Chowdhury, Siddiqua, and Ferdous (2019), Al-Homaidi et al. (2018), Shamim, Aktan, Abdulla, and

Sakhi (2018), Menicucci and Paolucci (2016), and Merin (2016), tier 1 deposit money bank size has a favorable and considerable impact on profitability. Tharu and Shrestha (2019) and Scott and Ovuefeyen (2014), on the other hand, found that tier 1 deposit money bank size had no substantial impact on tier 1 deposit money bank profitability. The number of tier 1 deposit money bank branches has a large and beneficial effect on profitability (Al-Homaidi et al., 2018; Nyatika, 2017; Al-Abedallat, 2017). Tier 1 deposit money bank profitability suffers as a result of overhead efficiency (Merin, 2016). A tier 1 deposit money bank's risk increases as the equity multiplier ratio (EMR) rises, indicating that a smaller EMR is recommended (Abdi, 2010; Attefah & Darko, 2016). The asset utilization ratio has a large and favorable effect on the success of businesses (Yesmine & Bhuiyah, 2015; Datta, Ghosh, & Tuhin, 2011; Akinleye & Dadebo, 2019; Herdinata, 2019). Similarly, the net interest margin (NIM) has a statistically significant positive impact on tier 1 deposit money bank profitability (Sunaryo, 2020; Yudha, Chabachib, & Pangestuti, 2017). From the macroeconomic variables, inflation rate and exchange rate resulted in a negative relationship with profitability (Al-Homaidi, et al., 2018). Moreover, the study conducted by Moyo and Tursoy (2020) indicated that there is an inverse and significant relationship between inflation and tier 1 deposit money bank financial performance. The study conducted by Shamim et al. (2018) and Scott and Ovuefeyen (2014) indicated that inflation was not significant in impacting the profitability of tier 1 deposit money banks. Exchange rate volatility negatively and significantly affects tier 1 deposit money banks' performance (Keshtgar, Pahlavani, & Mirjalili, 2020). The study done by Kairu (2016), on the other hand, found a positive and substantial association between exchange rate volatility and tier 1 deposit money bank performance. Furthermore, the currency rate and tier 1 deposit money bank financial performance have a shaky link (Moyo & Tursoy, 2020). According to Ashraf (2018), the greater a country's trade openness, the greater its tier 1 deposit money bank development will be, as the amount of tier 1 deposit money bank credit increases while the cost and risk of tier 1 deposit money bank credit decrease. On the other hand, research undertaken by Okoro and Ezeudu (2017) and Scott and Ovuefeyen

(2014) found that trade openness has no substantial impact on tier 1 deposit money bank profitability. The tier 1 deposit money banking business is undergoing a global transition as a result of advances in information technology. As a result, tier 1 deposit money banks are embracing internet tier 1 deposit money banking to remain competitive and achieve increased productivity, efficiency, cost reduction, and profit (Islam, Kabir, Dovash, Nafee, & Saha, 2019). Increased development of internet finance has a good impact on tier 1 deposit money banks' profitability, security, and expansion (Dong, Yin, Liu, Hu, Li, & Liu, 2020). The impact of internet tier 1 deposit money banking on tier 1 deposit money bank earnings, operating costs, loan books, and consumer deposits is beneficial (Mateka, Gogo, & Omagwa, 2016). Internet tier 1 deposit money banking impacted tier 1 deposit money bank profitability by raising revenue from service operations (Van & Le, 2015). Furthermore, according to Ngungi's (2013) research, online tier 1 deposit money banking has a good and significant impact on tier 1 deposit money bank financial performance. However, according to the findings of Yasin (2018), online tier 1 deposit money banking has no substantial impact on the financial performance of Ethiopian tier 1 deposit money banks. The composite governance index has favorable and statistically significant benefits on tier 1 deposit money bank profitability, according to a study done by Barth, Bertus, Hartarska, Phumiwasana, and Jaing (2013). Furthermore, Athari and Bahreini (2021) discovered that governance, together with its dimensions, has a beneficial impact on tier 1 deposit money bank profitability.

