

Khanna, Ashu; Arora, Bindu

Article

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A study to investigate the reasons for bank frauds and the implementation of preventive security controls in Indian banking industry

Ashu Khanna

Department of Management Studies, Graphic Era University,

566/6, Bell Road, Clemet Town, Dehradun, India

Tel: 00919756972391

Email: ashurahul12@rediff.com

Bindu Arora

Department of Management studies, Kanya Gurukul Mahavidyalaya

2nd Campus, Gurukul Kangri University, 47, Sewak Ashram Road, Dehradun, India

Tel: 00919412173247

Email: binduarora17@rediff.con

Abstract

This paper examines the issue of frauds from the perspective of banking industry. The study seeks to evaluate the various causes that are responsible for banks frauds. It aims to examine the extent to which bank employees follow the various fraud prevention measures including the ones prescribed by Reserve Bank of India. It aims to give an insight on the perception of bank employees towards preventive mechanism and their awareness towards various frauds. The study signifies the importance of training in prevention of bank frauds. A strong system of internal control and good employment practices prevent frauds and mitigate losses. The research reveals that implementation of various internal control mechanisms are not up to the mark. The results indicate that lack of training, overburdened staff, competition, low compliance level (the degree to which procedures and prudential practices framed by Reserve bank of India to prevent frauds are followed) are the main reasons for bank frauds. The banks should take the rising graph of bank frauds seriously and need to ensure that there is no laxity in internal control mechanism.

Keywords: bank frauds, preventive measures, internal control, compliance, and security controls

1 INTRODUCTION

Banks these days are being duped of crores of Rupees, thus destabilizing investor's confidence. The year 2005 witnessed the wiping of Rs. 1134.4 crores from the banking industry in India due to bank frauds, which was about 2.5 times the amount lost in the previous year. Banks are dealing with public's money and hence it is imperative that employees should exercise due care and diligence in handling the transactions in banks. Recent rise in bank frauds calls for tightening of security mechanism. A strong system of internal control is the most effective way of fraud prevention. The banks should increase their efforts to raise the level of security awareness in their organizations to combat frauds.

2 RESEARCH OBJECTIVES

The study seeks to evaluate the extent of implementation of internal control mechanism. It aims to identify the procedural lapses and various other causes responsible for bank frauds. The study seeks to know the perception of bank employees towards bank frauds and their compliance towards implementation of preventive mechanism. It also evaluates the factors that influence the degree of compliance.

3 SURVEY OF LITERATURE

According to Albrecht (1996), the symptoms of poor internal controls increase the likelihood of frauds. *Internal control symptoms* include a poor control environment, lack of segregation of duties, lack of physical safeguards, lack of independent checks, lack of proper authorizations, lack of proper documents and records, the overriding of existing controls, and an inadequate accounting system.

Bologna (1994) cites the environmental factors that enhance the probability of embezzlement, they are: inadequate rewards; inadequate internal controls; no separation of duties or audit trails; ambiguity in job roles, duties, responsibilities, and areas of accountability; failure to counsel and take administrative action when performance levels or personal behaviour fall below acceptable levels; inadequate operational review; lack of timely or periodic review, inspections, and follow-up to assure compliance with company goals, priorities, policies, procedures, and governmental regulations and failure to monitor and enforce policies on honesty and loyalty.

Beirstaker, Brody, Pacini (2005) proposed numerous fraud protection and detection techniques. These various techniques include fraud policies, telephone hotlines, employee reference checks, fraud vulnerability reviews, vendor contract reviews and sanctions, analytical reviews (financial ratio analysis), password protection, firewalls, digital analysis and other forms of software technology, and discovery sampling.

Calderon and Green (1994) made an analysis of 114 actual cases of corporate fraud published in the *Internal Auditor* between 1986 and November 1990. They found that limited separation of duties, false documentation, and inadequate or nonexistent control account for 60 percent of the fraud cases. Moreover, the study found that professional and managerial employees were involved in 45 percent of the cases. Based on the findings, they recommended the following:

- To deter fraud, internal auditors should ensure that strong prevention systems based on the fundamental principles of good internal control be established and used.
- To detect and investigate fraud, organizations must ensure the existence of strong internal audit departments with sufficient resources to pursue the increased responsibilities faced by internal auditors.

Barnes (1995) has pointed out that the quality training to bankers helps not only in developing job related skill but also maximizes the performance potential of bankers and provides them the sound knowledge and understanding of banking practices and principles. Imparting training is of paramount importance in this regard.

To Commercial Angels' Newsletter (2001), the best way of preventing fraud was to understand why it happened. Fraudster generally identifies loopholes in control procedures and then assess whether their potential rewards will outweigh the penalties should they be caught. A regular control is most effective for prevention of frauds and normally requires little management time or effort. Prevention of frauds starts with identification of weakness in current systems of the organization. Next the organization must improve those systems with new or better controls. The introduction and enforcement of controls will reduce the opportunities for frauds. The control warns potential fraudster that the management is actively monitoring the business and in turns deters frauds. Education, training and awareness programmes are informal intervention measures that should be implemented to prevent frauds.

Ganesh and Raghurama (2008), believe that training improves the capabilities of employees by enhancing their skills, knowledge and commitment towards their work. In the survey conducted by them, about 80 executives from Corporation Bank and Karnataka Bank Ltd of India, were requested to rate their subordinates in terms of development of their skills before and after they underwent certain commonly delivered training programs. Responses revealed that for the seventeen skills identified there was improvement in the skills statistically. The paired t-test was applied individually for the seventeen skills, and all these skills have shown statistical significance. The seventeen skills include analytical skill, human resource skill, marketing skill, communication skill, accounting skill, credit appraisal skill, cash management skill, time management skill, inter-branch reconciliation skill, conceptual skill, information technology related skill, technical skill, role identification skill, problem solving skill, behavioural skill, risk management skill and customer service skill.

Haugen and Selin (1999) discussed the value of internal controls. Internal control system has four broad objectives: to safeguard assets of the firm, to ensure the accuracy and reliability of accounting records and information, to promote efficiency in firm's operations and to measure compliance with management prescribed policies and procedures. The effectiveness of internal controls depends largely on management's integrity. There are many other reasons for employee fraud, the more common being revenge, overwhelming personal debt, and substance abuse. Business today is very competitive, and employees often stressed. As a result, they have a feeling of being overworked, underpaid, and unappreciated. If employees are also struggling with serious personal problems, their motivation to commit fraud is very high. Adding to the situation of poor internal controls, the readily available computer technology also assists in the crime, and the opportunity to commit fraud becomes a reality.

Harris and William (2004) examined the reasons for loan frauds in banks and emphasised on due diligence program. This is a proactive approach, with each business line within the institution establishing policies and procedures for conducting due diligence investigations for both new and existing customers. They indicated that lack of an effective internal audit staff at the company, frequent turnover of management or directors, appointment of unqualified persons in key audit or finance posts, customer's reluctance to provide requested information or financial statements and fictitious or conflicting data provided by the customers are the main reasons for loan frauds. Fraud thrives when conditions are right. A "fraud-friendly environment" is characterized by lax corporate culture on the enforcement of internal controls; deficient and/or absence of requisite risk controls, staff apathy and overconfidence.

