FRAUD AND MICROFINANCE INSTITUTIONS IN NIGERIA

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Abstract

Micro financing has become one of the most portable sources for funding Small and Medium Scale Enterprises in Nigeria. However, the high rate of failed microfinance institutions in recent times has made fraud to become an issue for discuss in microfinance research in recent times. Anecdotal evidence shows that management tends to exonerate itself and rarely accept blame but shift blame to monitoring staffers when fraud cases are discovered in financial institutions. This study seeks to ascertain the roles of operation staff and management in fraud cases perpetrated by fraudulent staff in Microfinance Institutions in Nigeria. The study used a sample of ten registered microfinance banks that have network of branches nationwide. The study employed Ordinary Least Square and ANOVA to analysed data collected from field. The results show that management's lack of political will to implement fraud related policies, lack updated internal audit &internal control system and snob appeal behaviour of staffers are responsibility for high rate of fraud in microfinance institutions in Nigeria. The study also showed that fraud is more pronounced among branches in the city than those situated in rural areas. The study recommended that management should not be slow in implementing policies. The study also recommended that blood relations should not be allowed to work in the same microfinance institution. Finally the study recommended that minoring staff should watch the spending habits of their subordinates.

Keywords: Fraud, Microfinance, Management and employee behaviour

INTRODUCTION

Statistics reveals that more than 65% of businesses in Nigeria are Small and Medium Scale enterprises (SMEs). This sector is said to be the engine driver of most developing Economies like Nigeria. SMEs provide a reasonable percentage of employment opportunities in Nigeria. It is however dishearten that most SMEs die within their first five years of existence, while smaller percentage goes into extinction between the sixth and tenth year thus only about five to ten percent of young SMEs survive, thrive and grow to maturity (Basile, 2012). Akwaja (2004) opines that lack of finance is one of the major factors responsible for the premature death of SMEs in Nigeria. Some scholars and accounting researchers pointed out that there is a need for the government's involvement in the financing of SMEs and to this effect many governmental programs like, National Poverty eradication, Program (NAPEP), Directorate for food road and rural infrastructure (DFRRI), People's bank of Nigeria and many others were initiated in the past. All these programs were initiated by the government and were geared toward providing financial assistance to SMEs. However the aforementioned programs were unable to solve the numerous financial challenges of SMEs in Nigeria and such the introduction of small financing came into the scene to cater for the financial needs of SMEs in Nigeria. The apex bank in the pass fifteen years has given operating license to over a hundred Microfinance institutions (MFIs). SMEs because of their nature have no collaterals to enable them obtain loan from commercial banks.

Microfinance Institutions (MFIs) deal with clients that operate in the informal sector who cannot access loan from commercial banks. Though the involvement MFIs has yielded some positive results, yet frauds in MFIs have posed serious threat on the long-term sustainability of the success story. Fraud is an impediment and has hindered the actualization of the provision of loan to the informal sector and broadening of financial inclusion drive. The negative effect of fraud is always overwhelming to both big and small MFIs. Researches show that high number of MFIs between 2000 and 2016 went under as result of fraud while some other downsize their operations due to the adverse effect fraud on their capital base.

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Dhitima (2013) opines that fraud flourishes in a setting that has multifaceted procedures and large quantity of un-systemic transactions. The author further reports that some factors responsible for fraud in the MFIs are weak corporate governance; poor accounting practices, procedures and policies; lack of client due diligence, weak internal control system; policies and procedures; perverted social values; slow and circuitous judicial process; and fear of negative publicity. Ogunleye (2004) further summarises the causes of fraud in MFIs into two broad categories: managerial lapses and employee caustic behavior. Mordi (2005) argues that employee and management are the key players in fraud and its preventions but often than not management refuses to take any responsibility when fraud is committed but look for areas where principles and procedure were violated and push the blame to monitoring personnel. Adeyemo (2012) also argues that most high profile fraud cases in MFIs were committed by employees that are connected to management either at regional level, zonal level or at the head office level. The perpetrators of these frauds happen sometimes to be the director's brother, director's in-law, regional manager's wife, zonal manager's sister mentioned but a few. This caliber of management-affiliated personalities are treated as 'sacred cow'. Anecdotal evidence shows that this set of persons pretend to be safeguarding the interest of management but look for the slightest opportunity to strike. On the contrary, Agyare and Aidoo-Buameh, (2014) argue that employee caustic behavior and lack of close observation by monitoring are major causes of fraud in MFIs in Nigeria . A good monitoring personnel or supervisor should be able to decipher fraud trends in his subordinate and take necessary action.