#### Measurements Of Tier 1 Deposit Money Bank Financial Performance

The tier 1 deposit money banks' financial performance is highly affected by the financial ratios (Khalifaturafi'ah, 2021). Thus, the tier 1 deposit money bank's financial performance can be measured by its capacity to generate sustainable profit relative to the tier 1 deposit money bank's assets invested (Ferrouhi, 2018), which is denoted by ROA used as a proxy measure of tier 1 deposit money bank performance (Islam et al., 2019; Bikker, 2010). The ROA is the best option because the tier 1 deposit money bank was financed with deposits

rather than capital, and the ROA evaluates the tier 1 deposit money bank's efficiency in converting assets into net earnings (Rosly & Bakar, 2011). The ROA is a metric that measures the returns generated by the total assets provided by the owners and creditors (Rahman, Yousaf, & Tabassum, 2020). The higher the ROA, the more will be the tier 1 deposit money banks' profitability (Derbali, 2021). As a result, ROA was used as a proxy indicator of tier 1 deposit money bank financial performance in Ethiopia in this study. It is the net income to total assets ratio, which compares earnings to the assets that generate profits to determine the firm's capacity to use its assets to generate profits.

$$ROA = \frac{Net\ Income}{Total\ Assets} \dots\dots\dots (2.1)$$

The accounting and finance literature conducted on determinants of tier 1 deposit money bank performance tried to see from two broad views, mainly tier 1 deposit money bank-specific and macroeconomic determinants (Al-Homaidi et al., 2018; Ebenezer et al., 2017; Anbar & Alper, 2011; Lemi, Rafera, & Gezaw, 2020).

The Effect Of Fraud On Financial Performance Of Tier 1 Deposit Money Banks

The financial sector with reference to the tier 1 deposit money banking sector is one of the most critical sectors in the economy with wide effect on the level and direction of economic growth and transformation hence this sector has been a target of fraud. Muritala et al. (2020) looked at fraud and tier 1 deposit money bank performance in Nigeria using data from 2010 to 2016 on a granger causality test and other econometrics test. Their findings show that fraud activities in the tier 1 deposit money banking sector affect performance through profit reduction. The work of Olaoye and Dada (2014) investigates the causal relationship between tier 1 deposit money bank fraudulent activities and tier 1 deposit money banks performance in Nigeria, and they concluded that the need for adequate remuneration of tier 1 deposit money bank staff is essential while the work of Adeyemo (2012) shows that the battle for uncovering, reclusion, and retribution of fraudulent acts must be dealt with from two extensive situations. Olufidipe (2012) stated that fraud is a deceit or trick deliberately practiced in order to gain some

advantages dishonestly. Boniface (2010) further stressed that fraud is any premeditated act of criminal deceit, trickery or falsification by a person or group of persons with the intention of altering facts in order to obtain undue personal monetary advantage while Idowu (2013) stated that fraud is a deliberate falsification, camouflage, or exclusion of the truth for the purpose of dishonesty/stage managed action to the financial damage of an individual or an organization. The work of Kirkpatrick (2015) concluded that dishonest practice, deception, false disclosure, concealment of assets and other activities of this nature are fraud. Base on this conclusion of Kirkpatrick (2015) and other scholars on this field, the researchers further extends the elements of frauds as inappropriate auditing, peer group pressure, computer fraud and management looting to investigate financial performance in tier 1 deposit money bankin Nigeria. Ailemen (2018) administered questionnaires to some stakeholders' tier 1 deposit money banks to gather information on the impact of the confidence placed on board and management. The conclusion was a quantum of fraud on board and management leads to downward slide in share price and dividend. Ihejiahi (2013), used quantitative analysis of listed tier 1 deposit money banks in the UK to expressed concern about the lack of cooperation among tier 1 deposit money banks in the fight to stem the incidence of ATM related frauds now plaguing the industry. Ihejiahi (2013), concluded that silent from tier 1 deposit money banks in disclosing methods used by fraudsters continually affect the sector. The conclusion of Ihejiahi (2013) was further supported by Adeloye (2017). Adeloye (2017), stated that power outage in developing countries like Nigeria is a major challenge facing the ATM users within developing countries like Nigeria and the on ATM Frauds in the year 2017 identified some types of ATM Frauds such as Shoulder Surfing, Lebanese Loop, Stolen Cards, Card Jamming, Fake Cards and Duplicate ATMs. In as much as there are different ways of fraud identified by the researchers of this study, the list of the elements of fraud is not exhausted. According to Eseoghene (2010), there are various types of frauds perpetrated in tier 1 deposit money banks such as deceitful collection of tier 1 deposit money banks such as computers, stationary or equipment. Defalcation is a type of fraud, which involves the embezzlement of money held in trust by