Jeffords (1992) examined 910 cases submitted to the Internal Auditor during the nine-year period from 1981-1989 to assess the specific risk factors cited in the Treadway Commission Report. Approximately 63 percent of the 910 cases are classified under the internal control risks that include: lack of regular independent checks in performance, inadequate organizational control methods, inadequate methods of communicating or enforcing the assignment of authority and responsibility; and unauthorized access and physical control of assets, records, computer programs, or data.

Bhasin (2007) examined the reasons for cheques frauds, the magnitude of frauds in Indian banks, and the manner, in which the expertise of internal auditors can be integrated, in order to detect and prevent frauds in banks. He emphasized that though the head of the branch holds the responsibility for ensuring adherence to prescribed systems and procedures, the bank's internal auditors also occupy a special position in the detection and prevention of frauds. In addition to considering the common types of fraud 'signals', auditors can take several 'proactive' steps to combat frauds. Checking frauds requires training, account screening, signature verification and information sharing with regulators and local authorities. One important challenge for banks, therefore, is the examination of new technology applications for control and security issues.

Sharma and Brahma (2000) have emphasized on Banker's responsibility on frauds. They indicated that bank frauds could crop up in all spheres of bank's dealing, like cheque frauds, deposit account frauds, purchase bill fraud, hypothecation fraud, loan fraud, frauds in foreign exchange transactions and inter-branch account. Major cause for perpetration of fraud is laxity in observance in laid down system and procedures by supervising staff. Unscrupulous constituents commit frauds by taking advantage of the laxity on the part of the officials in observance of time-tested safeguards established by Reserve Bank of India (RBI). The RBI has set up an investigation cell in its central office. An investigator of high and vast experience mans it. The bank team goes deep into the root cause of bank frauds and suggests exhaustive preventive measures. The RBI carries out detailed studies and researches in the commission of bank frauds and recommends innovations to prevent frauds. The authors have further suggested that the need of the hour is not another piece of complex high-powered body of RBI, but analysis and concerted application of controls by bank management and their operational staff.

Smith (1995) offered a typology of individuals who embezzle. He indicated that embezzlers are "opportunistic type", who quickly detects the lack of weakness in internal control and seizes the opportunity to use the deficiency to his benefit. To deter embezzlement he recommended the following measures:-

- Institute strong internal control policies, which reduce the opportunity of crime.
- Conduct an aggressive and thorough background check prior to employment.

Willson (2006) examined the causes that led to the breakdown of Barring bank, in his case study: “the collapse of Barring Banks”. The collapse resulted due to the failures in management, financial and operational controls of Baring Banks. The failures that were evident include the following areas:-

- Failure in management supervision
- Lack of segregation between front and back offices of Baring Futures, Singapore.
- Insufficient actions taken by Barring’s management in response to warning signals.
- No risk management or compliance function in Singapore
- Weak financial and operational control over the activities and funding of Baring Futures Singapore at group level.

Ziegenfuss (1996) performed a study to determine the amount and type of fraud occurring in state and local government. The study revealed that the most frequently occurring types of fraud are misappropriation of assets, theft, false representation; and false invoice. The reasons for the increased fraud in state and local governments are poor management practice; economic pressure; weakened society values; people being not held responsible for their actions; and inadequate training for those responsible for fraud prevention/detection. The most often reported “red flags” are weaknesses in internal control; ignoring audit reports; inventory losses; non reliance on internal/external audit reports; not paying attention to employee comments; and actual expenses exceed those budgeted.

4 RESEARCH METHODOLOGY

A survey was administered to 253 bank employees of the area under study, which comprised of some important districts of Uttarakhand state of India and adjoining areas. Closed ended questionnaire was used to know the opinion of bank employees. The questionnaire comprised of questions that purported to know about their training status, attitude towards procedures prescribed by RBI, awareness level towards frauds and their compliance level under six heads (Deposit Account, Loans and Advances, Administration of Passbook and Cheque book, Drafts section, Internal and Inter branch accounts, and Credit Card section). The questions were developed on the basis of RBI’s guidelines and instructions for prevention of bank frauds, Mitra committee report, books, journals, circulars and manuals of the banks. This questionnaire was initially given to 20 officials of various banks for pilot testing. It was also shown to the experts in banking field and experts in research methodology. After discussion with the experts and on seeing the respondent’s responses, it was felt that three different sets of questionnaire were needed to be prepared for three different authority level, as the authority and responsibility is different for managers, officers and clerks.

The selection of the respondents was done through multistage random cluster sampling. First step included selection of banks. There were 36 banks in the area under study. From the list of 36 banks 17 banks were selected randomly. Each bank had several branches in the area under study. Second step involved the selection of branches. The branches were also selected randomly and the selection of branches in different areas was done proportionately. Every employee of the selected branch was given the questionnaire by personally visiting them in bank. Out of all the employees who were given the questionnaire only 253 employees responded, they comprised of 46 managers, 110 officers and 97 clerks.

Since sample distribution is skewed, non-parametric tests were used. Mann Whitney test was used to determine whether the two independent samples (categories or groups mentioned) have been drawn from the same population and Chi square test was used to explain whether or not two attributes are associated with each other. The sample was divided into groups on the basis of the following parameters:-

Table 1: Division of respondents into categories for various parameters

| Parameter | Category / Group | | |
|---|------------------|-----------|--------------|
| | High | Medium | Low |
| Compliance Score of bank employees | High | Medium | Low |
| Attitude of bank employees towards Procedures Prescribed by RBI | Favourable | Moderate | Unfavourable |
| Training status | Trained | Untrained | |
| Awareness level of bank employees | High | Medium | Low |
| Hierarchical level | Managers | Officers | Clerks |

5 RESEARCH HYPOTHESES

RBI has developed many important guidelines for prevention of bank frauds. The security controls prescribed by RBI if followed with 100 percent adherence can greatly prevent frauds. The level of compliance of these security controls were measured under six heads: internal checks, deposit accounts, administration of cheque books and passbooks, loans and advances, drafts, internal accounts and inter branch accounts. Some important questions were asked on the compliance of RBI's procedures under the above said heads and their responses were evaluated.

In the current research the following research hypotheses were also investigated:

H1: There will be no significant difference in the compliance level of employees of various banks

H2: There will be no significant relationship between training status of employees and their level of compliance

H3: There will be no significant relationship between attitude towards RBI procedure of the employees and their compliance level

H4: There will be no significant difference in compliance level between two categories of employees at two different hierarchal levels

H5: There will be no significant difference in the attitude towards RBI procedure of employees of various banks

H6: There will be no significant relationship between training status of employees and their awareness level toward type of bank frauds

H7: There will be no significant difference in the awareness level of various banks

H8: There will be no significant difference in awareness level among three categories of employees at three different hierarchal levels

6 DISCUSSIONS, FINDINGS AND ANALYSIS

The results indicate that the security control measures prescribed by RBI are not fully complied with. The security controls prescribed by RBI if followed with 100 percent adherence can greatly prevent frauds. The level of compliance of these security controls was measured under six heads, they were, internal checks, deposit accounts, administration of cheque books and passbooks, loans and advances, drafts, internal accounts and inter branch accounts. Following is the chart of average compliance score of managers under various heads. (See Appendix II for questions and Tables on frequency distributions of the responses of respondents.)