Kumar and Conteh (2016) are of the opinion that one of the major causes for the increased rate in occurrences of fraud in MFIs is lack of board capacity to understand internal control issues. Internal control is the central risk management function of the board but in most cases it is neglected either because of board's inability to understanding internal controls issues or because of compromise and lack of commitment of management to its role.

LITERATURE REVIEW

Employee behavior and fraud

Kumar and Conteh (2016) listed some common fraud cases that are perpetrated in MFIs as a result of staffers' caustic behavior and these include: Padding of receipt,/paying voucher, conversion of cash collected in the field, cash in vault malpractice, ghost loans, staff and customer collusion, kickback in administration of loan . These behaviors can further be explained by the fraud triangle theory and fraud diamond.

The Fraud Triangle Theory

This theory was propounded by Cressey (1987), it attempts to explain the factors that facilitate and stimulate a fraudster to commit fraud without blinking his eyes. These factor are categorized into three:

Perceived Pressure

Lister (2007) defines the pressure to commit fraud as "the source of heat for the fire. Hooper and Pornelli (2010) opine that pressure can be either a positive or a negative force. Fraud pressures can arise from financial problems, such as living beyond one's means, greed, high debt, poor credit, family medical bills, and many more. It may also arise from vices such as gambling, drugs, or an extramarital affair. Murdock (2008) also argues that pressure could be financial, non-financial, political and social. Political and social pressure occurs when a person feels and believes is a failure if he lives below certain standard because of his status or reputation. While financial pressure occurs when an individual has financial needs that are beyond his means.

Vona (2008) and Rasha and Andrew (2012) argue that personal and corporate pressures are the key motives for committing fraud. Chen and Elder (2007) document six basic classifications of pressure as, a transgression of obligations, personal problems, corporate inversion, position achievement and relationship between employees. Albrecht etal. (2008) classified pressure into four groups namely: economic, vice, job-related and other pressures.

Perceived Opportunity

This is defined as an environment or temporary circumstance that allows for the fraud to be committed, typically with little perceived chance of being caught or penalized. Windows of opportunity exist for wrongdoing when companies have poor internal controls, weak processes and procedures, unauthorized or unchecked access to assets by employees, or a lack of management review and oversight.

Rationalisation

Rationalization of committing fraud is the most difficult condition to observe because it takes place in the mind of the perpetrator. Rationalization has to do with justifying the fraud. Since many fraudsters view themselves as honest, ordinary people and not as criminals, they have to come up with some reasoning to make the act of committing fraud more acceptable to them. Some common rationalization statements are "I will just take this money now and pay it back later," "No one will notice," or "I deserve this after all these years with this company." Rationalization may include an employee/manager's feeling of job dissatisfaction, lack of recognition for a job well done, low compensation, an attitude of "they owe me," "I'm only borrowing the money," "they would understand if they knew my situation," "it is for a good purpose," or "everyone else is doing it."

Some fraudsters rationalize their behavior by reframing their definition of wrongdoing to exclude their actions. All three conditions must be present in varying degrees for fraud to occur. In understanding the psychology of the person committing fraud, it is important to first understand how the person is internally justifying the fraud.

The Fraud Diamond Model

The fraud diamond model was propounded by Wolfe and Hermanson (2004). The theory added an element called capability into fraud components of the FTT. Wolfe and Hermanson (2004) argue that although perceived pressure might coexist with an opportunity and a rationalization, it is unlikely for fraud to take place unless the fourth element - capability is present. This implies that the potential perpetrator must have the skills and ability to commit the fraud. The fraud diamond model suggests that many frauds happened because the fraudsters have required skill to perpetrate the fraud. The diamond model postulated four observable traits and capabilities for committing fraud: authoritative position or function within the organization; capacity to understand and exploit accounting systems and internal control weakness; confidence of not being detected or if caught will get out easily, and; capability to deal with the stress created within the within an otherwise good person when she commits bad acts.

Figure 2: the Fraud Diamond Model

Kranacher, et al. (2010) combine fraud triangle model and diamond fraud to formulate a fraud ranking chart. The following are the ten most ranked factors as ranked by Kranacher, et al. (2010) : first, an overwhelming desire for personal gain; second, living beyond their means; third a close association with customers; four, high personal debt; fifth, feeling pay was not commensurate with responsibility; sixth ,excessive gambling habits(example, MMM and the like); seventh, a wheeler-dealer attitude; eighth, strong challenge to beat the system; ninth, undue family or peer pressure; tenth, no recognition for job performance.