tier 1 deposit money bankers on behalf of their customers. Defalcation of customers deposits either by conversion or fraudulent alteration of deposit vouchers by either the tier 1 deposit money bank teller or customer is the common form of tier 1 deposit money bank fraud. Where the tier 1 deposit money bank teller and customer collude to defalcate, such fraud is usually neatly perpetrated and takes longer time to uncover.

#### IV. THEORETICAL REVIEW

##### Fraud Triangle Theory (Ftt)

The fraud triangle theory as developed by Donald Cressey in 1973 assumed that three (3) things must be present before a fraud can be perpetrated. The three(3) elements are perceived pressure, perceived opportunity and perceived rationalization. Pressure is the desire to be satisfied, opportunity is ineffective control or governance system which makes people to commit organizational fraud (Abdullahi & Mansor, 2015), while rationalization is the justification and excuses that the immoral conduct is different from criminal activity (Inaya & Isito, 2016).

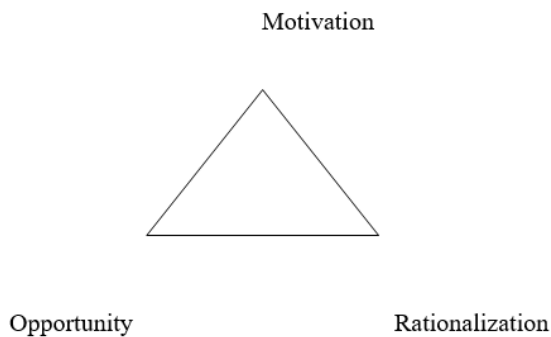


Figure 1: Fraud Triangle

Source: Donald Cressey, 1973

In support of fraud triangle theory are Ibrahim (2019) and Badejo et al (2018). They argued that the executor of the fraud may believe that he or she can commit the fraud and not got caught by the authority. The theory has been criticized on the ground that fraud can be perpetrated not only for financial reasons and that there may be non-financial factor associated with the fraud (Adeniyi, 2016). This theory is very relevant to this study because of negative relationship

of tier 1 deposit money bank deposit as a result of reported fraud cases.

##### Fraud Diamond Theory (Fdt)

The fraud diamond theory was formulated by Wolfeand Hermanson in 2012. Wolfeand Hermanson added another variable called “capability” to the three (3) variables of fraud triangle theory developed by Donald Cressey in 1971.

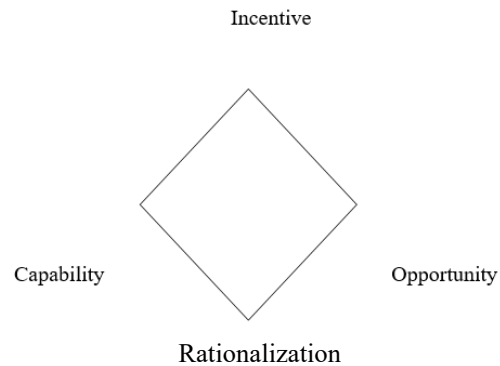


Figure 2: Fraud Diamond Theory

Source: Wolfeand Hermanson, 2012

Wolfeand Hermanson believed that a lot of frauds would not have taken place without the right person with right capabilities perpetrating the fraud in other word, the perpetrator of the fraud must have the skills and the ability to carry out the fraud (Andayani & Wuryantoro, 2023). Diamond fraud theory is supported by Udeh and Ugwu (2018). They argued that “capability” enables the fraudstar to recognize the open door way as an opportunity and to take advantage of it by walking through repeatedly. The theory is relevant to this study in that the perpetrator is confident the fraudulent act may not be detected.