Table 2: Average compliance scores in percentage of various heads of managers.

| | Internal checks | Loans and Advances | Deposit account | Administration in cheque book and pass book | Draft section | Internal and inter-branch account |
|------------------|-----------------|--------------------|-----------------|---|---------------|-----------------------------------|
| Compliance Score | 93% | 89% | 82% | 72% | 84% | 83% |

The results show that compliance level is lowest in administration of chequebook and passbook. The bank employees do not seem to exercise due diligence in administration of passbooks and chequebooks. The highest compliance is in internal checks; this shows that the managers are vigilant in this regard. The managers give second highest importance to loans and advances while officers give equal importance to loan and advances and deposit account. But one thing is evident that there is no 100 percent compliance in any of the heads. A little deviation in the properly defined system and procedures can cause tremendous loss to the bank.

Table 3: Average compliance scores in percentage of various heads of officers

| | Loans and Advances | Deposit account | Administration in cheque book and pass book | Draft section | Internal and inter-branch account |
|------------------|--------------------|-----------------|---|---------------|-----------------------------------|
| Compliance Score | 70% | 76% | 70% | 78% | 83% |

The compliance level of officers is highest in internal and inter branch account, followed by loans and advances, draft section, deposit account and is lowest in administration of cheque book and passbooks.

There is a significant difference in compliance level of employees of various banks (result of hypothesis testing given in Table 7). This can be due to their difference in organization culture, training status and attitude towards RBI procedure.

Moreover there is a significant relationship between the level of compliance and attitude towards RBI's procedure (result of hypothesis testing, given in Table 7). Thus a favourable attitude towards RBI's procedure leads to a high degree of compliance level. The procedures and instructions prescribed by RBI if fully complied with can greatly reduce the incidences of frauds. But the study revealed that very low percent age of respondents dispose highly favourable attitude towards the procedures laid down by RBI (Refer to Table 4). Here the attitude toward RBI 's procedures is not measured in terms of perception of bank employees regarding the effectiveness of procedures but it is measured in terms of difficulty faced by employees in following the procedures fully. The difficulty can be attributed to the fact that the RBI's procedures are too long and it is not practically possible to fully comply with the procedure to carry out day to day working of bank. A relatively high proportion of respondent (almost 67%) believe that they do not have sufficient staff to carry out the work meticulously. The respondents also feel that they are overburdened and hence are not able to follow procedures strictly. Since the attitude is based on the perception of bank employees towards adequacy of staff, it can be inferred that if there is adequate staff the compliance will be more.

Table 4: Frequency distribution of the responses of bank employees on the basis of their attitude towards RBI procedures

| Attitude towards RBI procedure | Favourable | Moderate | Unfavourable | Total |
|---------------------------------------|-------------------|-----------------|---------------------|--------------|
| Total Number of employees | 77 | 93 | 83 | 253 |

There is a significant difference in the attitude towards RBI procedures among the employees of various banks (result of hypothesis testing given in Table 7); this can be due to difference in organization culture, communication process and training status of employees of different banks. There is a significant difference in the level of compliance of trained and untrained employees (result of hypothesis testing given in Table 7). Training also helps in improving the attitude towards RBI procedures. The employees are told about various RBI procedure but they are not informed about their relevance, importance and the consequences if not followed properly. Through training this information is disseminated and they feel the need to comply with them despite of work overload. The findings also show that the managers are more trained than officers and clerks. 47.83% managers are trained while only 22.73% officers and 4.43% clerks are trained in this regard. The compliance level of the managers is higher than that of officers (result of hypothesis testing given in Table 7). This can be due to the fact that managers are more trained and their attitude towards RBI's procedures is more favourable than that of officers and clerks. Moreover their awareness level is high and they have increased level of responsibility.

Table 5: Percentage distribution of managers and officers according to their of level of compliance percentage form

| Position | High | Medium | Low |
|-----------------|-------------|---------------|------------|
| Manager | 50 | 47.83 | 2.17 |
| Officer | 22.72 | 51.83 | 25.45 |

The research revealed that bank employees are not taking the problem of frauds very seriously and hence are not even aware of the approximate amount lost due to frauds. No one could give an approximate answer to the question that asked about the amount lost in frauds in the preceding year. It is disappointing to know that awareness level of employees about various types of frauds that perpetrate in the banks is very low. From the result of hypothesis testing it is clear that training does have an impact on the awareness level of employees) result of hypothesis testing given in Table 7). The awareness level is very low in the clerks and officers only 4.12% of clerks and 5.45% of officers belong to high category of awareness level. Managers did fare a little better; around 15.22% of managers belong to high category of awareness level. As evident from the following Table 62.89% of clerks 49.09% of officers and 47.83% of managers belong to low category of awareness level.

Table 6: Frequency distribution of the responses of managers, officers and clerks on the basis of their awareness level

| Awareness Category | High | | Medium | | Low | | Total |
|--------------------|-----------|------------|-----------|------------|-----------|------------|-----------|
| Position | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage | Frequency |
| Managers | 7 | 15.22 | 17 | 36.96 | 22 | 47.83 | 46 |
| Officers | 6 | 5.45 | 50 | 45.45 | 54 | 49.09 | 110 |
| Clerks | 4 | 4.12 | 32 | 32.99 | 61 | 62.89 | 97 |
| Total | 17 | 6.72 | 99 | 39.13 | 137 | 54.15 | 253 |

This shows a proper system is not developed to abreast the bank employees of various frauds that perpetrate in banks every now and then, or the reason could be that the circulars that are circulated among various banks by either their respective head office or the RBI, containing information about the modus operandi of frauds committed remain at the desk of manager. The manager neither communicate the information to his staff members, nor does he himself give due attention to it. The result of hypothesis testing revealed that there was a significant difference in the awareness level among the three categories of employees at three different hierarchal levels. It can be attributed to the fact that managers get more opportunity to read news / circulars circulated from the head office and RBI to them, since circulars go directly to them first. There was a significant difference among the awareness level of employees of various banks. This may be due to the reason that organization culture; training status and communication process differ for different banks (result of hypothesis testing given in Table 7).