METHODOLOGY

The population for this study comprises all MFIs that have nationwide branches in Nigeria. The study employed simple random sampling to select ten MFIs from the population.

The study used both secondary and primary sources to extract information. The primary data were obtained by administering questionnaire to elicit information from staff in operation department while secondary data were obtained from monthly bulletin of the selected MFIs. Two hundred questionnaire were distributed of the aforementioned mentioned department.

This study used the Ordinary Least Square (OLS) regression technique to ascertain the determinants of frauds in MFIs in Nigeria. This relationship can written as: Fraud= f (Management related factors, Lack of updated internal, employee behavior)

Simple ANOVA test was performed to ascertain whether higher number of reported fraud cases in MFIs were committed by employees that are highly connected to management at various levels. ANOVA is also applied at ascertain whether MFIs branches in city are more prone to the fraudulent activities of fraudsters than those in rural area. The analysis for this research was conducted using Microsoft excel package.

DATA PRESENTATION

Table 1. Allowing family members to work in the same microfinance finance institution will give room for high rate of fraud high.

RESPONSE	NO	%
AGREED	60	30
STRONGLY AGREED	80	40
UNDICIDED	-	-
STRONGLY DISAGREED	42	21
DISAGREED	18	9
TOTAL	200	100

Source: field survey 2017

Table 1 shows that 30% and 40% of respondents agreed that allowing family members to work in the same MFIs is give room for high rate of fraud while 21% and 9% of the respondents strongly disagreed and disagreed respectively.

Table 2 .MFIs branches in rural area strictly monitor than those in the city

RESPONSE	NO	%
AGREED	24	12
STRONGLY AGREED	106	53
UNDICIDED	-	-
STRONGLY DISAGREED	14	7
DISAGREED	56	28
TOTAL	100	100

Source: field survey 2017

Table 2 reveals that 53% and 12% of respondent strongly agreed and agreed that that MFIs branches in the area are strictly monitored than those in the city while 7% and 28% of the respondents strongly disagreed and disagreed

Table 3. High profile frauds are often committed by staff that are to connected management

RESPONSE	NO	%
AGREED	46	23
STRONGLY AGREED	94	47
UNDICIDED	-	-
STRONGLY DISAGREED	14	7
DISAGREED	46	23
TOTAL	200	100

Source: field survey 2017

Table 3 shows that 23% and 47% of respondents agreed and strongly agreed that high profile frauds often by staff that connected to management while 7% and 21% of the respondents strongly disagreed and disagreed that agreed that high profile frauds often by staff that connected to management.

Table 4. High profile frauds occur more in MFIs branches in town than those in rural area

RESPONSE	N O	%
AGREED	4	2
STRONGLY AGREED	78	78
UNDICIDED	-	-
STRONGLY DISAGREED	20	10
DISAGREED	20	10
TOTAL	200	100

Source: field survey 2014

Table show that 2% and 78% of respondents agreed and strongly agreed that high profile frauds occur more in MFIs branches in town than those in rural area while 20% of respondents strongly disagreed and disagreed that high profile frauds occur more in MFIs branches in town than those in rural area .

Table 5 Fraudulent MFIs employees spend extravagantly

RESPONSE	NO	%
AGREED	86	43
STRONGLY AGREED	34	17
UNDICIDED	-	-
STRONGLY DISAGREED	24	12
DISAGREED	56	28
TOTAL	200	100

Source: field survey 2017

Table 5 show that 43% and 17% of respondents agreed and strongly that fraudulent MFIs employees spend extravagantly while 12% and 28% disagreed that Fraudulent MFIs employees spend extravagantly.

Table 6. Most MFIs do not have functional internal audit

RESPONSE	NO	%
AGREED	68	34
STRONGLY AGREED	-	-
UNDICIDED	-	-
STRONGLY DISAGREED	78	39
DISAGREED	54	27
TOTAL	200	100

Source: field survey 2017

Table 6 shows that 43% of respondents agreed that .most MFIs do not have functional internal audit while 39% and 27% disagreed that . Most MFIs do not have functional internal audit

Table 7 Fraudulent employees take advantage of loophole in internal control system

RESPONSE	NO	%
AGREED	68	34
STRONGLY AGREED	78	39
UNDICIDED	-	-
STRONGLY DISAGREED	-	-
DISAGREED	54	27
TOTAL	200	100

Source: field survey 2017

Table 7 shows that 34% and 39% of respondents agreed and strongly fraudulent employees take advantage of loophole in internal control system while 27% of the disagreed with the statement

Table 8: Partiality displayed by management when in handling fraudulent activities of employees related to core board members encourages other employees to commit fraud.