##### Job Dissatisfaction Theory

Job Dissatisfaction Theory was developed in 1935 by Robert Hoppock. The theory assumes that dissatisfaction by employee will motivate him to commit fraud. In support of this theory, Well (2012) stated that when employees perceive that their jobs or working conditions are unfair, they are likely to justify the unfair treatment by committing fraud. Theory of job dissatisfaction has been criticized on the ground that it is difficult to prove as a result of

insufficient information regarding employee theft and besides, the source of the information may not be reliable (Mustate & Tewksbury, 2011). The theory is relevant to the current study in that dissatisfaction of employees will affect their productivity which invariably will affect the performance of organization/tier 1 deposit money bank. Its relevance to tier 1 deposit money bank is that fraud in tier 1 deposit money banks affects transaction directly because depositors will have psychological believes that their deposits are not safe.

#### Empirical Review

Studies relating to fraud and financial performance with varying results have been investigated by scholars; for instance, Udeh and Ugwu (2018) study found that tier 1 deposit money bank deposits increased with fraud cases reported. It further revealed a negative but insignificant relationship between fraud and tier 1 deposit money bank deposits. Likewise, Verma and Singh (2017) discovered a negative and significant influence of frequency and severity of fraud on profitability as measured by ROA, ROE, and ROI. Kanu and Okorafor (2013) demonstrated that the most frequent type of fraud in the Nigerian tier 1 deposit money banking industry is fraudulent withdrawals. Similarly, Chiezey and Onu (2013) identified poor internal control as a catalyst for increase in fraud and fraudulent activities. Also, Kiragu et al. (2013) results revealed a negative and insignificant effect of tier 1 deposit money bank growth on occupational fraud risk in tier 1 deposit money banks in Nigeria. Further, Odhiambo (2013) found that financial fraud loss and liquidity ratios had a strong positive and significant influence on the financial performance of tier 1 deposit money banks. Building on previous studies, Basin (2015) found poor employment practices and lack of effective training, overburdened staff, weak internal control systems, and low compliance levels of Tier 1 deposit money bank Managers, Officers, and Clerks. Adetiloye et al. (2016) study showed that while internal control is effective against fraud not all staff are committed to it. Nevertheless, Offiong et al. (2016) found that the problems of Nigerian tier 1 deposit money banking sector frauds require strong inter-agency collaboration, public education and cross border

cooperation to accomplish sustainable success. In addition, Inaya and Isoto (2016) investigated the social impact of fraud on the Nigerian tier 1 deposit money banking industry from 2010 to 2014 and found that a negative social impact of fraud exist in the Nigerian tier 1 deposit money banking industry. In Adeniyi (2016) work, the results showed that forensic auditing significantly affects financial fraud control in Nigeria (DMBs). Also, Osuala et al. (2016) found that fraud significantly impact on tier 1 deposit money bank loan and advances in Nigeria. The paper reviewed the fraud triangle theory developed in 1973 by Donald Cressey, a criminologist who established that for fraud to occur there must be a reason. Donald related to three factors (pressure, opportunity, and rationalization) that must be present for an offense to happen. The perpetrator must formulate some morally acceptable idea before engaging in unethical behavior, and if fraud perpetrators are given the opportunity, they are most likely commit fraud. Hence, Donald determined three types of pressure, personal, employment stress, and external pressure. Donald defined the pressure to commit fraud as, the source of heat for the fire. According to Shuchter and Levi (2015) pressure to commit fraud by corporate organizations might be heightened during financial distress. The pressure perspective of the fraud triangle asserts that individuals and organisations circumvent legislation when experiencing financial pressure. Lokana (2017) submitted that these individuals go through strain when their efforts to attain material wealth are unattainable because of blocked opportunities. Hence, workers feel deprived and revert to illegitimate means to acquire material success. Lokana (2017) further asserted that when executives feel pressured because of poor financial performance strain arises. Therefore, financial pressure creates a discrepancy between achieving performance targets and the legitimate means to meet those targets. By implication the more severe the financial strain experienced by the organisation, the greater the pressure to maximise profit through fraudulent behaviour.