Figure 1: Hypothesized Bank Fraud Reduction Model

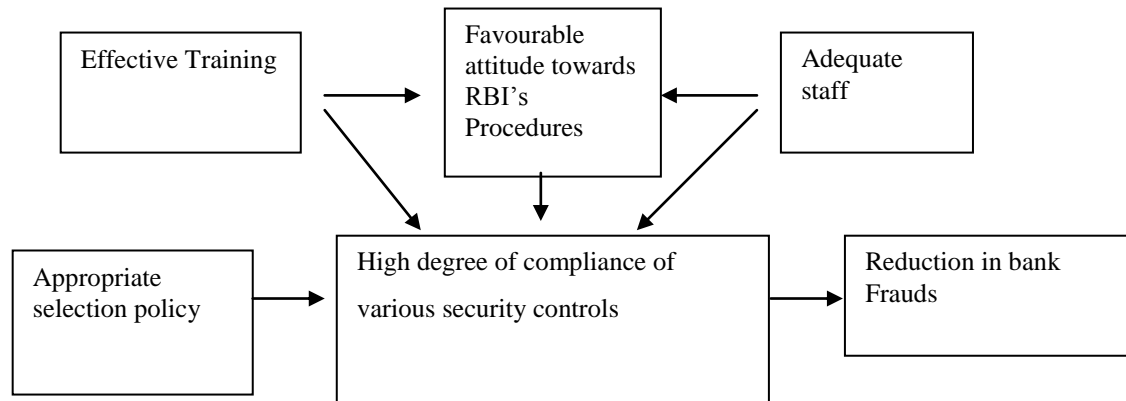


Table 7: Hypotheses Testing

| S.NO | Null- Hypotheses | Test Statistics | Calculated Value | Accept / Reject |
|------|--|-------------------|--------------------|-----------------|
| 1 | There will be no significant difference in the compliance level of employees of various bank | Chi square test | 39.791 (16 dof) | Rejected |
| 2 | There will be no significant difference in the attitude towards RBI procedure of employees of various bank | Chi square test | 64.205 (16 dof) | Rejected |
| 3 | There will be no significant difference in the awareness level of various banks | Chi square test | 32.215 (16 dof) | Rejected |
| 4 | There will be no significant relationship between training status of employees and their level of compliance | Chi square test | 15.685 (4 dof) | Rejected |
| 5 | There will be no significant relationship between attitude towards RBI procedure of the employees and their compliance level. | Chi square test | 10.505 (4 dof) | Rejected |
| 6 | There will be no significant relationship between training status of employees and their awareness level toward type of bank frauds. | Chi square test | 13.864 (4 dof) | Rejected |
| 7 | There will be no significant difference in compliance level between two categories of employees at two different hierarchal levels. | Mann Whitney test | Z= 4.125 | Rejected |
| 8 | There will be no significant difference in awareness level among three categories of employees at three different hierarchal levels. | Chi square test | 10.520 (4 dof) | Rejected |

*Critical value of chi-square at 5% level of significance at 4 degree of freedom is 9.49

*Critical value of chi-square at 5% level of significance at 16 degree of freedom is 26.3

*Critical value of chi-square at 5% level of significance is 1.96

Main Causes That Lead to the Perpetration of Frauds

There is lack of properly trained and experienced person. There is a sudden and tremendous increase in banking business. The sudden expansive explosion has created a vacuum of personnel. New recruits often do not have adequate training or experience before they are put in responsible positions. The findings reveal that 68.77% of respondents have not undergone any formal training in prevention of bank frauds

Moreover bank staff feels overburdened. The life has become too fast. The banker does not have enough time to scrutinize documents thoroughly. About two thirds of the respondents (approximately 68%) feel that they do not have sufficient staff to carry out the work meticulously. The overburdened staff was given the highest weight age as the reason responsible for bank frauds. The weight age given was 5.63. A banker may pass about 300 cheques a day (finding through questionnaire) in about three and a half hour. He scrutinizes the cheque, the signature and money for each cheque in 40 seconds.

Table 8: Weighted average given by bank employees to the various reasons for perpetration of fraud on ten point scale

| Position | Lack Of Training | Corrupt Officer In Charge | Overburdened Staff | Competition |
|----------|------------------|---------------------------|--------------------|-------------|
| Managers | 5.96 | 3.7 | 5.09 | 4.61 |
| Officers | 5.35 | 4.48 | 5.46 | 4.78 |
| Clerks | 5.63 | 4.4 | 6.08 | 4.59 |

From the above Table we can see the comparative weight age given by managers, officers and clerks to the reasons responsible for bank frauds. Managers gave more weight-age to lack of training followed by overburdened staff, where as officers and clerks felt that overburdened staff is the main reason responsible for bank frauds followed by lack of training.

Table 9: Over all Weight-age given to the reasons responsible for bank frauds

| Lack of Training | Corrupt Office in Charge | Overburdened Staff | Competition |
|------------------|--------------------------|--------------------|-------------|
| 5.57 | 4.31 | 5.63 | 4.68 |

Among reasons responsible of bank frauds overburdened staff has taken the highest score followed by lack of training, competition and corrupt officer in charge.

Dilution of system and non-adherence to procedures is also a significant reason for bank frauds. In tune with the economic liberalization and reforms in the financial sectors, new private sector banks have entered the field in a big way creating competition in the market. In the garb of existing quality customer service to meet competition, time honoured system and procedures have been diluted. The employees have given 4.68 weight-ages to the factor of competition that compels the officer in charge to compromise with the procedure. Sometimes many decisions are made at the bank level. It appears that misconception has developed in the minds of many staff/ officers that in the course of development of business and in providing good customer services procedures can be diluted. The unscrupulous elements both within and outside watch such dilution taking place in the branches and cleverly perpetrate fraud.

Indifference and knowledge gap are two basic factors responsible for such non-compliance. Indifference develops a lack of team spirit and motivation among employees and leads to casual attitude towards their responsibilities. They do not evince any interest in knowledge and skill required and do not update the various instructions periodically given by controllers, thus atmospheres turns out to be breeding ground for frauds. The following are few illustrations.

There is improper checking of ledger / registered and subsidiary book daybooks, general ledger. Passbooks are not updated promptly statements of accounts are not furnished to customers promptly. Out of the total respondents who were asked whether the passbooks are updated promptly, more than half of the respondents (approximately 58%) said that there is delay in updating them always or often. Books and accounts are not balanced at periodic intervals and large arrears are kept pending in balancing of books. Slightly more than half of the respondents (approximately 53.21%) say that inward and outward clearing is standing in their books. The balance appearing, in passbooks are not verified with the balances in files respective ledger accounts periodically or even on random basis.

There is unauthorized delegation at branches. The custody of security forms such as bank draft forms; deposit receipt and chequebooks are handed to counter staff without obtaining acknowledgements from the latter. Around 21.7% of respondents do not take acknowledgement from the counter staff while handing term deposit receipts and chequebooks to counter staff always. There is improper custody of outward instruments bills, security documents of loans and advances. Staff / officers pass vouchers for in excess of their delegated power. This can be explained through following fraud cases that have perpetrated in banks. (Refer to Case1 and Case2 in Appendix I)

Allowing unauthorized access to member of the public / outsiders to the cash department, cash cabins, bank records, ledgers and forms has been a factor in perpetration of frauds especially in institutional accounts.