RESPONSE	NO	%
AGREED	32	16
STRONGLY AGREED	100	50
UNDICIDED		
STRONGLY DISAGREED	40	20
DISAGREED	28	14
TOTAL	200	100

Source: field survey 2014

Table 8 shows that that 16% and 50% of respondents agreed and strongly agreed Partiality displayed by management when in handling fraudulent activities of employees related to core board members encourages other employees to commit fraud while 20% and 14% strongly disagreed that Partiality displayed by management when in handling fraudulent activities of employees related to core board members encourages other employees to commit fraud.

Table 9. Weak management supervisory role in the banks daily operations is major cause of fraud in MFIs.

RESPONSE	NO	%
AGREED	130	65
STRONGLY AGREED	20	10
UNDICIDED		
STRONGLY DISAGREED	40	20
DISAGREED	10	5
TOTAL	200	100

Source: field survey 2014

Table 9 shows that 65% and%10 of respondents agreed and strongly agreed that weak management supervisory role in MFIs daily operations is major cause of fraud in MFIs while 20% and 5%% strongly disagreed and disagreed to the statement

DATA ANALYSIS

Table10. Analysis of variance result (ANOVA)

Group	Sum	p-value	F-critical	F
Town	20	0.001	4.2	7.1
Rural	80			

Source: Researcher's computation

The analysis of variance reveals that 20% of the entire frauds committed in MFIs were in branches located in rural areas while 80% are committed by branches situated in the town. The P-value at 0.05 level of significant stood at 0.001 while F-value s is 6.5 .Since F- value of 7.1 is greater than F-cri of 4.2 it implies that reported cases of frauds are more pronounced in branches in the city than those in rural area.

Table 11. ANOVA result

Group	Sum	p-value	F	f-cri
Sacred cow	70	0.00	10	18.8
Others	30			

Source: Researcher's computation

The ANOVA result reveals that p-value has a value of o.o8 while the value of F is 10 at 0.05 level of significance. We rejected null hypothesis which state employees affiliated to management commit lesser fraud.

Table 12. Correlation analysis

	FD	*RTM*	*FPI*	*EB*
FD	1			
RTM	0.744254	1		
FPI	-0.15396	-0.20339	1	
EB	0.70824	0.022801	-0.03224	1

Source: Researcher's computation

Where:
FD = Reported fraud cases
RTM=Related to management
FPI= Fraud policies implemented to curb
EB= Employee behavoiur

.The correlation results show that FD is positively correlated with RTM. This implies high number of connected with management increases as the number of reported fraud cases. FPI is negatively correlated with FD. This implies that failure to implement anti- fraud policies make number of reported fraud cases to increase. Finally the result shows that employees' extravagant behavior is positively correlated with FD.

CONCLUSION AND RECOMMENDATIONS

The objective of this study is to find out the factors responsible for fraud in MFIs in Nigeria. Survey and experimental design were adopted. The results show that lack of updated and formidable internal control and internal audit system is responsible for the high rates of fraud occurrences in MFIs in Nigeria. The result also shows that higher number of frauds are committed by employee that are comrade to management or blood relations (that is, family friends, brother or in-laws) or core members of management term. Information gather from field revealed that this set of persons are treated like "sacred cow " hence monitoring staff are sometimes afraid to monitor them closely.

The results further show that management's lack of political will to implement anti-fraud related policies like not allowing husband and wife to work in the same MFIs, removing the seals on sacred cow and two years redeployment policy. Information gathered from the field reveal that redeployment is done based on sentiment. In addition, the results show that extravagant life style is one major factor that makes employees to commit fraud. When an employee lives beyond his means it is likely that employee perpetrate fraud if the opportunity is available.

The results finally show that fraud is more pronounced in bank branches in the city than those situated in rural areas. Internal auditor and other monitoring personnel concentrate more on branches in rural area because of the daily night allowance payable to staff working outside their domain.

The study recommended that immunity given to sacred cow should be removed. Management should implement anti-fraud policies without fear or favour. The study also recommended that blood relations should not be allowed to work in the same microfinance institution. Finally the study recommended that monitoring staff should watch the spending habits of their subordinates and intensify efforts to monitor branches in the city. .

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