### III. RESEARCH METHODOLOGY

This research work is an ex-post facto research design, which examined fraud and financial performance of tier 1 deposit money banks in Nigeria

using time series data dating from 2010 to 2024; this was premised on the availability of data. Descriptive statistics and inferential statistics were employed in this study. The research design was built on a similar study by Udeh and Ugwu (2018) on fraud in the Nigerian tier 1 deposit money banking sector. The model specification was a mathematical model which explains the effect of the independent variable (Fraud) on the dependent variable (Financial Performance) and was adopted from the work of Abdulrahman et al. (2012). The mathematical equation below, therefore, shows the effect of the independent variable on the dependent variable in a linear form as thus:

$$ROA/ROE = f(FRD, TAF). \dots\dots\dots \text{equation 1}$$

$$ROA/ROE = \alpha_0 + \alpha_1 FRDCAS + \alpha_2 FRADAMT + \mu \dots\dots\dots \text{equation 2}$$

Where:

ROA/ROE = Financial Performance (Measured using Credit to private sector (CPS) as a ration of GDP  
 FRDCAS = Total Number of Fraud Cases

FRADAMT = Total Amount Involved in Fraud

$\alpha_0$  = Intercept

$\mu$  = Disturbance Term

$\alpha_1$  = Coefficient of the Independent Variable

Note: All variables are in their natural logarithm form

The researchers' a priori expectation was that a significant relationship will exist between fraud and financial performance of tier 1 deposit money banks in Nigeria. This means that for the established objectives, significant relationships are expected on fraud and financial performance of tier 1 deposit money banks in Nigeria. The researchers observed high level of integrity, transparency and diligence in the process of data collection, analysis, and interpretation in conducting the research. The research did not obtain information from any respondents, the official website of the selected companies were visited to collect information which was provided in line with their legal and regulatory requirement, information were obtained and used basically for the purpose of the research work. The study was carried out in

accordance to ethical consideration, rules and guidelines, which prevented data falsification, manipulation misrepresentation, and hence free of bias and similarity index conform with standard.

## V. DATA ANALYSIS AND DISCUSSION OF RESULTS

In this segment, the result obtained from the time series data regression in assessing fraud and financial performance of tier 1 deposit money banks in Nigeria, were presented and discussed. The results from various analyses were interpreted and discussed using descriptive and inferential statistic. Also, the section presented statistical features relating to measuring the independent and dependent variables.

This section of the study provides empirical on the relationship amid fraud and financial performance of tier 1 deposit money banks in Nigeria and ends with discussion of finding on result obtained

Data Presentation

YEAR	ROE	ROA	FRDCAS	FRADAMT
2010	0.03	0.131	14	14880.5
2011	0.031	0.105	15	31305.3
2012	0.051	0.105	15	43735.8
2013	0.051	0.103	14	52525.3
2014	0.041	0.108	16	52137.3
2015	0.057	0.105	14	113528.9
2016	0.052	0.107	19	156437.10
2017	0.054	0.109	22	385251.0
2018	0.051	0.108	23	373785.5
2019	0.052	0.08	27	313754.9
2020	0.052	0.109	29	508303.3
2021	0.071	0.138	32	533154.8
2022	0.078	0.31	33	524538.8
2023	0.135	0.31	37	510033.10
2024	0.333	0.33	41	514343.7

Source: CBN statistical bulletin, 2024

Data Analysis

Table 1: Descriptive Statistics

DESCRIPTOR	CPS	FRADAMT	FRDCAS
Mean	2.845684	9.634334	7.257025
Median	2.876926	9.466497	7.286876
Maximum	3.604026	10.88786	8.125631
Minimum	2.403427	8.483051	6.679599
Std Dev.	0.358491	0.680059	0.425473
Skewness	0.634094	0.313175	0.377268
Kurtosis	2.654695	2.400299	2.541234