Main cause of frauds in Deposit Accounts is because the best policy "know your customer" is not followed properly. Current accounts are opened without proper introduction. Some questions were asked regarding the formalities that should be followed when a new account is opened during introduction. The findings showed that proper guidelines were not followed. Only 45.7% managers scrutiny withdrawal of large sum in general account always, while in case of new account the percentage of managers who implement this practice is 69.6%. The compliance percent age of managers is 82% and that of officers is 76% in deposit account. The banking business is becoming impersonal, often the banker does not know the customer, he knows him only through his signature. But even signatures are not given due importance. The customer should be encouraged to have long legible signature and the specimen signature of the customer should be taken after every 5 years, as the signature of individuals change overtime. Around 46% of employees never encourage clients to have long legible signature and 40% of managers and officers surveyed never take specimen signature after every five years. Adequate training is not given to compare the signature of the client. Only 43.59% of the employees surveyed confirmed that they transfer the deposit account that has been inoperative for last two years to unclaimed account. (Refer to Appendix II)

Gross negligence can be seen in administration of chequebook and passbook. It is seen that the prompt processing of passbooks is not done and they are kept lying unattended in many cases. Only 16.03% of respondents stated that prompt processing is done in their branch and passbooks do not lie unattended. Sometimes written request of the customer is not taken to whom loose cheques are issued; it is not always ensured that the delivery and issuance of chequebooks are given to the account holder only. Sometimes the specimen signature card is also not duly locked overnight. Signatures of dormant account are not always kept separate from running account. Only two thirds of the respondents keep specimen signature of dormant account separate from running account. (Refer to Appendix II)

Frauds are quiet common in internal accounts and inter branch account. This situation has accrued because of low priority given by the branches to it. Around 24% of managers do not check their suspense account daily. 25% of bank employees state that specimen signature of dormant account are kept unattended. Similar bad situation in inter-branch account has accrued because of low priority given by the branches among other presuming responsibilities, to the work of reconciliation. Though the work demands substantial time to call out

old books / registers the fact remain that this is an important ongoing work that requires prompt attention at all times. 48.07% of respondents say that it may even take more than 15 days in attending reconciliation. (Refer to Appendix II).

Main causes of fraud in Loans and advances

Non-submission of control returns to controlling authorities in respect of loans sanctioned / purchase of bill/ excess drawing permitted etc by the branches. Submission of stock statements at periodical intervals, as provided in the banks manual is not insisted upon. This should be done always. 63.46% of respondents take stock statement always while 36.54% do it often or occasionally. The physical inspection of the quantity and quality of goods is not conducted by a surprise check to examine and verify the goods. Inspection of hypothecated stocks conducted by the branch officials is tardy and indifferent. Only 51.92% of respondents always inspect the quantity and quality of goods pledged periodically. The banks prescribed rules and procedures are not strictly followed in the matter of control of security represented by hypothecation charges. Security documents are often found seriously short and the unscrupulous borrower takes full advantage of it. The bank does not ensure that its name boards are prominently displayed at the place where the hypothecated goods are stored. Hypothecated stocks are not adequately insured against proper risk. It should be always ensured by the officer in charge that there is proper the security and suitability of the goods pledged through periodic inspection. But only 48.72% respondents do inspect always while rest deviate from such practice more or less. It is not ensured that the borrower is dealing exclusively with the lending bank. No such undertaking is obtained nor is such exclusive dealing ensured subsequently from time to time. Only 48.72% of the respondents always ensure that the borrower is dealing exclusively with the lending bank. (Refer to Appendix II).

No serious attempt is initially made to verify the character and antecedents of the borrower, in particular the individual borrower. The end use of funds withdrawn is not verified. Prescribed margins are not kept while calculating the drawings power. Undue haste is shown in cases of take over of borrower accounts from other banks. (Refer to Case 3 and Case 4 in Appendix I)

The bank does not obtain periodical statements of party wise, age wise, outstanding debts and continues to allow drawing power on the basis of all entries. But only 42.31% take periodic statement of party wise and age wise outstanding debt always. (Refer to Appendix II)

Spurious letter of credit apparently opened by the other banks, are tendered to the branches concerned with bills of discounting under them. The branches do not follow elementary precautions of having signatures appearing in the letter of credit verified by the official of branch. (Refer to Case 5 in Appendix I)

Discussion on frauds cannot be complete without analysis of human behaviour. An employee in an organization is like a fish in an ocean. Nobody can determine when and how much water a fish has consumed. Likewise a corrupt and dishonest person in an organization can commit frauds with impunity. Bank management in India has its own recruitment boards. The usual modus operandi of the boards is to give a general ability test, hold an interview and the selection is complete after medical examination. Psychiatric and Psychological evaluation for banking services is not being done at all in India. The respondents have given 4.31-weight age to corrupt officer in charge as a reason responsible for bank frauds. The total number of bank employees against whom the action has been taken for their involvement in cases of bank fraud during 2002, 2003 and 2004 were 5459, 5237 and 4311 respectively.

7 CONCLUSION

The bank employees do not give due importance to the problem of frauds. The awareness level of bank employees regarding bank frauds is not very satisfactory, and majority of them do not dispose favourable attitude towards RBI procedures as they find difficulty in following them due to workload and pressure of competition. Moreover employees are not well trained to prevent bank frauds. Training positively affects the compliance level of employees and improves the attitude towards RBI's procedure.

Managerial Implications

In order to solve the problem of frauds it becomes imperative to train staff in prevention of bank frauds. It is also important to provide adequate staff so that guidelines and instructions lay down by the RBI can be followed strictly. The communication process between the manager and staff should be improved so that proper information about frauds is disseminated. The attitude towards RBI procedures should be improved through proper communication. The bank employee should be educated as to why a particular procedure is followed and what can be the implication if it is not adhered to strictly. A policy of compulsory leave in a month should be introduced so as to unveil the unscrupulous deeds performed by corrupt officer in charge. The personal life style of the employee should also be checked from time to time in order to see any discrepancy between his income and expenses. Signature is always vulnerable to forgery and thumb impression should be introduced along with signature.

In relation to banking industry, there is need for greater sharing of information between financial institution on trends and practices of fraudster and fraud topologies, specially those frauds that are committed in computerized environment.

Future Research Avenues

Future studies can focus on the evaluation of effectiveness of training programs, procedures and measures in preventing frauds in computerized environment and rapidly changing Information technology. Identification of various psychological characteristics of potential offenders and the use of those results in formulating better recruitment and selection policies can be a focus for future research.

APPENDIX I

Case 1

Date of Detection: 27/09/2003

Name of the Branch: Beckbagan, West Bengal

Amount involved in Rs: 20.03 crores

Brief facts of the case:

The Branch Manager sanctioned 127 Cash Credit Accounts beyond his delegated authority during 20.6.01 to 28.05.02. It was found that in 122 accounts with aggregate limit of Rs.17.92 crores, had common promoters / directors. These accounts were restructured into 17 accounts in view of same business / securities. Out of these 17 Accounts, 3 Accounts turned NPA on 30.09.2003 and 13 Accounts became NPA (Non performing asset) on 31.12.2003.

Source: Banking Division, Ministry of Finance, New Delhi

Case 2

This fraud perpetrated by an officer of the branch [who expired immediately after his suspension on following detection of the fraud and the possibility of suicide not led out] involved unauthorized operation in nominal accounts. The branch manager and all the rest of the officers of the Branch relied blindly on this particular official who was very jovial with his colleagues and active in his work. Here also the checking by superior mechanism, was compromised resulting in siphoning off huge funds by delinquent officer, who was allowed to operate nominal accounts by himself continuously for more than 3 years

Fictitious debit in nominal accounts were raised by him against whom the corresponding credit vouchers were released for DD (Demand Drafts) issued A/c on near by Branch in favour of his wife or daughter or for credit to his own HSS accounts through which money was pumped gradually.

These fictitious debits were ultimately parked in "foreign Drafts Paid" accounts which were not reconciled for years together, whereas the officers himself was certifying that the "FDD (Foreign Demand Drafts) paid Accounts was reconciled". Even two internal Auditors certified during the last two years that the FDD paid account of the Branch reconciled up to date.

Source: www.indianbankassociation.org

Case 3

Date of Detection: 05/03/2005

Name of the Branch: Dhuri Branch, State Bank of Patiala.

Amount involved in Rs: 8.75 crores

Brief facts of the case:

During the surprise visit to the Dhuri branch on 10/02/2005 it was observed that the branch had financed Agriculture business. Cash Credit limits to 3527 sugar cane growers under tie up arrangement with M/s Bagwanpura Sugar Mills, who stood as a guarantor. As per the tie up arrangement the antecedents of the borrowers were to be verified by the company. On random check cases of impersonation, diversification of bank funds by the company was observed. The controller conducted thereafter two detailed investigations. On complete investigation it was found that out of 3527 borrowers, only 1186 borrowers were resident of the villages and they were found to be agricultural laborers & not cane growers. In respect of remaining borrowers, large-scale impersonations had taken place at the time of execution of documents & a large number of borrowers were also not traceable.

Source: Banking Division, Ministry of Finance, New Delhi.

Case 4

Date of Detection: 03/02/2005

Name of the Branch: Gharyala, Punjab National Bank

Amount involved in Rs: 1.142 crores

Brief facts of the case:

Shri RX Tyagi the then Manager along with Shri Gurmeet Singh, the then clerk in collusion with a group of persons in the area misappropriated bank's funds by allowing accommodation loan in the shape of housing loans, on fabricated / fictitious revenue record, disbursed fictitious loans under small business / transport / dairy without creating any security as a conduit to siphon-off the funds. Current account (margin money) and saving accounts of near relatives and friends of Shri Gurmeet Singh were used.

Source: Banking Division, Ministry of Finance, New Delhi

Case 5

Two banks were duped of Rs 25 crore .The banks were the Pune based Janata Sahakari Bank and the Mumbai base Centurion Bank. They had discounted bills under letter of credit that were issued by good trustworthy nationalized banks. The fraudster produced some attractive looking LCs (letter of credit) and follows up by presenting bills of exchange drawn under them supported by faked evidence of trade transaction. The banks fell for bait and discounted the bill. Dealing in bills under LC, is generally considered to be safe because payment is guarantee by the LC issuing bank, so long as the bills are drawn according to the provision of LC. It was only when the matured bill was presented to for reimbursement by the negotiating bank to the bank that supposedly issued the LC that fraud was discovered. As the bank had not issued the LC at all, it had no recourse to the drawer, who was nonexistent.

APPENDIX II

Frequency and percentage distribution of responses of managers, officers and clerks on their responses to the questions purported to know their degree of compliance on various preventive security controls, their training status, attitude towards RBI procedure and their awareness level.

I. Table 1.1 to Table 1.3 reveals the degree of internal controls exercised by managers in their branches

Table 1.1: Q1. Do the managers involve more than two persons in any transaction?

| | Freq. | % |
|-------|--------------|----------|
| Yes | 46 | 100 |
| Total | 46 | 100 |

Table 1.2: Q2. Is the rotation of duties made every six months?

| | Freq | % |
|-------|-------------|----------|
| No | 11 | 23.9 |
| Yes | 35 | 76.1 |
| Total | 46 | 100 |

Table 1.3: Q3. Do the managers monitor the suspense account daily?

| | Freq. | % |
|--------------|--------------|----------|
| Never | 1 | 2.2 |
| Occasionally | 2 | 4.3 |
| Often | 8 | 17.4 |
| Always | 35 | 76.1 |
| Total | 46 | 100 |

II. Table 2.1 to Table 2.9 shows the compliance level of managers and officers in Deposit Account.

Table 2.1: Q1. Is there a separate ledger for employee account in their branch?

| | Freq. | % |
|-------|-------|------|
| No | 18 | 39.1 |
| Yes | 28 | 60.9 |
| Total | 46 | 100 |

Table 2.2: Q2. Is the turnover in staff account checked daily by the managers?

| | Freq. | % | Cumulative Percent |
|--------------|-------|------|--------------------|
| Never | 1 | 2.2 | 2.2 |
| Occasionally | 21 | 45.7 | 47.8 |
| Often | 6 | 13 | 60.9 |
| Always | 18 | 39.1 | 100 |
| Total | 46 | 100 | |

Table 2.3: Q3. Do the manager scrutiny the withdrawals of large sum in general?

| | Freq. | % | Cumulative Percent |
|--------------|-------|------|--------------------|
| Occasionally | 7 | 15.2 | 15.2 |
| Often | 18 | 39.1 | 54.3 |
| Always | 21 | 45.7 | 100 |
| Total | 46 | 100 | |

Table 2.4: Q4. Do the managers scrutinize the withdrawals of large sum of new account?

| | Freq. | % | Cumulative Percent |
|--------|-------|------|--------------------|
| Often | 14 | 30.4 | 30.4 |
| Always | 32 | 69.6 | 100 |
| Total | 46 | 100 | |

Table 2.5: Q5. Do the managers and officers insist that the introducer should sign an introduction in presence of accounts opening officers?

| | Always | | Often | | Occasionally | | Never | | Total |
|----------|--------|-------|-------|-------|--------------|-------|-------|------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 30 | 65.22 | 8 | 17.39 | 8 | 17.39 | | | 46 |
| Officers | 50 | 45.45 | 27 | 24.55 | 22 | 20 | 11 | 10 | 110 |
| Total | 80 | 51.28 | 35 | 22.44 | 30 | 19.23 | 11 | 7.05 | 156 |

Table 2.6: Q6. Do the managers and officers allow the introducer to sign an introduction without visiting bank?

| | Always | | Often | | Occasionally | | Never | | Total |
|----------|--------|------|-------|-------|--------------|-------|-------|-------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 2 | 4.35 | 4 | 8.7 | 29 | 63.04 | 11 | 23.91 | 46 |
| Officers | 9 | 8.18 | 27 | 24.55 | 41 | 37.27 | 33 | 30 | 110 |
| Total | 11 | 7.05 | 31 | 19.87 | 70 | 44.87 | 44 | 28.21 | 156 |

Table 2.7: Q7. Do the managers and officers send a letter of thanks to the introducer after introduction?