Source: Researchers' Compilation (2025)

CPS mean credit to private sector, FRADAMT represents the total amount involved in fraud, and FRDCAS stands for total number of fraud case. Table 1 shows the descriptive statistics of the variables under study. The mean value of the variables shows that all the variables have positive values, and FRADAMT has the highest value (9.63), followed by FRDCAS (7.25) and CPS (2.84). The minimum and maximum change ranges from a positive to positive in all the case variables. In addition, the standard deviation shows that FRADAMT was highly volatile, having the highest value (68%), FRDCAS (43%) and CPS (36%) are relatively low. The results also show that all the variables under investigation were positively skewed

Table 2: Regression Analysis

Variable	Co-efficient	Std. Error	t-Statistic	Prob.
C	-2.070589	1.267811	1.633200	0.1335
FRADAMT	0.335363	0.112212	2.988660	0.0136*
FRDCAS	0.232227	0.179355	1.294791	0.2245
R-Squared	0.837683			
Adjusted R-Squared	0.765220			
F-Statistic	28.800086			

Dependent Variable: FP; \* means Significant at 5%

VI. INTERPRETATION

The regression analysis results in Table 2, as conducted to test the effect of fraud on the financial

performance of Nigerian tier 1 deposit money banks show the coefficient of the total amount involved in fraud (FRADAMT) was 0.3354. The result implies that FRADAMT has a positive effect on tier 1 deposit money banking sector performance as measured by credit to the private sector as a ratio of GDP. Further, the coefficient result was statistically significant, as evidenced by the probability value of 0.0136. The results revealed that the total number of fraud cases affected the financial performance of tier 1 deposit money bankin Nigeria. The finding placed a moral burden on tier 1 deposit money banks to increase their requirements regarding staff qualifications, internal control mechanisms, and ascertaining that references are not fictitious. Total number of fraud cases (FRDCAS) coefficient had a value of 0.2322, suggesting a positive effect of fraud cases in Nigeria on financial performance of tier 1 deposit money banks. However, the probability value of 0.2245 indicates that this effect was not statistically significant. The implication is that the frequency or number of fraud exhibited has no material effect on financial performance; the physical amount of money, affected the financial performance of tier 1 deposit money banks. The adjusted  $R^2$  of the model shows that 76.5% variations in financial performance of tier 1 deposit money banks in Nigeria can be attributed to changes in the reported occurrence of fraud, while the remaining 23.5% variations were caused by other factors outside the model. The result means that in Nigeria, the variables chosen to investigate the problem were appropriate in explaining the level of tier 1 deposit money bank performance. The  $F$ -Statistic that measures the joint statistical influence of the explanatory variables in interpreting the dependent variable was statistically significant at 5% level. This result can be described as scientifically ideal, robust, and reliable as the model was treated to avoid spurious results. The  $R$ -squared was strong even when adjusted for degrees of freedom.

VII. CONCLUSION AND RECOMMENDATION

Conclusion

In compliance with the objectives of this study, it has been established that fraud affects financial performance in Nigeria. The study applied credit to

private sector as a proxy for financial performance, while the number of fraud cases and the amount recorded were used as proxies for fraud within the period of 2010 to 2024. The results obtained revealed that the coefficient of total amount involved in fraud exhibited a significant positive relationship with financial performance as measured by credit to private sector as a ratio of GDP. In addition, total number of fraud cases coefficient revealed that a relationship existed with financial performance, but the relationship was not statistically significant.

#### Recommendation

The overall effect of fraud on financial performance showed that fraud affected tier 1 deposit money banks financial performance in Nigeria significantly. Towards the possibility of eradicating fraud in tier 1 deposit money banking sector and improving the performance of the tier 1 deposit money banking sector, it is recommended that tier 1 deposit money banks build strong internal control mechanisms, strengthen legal framework for fraud prevention, and conduct training in the aspect of honesty and integrity, and not only technical skills. Future studies should apply other measure of fraud on a country's GDP through secondary data and extend such to West Africa region

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