| | Always | | Often | | Occasionally | | Never | | Total |
|----------|--------|-------|-------|-------|--------------|-------|-------|-------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 21 | 45.65 | 5 | 10.87 | 17 | 36.96 | 3 | 6.52 | 46 |
| Officers | 65 | 59.09 | 16 | 14.55 | 12 | 10.91 | 17 | 15.45 | 110 |
| Total | 86 | 55.13 | 21 | 13.46 | 29 | 18.59 | 20 | 12.82 | 156 |

Table 2.8: Q8. Do the managers and officers have specified a gap between the time introducer opens his account and introduces other prospective account holder?

| | Yes | | No | | Total |
|----------|-------|-------|-------|-------|-------|
| Position | Freq. | % | Freq. | % | Freq. |
| Managers | 45 | 97.83 | 1 | 2.17 | 46 |
| Officers | 93 | 84.55 | 17 | 15.45 | 110 |
| Total | 138 | 88.46 | 18 | 11.54 | 156 |

Table 2.9 Do the managers and officers transfer the deposit account that has been in operative for last two years to unclaimed account?

| | Always | | Often | | Occasionally | | Never | | Total |
|----------|--------|-------|-------|-------|--------------|-------|-------|-------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 23 | 52.17 | 10 | 21.74 | 4 | 8.7 | 8 | 17.39 | 46 |
| Officers | 42 | 40 | 19 | 17.27 | 18 | 16.36 | 29 | 26.36 | 110 |
| Total | 68 | 43.59 | 29 | 18.59 | 22 | 14.1 | 37 | 23.72 | 156 |

III. Table 3.1 to Table 3.12 shows the compliance level of managers and officers in following the best practice code for administration of chequebooks and pass books

Table 3.1: Q1. Do the managers and officers take acknowledgement while handing term deposit receipt and chequebooks to counter staff?

| | Always | | Often | | Occasionally | | Never | | Total |
|----------|--------|-------|-------|-------|--------------|------|-------|------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 37 | 80.43 | 5 | 10.87 | 2 | 4.35 | 2 | 4.35 | 46 |
| Officers | 85 | 77.27 | 15 | 13.64 | 7 | 6.36 | 3 | 2.73 | 110 |
| Total | 122 | 78.21 | 20 | 12.82 | 9 | 5.77 | 5 | 3.21 | 156 |

Table 3.2: Q2. Do they have passbooks lying unattended at their branch that customers have left for processing?

| | Always | | Often | | Occasionally | | Never | | Total |
|----------|--------|-------|-------|-------|--------------|-------|-------|-------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 16 | 34.78 | 1 | 2.17 | 16 | 34.78 | 13 | 28.26 | 46 |
| Officers | 44 | 40 | 31 | 28.18 | 23 | 20.91 | 12 | 10.91 | 110 |
| Total | 60 | 38.46 | 32 | 20.51 | 39 | 25 | 25 | 16.03 | 156 |

Table 3.3: Q3. Whether managers and officers issue loose chequebooks whenever asked by the customer?

| | Always | | Often | | Occasionally | | Never | | Total |
|----------|--------|-------|-------|-------|--------------|-------|-------|-------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 20 | 43.48 | 10 | 21.74 | 7 | 15.22 | 9 | 19.57 | 46 |
| Officers | 41 | 37.27 | 16 | 14.55 | 36 | 32.73 | 17 | 15.45 | 110 |
| Total | 61 | 39.1 | 26 | 16.67 | 43 | 27.56 | 26 | 16.67 | 156 |

Table 3.4: Q4. Whether they take written request whenever they issue loose chequebooks to the customer?

| | Always | | Often | | Occasionally | | Never | | Total |
|----------|--------|-------|-------|-------|--------------|------|-------|-------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 26 | 70.27 | 7 | 18.92 | | | 4 | 10.81 | 37 |
| Officers | 69 | 74.19 | 14 | 15.05 | 8 | 8.6 | 2 | 2.15 | 93 |
| Total | 95 | 73.08 | 21 | 16.15 | 8 | 6.15 | 6 | 4.62 | 130 |

Table 3.5: Q5. Whether managers and officers issue and deliver chequebooks and passbooks to the account holder only?

| | Always | | Often | | Occasionally | | Total |
|----------|--------|-------|-------|-------|--------------|-------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 28 | 60.87 | 12 | 26.09 | 6 | 13.04 | 46 |
| Officers | 82 | 74.55 | 17 | 15.45 | 11 | 10 | 110 |
| Total | 110 | 70.51 | 29 | 18.59 | 17 | 10.9 | 156 |

Table 3.6: Q6. Do the managers and officers duly enter the stock of chequebooks /demand drafts /gift cheques in the books and keep it in dual control?

| | Always | | Often | | Total |
|----------|--------|-------|-------|------|-------|
| Position | Freq. | % | Freq. | % | Freq. |
| Managers | 46 | 100 | | | 46 |
| Officers | 102 | 92.73 | 8 | 7.27 | 110 |
| Total | 148 | 94.87 | 8 | 5.12 | 156 |

Table 3.7: Q7. Do the managers and officers keep blank chequebooks locked overnight?

| | Always | | Often | | Total |
|----------|--------|-------|-------|------|-------|
| Position | Freq. | % | Freq. | % | Freq. |
| Managers | 46 | 100 | | | 46 |
| Officers | 109 | 99.09 | 1 | 0.91 | 110 |
| Total | 155 | 99.36 | 1 | 0.64 | 156 |

Table 3.8: Q8. Do the managers and officers keep specimen signature card duly locked overnight?

| | Always | | Often | | Occasionally | | Never | | Total |
|----------|--------|-------|-------|-------|--------------|------|-------|------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 42 | 91.3 | 2 | 4.35 | 2 | 4.35 | | | 46 |
| Officers | 90 | 81.82 | 14 | 12.73 | 4 | 3.64 | 2 | 1.82 | 110 |
| Total | 132 | 84.62 | 16 | 10.26 | 6 | 3.85 | 2 | 1.28 | 156 |

Table 3.9: Q9. Do the managers and officers encourage clients to have long legible signature?

| | Always | | Often | | Occasionally | | Never | | Total |
|----------|--------|-------|-------|-------|--------------|-------|-------|-------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 9 | 19.57 | 8 | 17.39 | 8 | 17.39 | 21 | 45.65 | 46 |
| Officers | 16 | 14.55 | 21 | 19.09 | 21 | 19.09 | 52 | 47.27 | 110 |
| Total | 25 | 16.03 | 29 | 18.59 | 29 | 18.59 | 73 | 46.79 | 156 |

Table 3.10: Q10. Do the managers and officers take specimen signature of the client every 5 years?

| | Always | | Often | | Occasionally | | Never | | Total |
|----------|--------|------|-------|-------|--------------|-------|-------|-------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 2 | 4.35 | 8 | 17.39 | 8 | 17.39 | 28 | 60.87 | 46 |
| Officers | 11 | 10 | 12 | 10.91 | 22 | 20 | 65 | 59.09 | 110 |
| Total | 13 | 8.33 | 20 | 12.82 | 30 | 19.23 | 93 | 59.62 | 156 |

Table 3.11: Q11. Are the techniques to compare the signature of client have been taught to them formally?

| | Yes | | No | | Total |
|----------|-------|-------|-------|-------|-------|
| Position | Freq. | % | Freq. | % | Freq. |
| Managers | 18 | 39.13 | 28 | 60.87 | 46 |
| Officers | 46 | 41.82 | 64 | 58.18 | 110 |
| Total | 64 | 41.03 | 92 | 58.97 | 156 |

Table 3.12: Q12. Do the managers and officers keep specimen signature of dormant account separately?

| | Separate from running account | | Remain-unattended | | Total |
|----------|-------------------------------|-------|-------------------|-------|-------|
| Position | Freq. | % | Freq. | % | Freq. |
| Managers | 32 | 69.57 | 14 | 30.43 | 46 |
| Officers | 85 | 77.27 | 25 | 22.73 | 110 |
| Total | 117 | 75 | 39 | 25 | 156 |

IV. Table 4.1 to Table 4.5 reflect the compliance level of managers and officers in Loans and Advances

Table 4.1: Q1. Do the managers and officers periodically inspect the quality and quantity of goods pledged?

| | Always | | Often | | Occasionally | | Total |
|----------|--------|-------|-------|-------|--------------|------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 28 | 60.87 | 18 | 39.13 | | | 46 |
| Officers | 53 | 48.18 | 50 | 45.45 | 7 | 6.36 | 110 |
| Total | 81 | 51.92 | 68 | 43.59 | 7 | 4.49 | 156 |

Table 4.2: Q2. Do the managers and officers inspect the security and suitability of goods pledged done at periodical intervals?

| | Always | | Often | | Occasionally | | Never | | Total |
|----------|--------|-------|-------|-------|--------------|------|-------|------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 24 | 52.17 | 20 | 43.48 | 2 | 4.35 | | | 46 |
| Officers | 52 | 47.27 | 53 | 48.18 | 2 | 1.82 | 3 | 2.73 | 110 |
| Total | 76 | 48.72 | 73 | 46.79 | 4 | 2.56 | 3 | 1.92 | 156 |

Table 4.3: Q3. Do the managers and officers ensure that the borrower is dealing exclusively with the lending bank?

| | Always | | Often | | Occasionally | | Never | | Total |
|----------|--------|-------|-------|-------|--------------|------|-------|------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 25 | 54.35 | 16 | 34.78 | 3 | 6.52 | 2 | 4.35 | 46 |
| Officers | 51 | 46.36 | 47 | 42.73 | 8 | 7.27 | 4 | 3.64 | 110 |
| Total | 76 | 48.72 | 63 | 40.38 | 11 | 7.05 | 6 | 3.85 | 156 |

Table 4.4: Q4. Do the managers and officers take stock statement at periodic intervals?

| | Always | | Often | | Occasionally | | Total |
|----------|--------|-------|-------|-------|--------------|------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 36 | 78.26 | 10 | 21.74 | | | 46 |
| Officers | 63 | 57.27 | 46 | 41.82 | 1 | 0.91 | 110 |
| Total | 99 | 63.46 | 56 | 35.9 | 1 | 0.64 | 156 |

Table 4.5: Q5. Do the managers and officers take periodic statement of party-wise and age-wise statement of outstanding debt?

| | Always | | Often | | Occasionally | | Never | | Total |
|----------|--------|-------|-------|-------|--------------|-------|-------|------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 28 | 60.87 | 15 | 32.61 | 2 | 4.35 | 1 | 2.17 | 46 |
| Officers | 38 | 34.55 | 51 | 46.36 | 18 | 16.36 | 3 | 2.73 | 110 |
| Total | 66 | 42.31 | 66 | 42.31 | 20 | 12.82 | 4 | 2.56 | 156 |

V. Table 5.1 and Table 5.2 show the degree of due care taken by managers and officers in handling of drafts

Table 5.1: Q1. Whether the managers and officers' advice drawing branch when draft is paid without advice?

| | Always | | Often | | Occasionally | | Never | | Total |
|----------|--------|-------|-------|-------|--------------|-------|-------|------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 27 | 58.7 | 12 | 26.09 | 5 | 10.87 | 2 | 4.35 | 46 |
| Officers | 49 | 44.55 | 38 | 34.55 | 16 | 14.55 | 7 | 6.36 | 110 |
| Total | 76 | 48.72 | 50 | 32.05 | 21 | 13.46 | 9 | 5.77 | 156 |

Table 5.2: Q2. Do the managers and officers send the letter the drawing branch on the same day when draft is paid without advice?

| | Always | | Often | | Occasionally | | Never | | Total |
|----------|--------|-------|-------|-------|--------------|-------|-------|------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 24 | 52.17 | 16 | 34.78 | 3 | 6.52 | 3 | 6.52 | 46 |
| Officers | 43 | 39.09 | 43 | 39.09 | 14 | 12.73 | 10 | 9.09 | 110 |
| Total | 67 | 42.95 | 59 | 37.82 | 17 | 10.9 | 13 | 8.33 | 156 |

VI. Table 6.1 to Table 6.8 shows the efficiency of managers and officers in keeping their internal and inter-branch accounts up to date

Table 6.1: Q1. Do the managers and officers balance books from time to time in their branch?

| | Yes | | No | | Total |
|----------|-------|-----|-------|---|-------|
| Position | Freq. | % | Freq. | % | Freq. |
| Managers | 46 | 100 | | | 46 |
| Officers | 110 | 100 | 0 | 0 | 110 |
| Total | 156 | 100 | 0 | 0 | 156 |

Table 6.2: Q2. Is the rotation of duties done at every balancing in their branch?

| | Always | | Often | | Occasionally | | NA (computer balancing) | | Total |
|----------|--------|-------|-------|------|--------------|------|-------------------------|-------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 13 | 28.26 | 4 | 8.7 | 4 | 8.7 | 25 | 54.35 | 46 |
| Officers | 36 | 32.73 | 6 | 5.45 | 5 | 4.55 | 63 | 57.27 | 110 |
| Total | 49 | 31.41 | 10 | 6.41 | 9 | 5.77 | 88 | 56.41 | 156 |

Table 6.3: Q3. Is the inward outward clearing balanced regularly at their branch?

| | Yes | | No | | Total |
|----------|-------|-------|-------|-------|-------|
| Position | Freq. | % | Freq. | % | Freq. |
| Managers | 19 | 41.3 | 27 | 58.7 | 46 |
| Officers | 40 | 36.36 | 70 | 63.64 | 110 |
| Total | 59 | 37.82 | 97 | 62.18 | 156 |

Table 6.4: Q4. Are the entries pertaining to clearing difference standing in their books?

| | Yes | | No | | Total |
|----------|-------|-------|-------|-------|-------|
| Position | Freq. | % | Freq. | % | Freq. |
| Managers | 22 | 47.83 | 24 | 52.17 | 46 |
| Officers | 61 | 55.45 | 49 | 44.55 | 110 |
| Total | 83 | 53.21 | 73 | 46.79 | 156 |

Table 6.5: Q5. Whether the entries pertaining to clearing difference more than three months old?

| | Yes | | No | | Total |
|----------|-------|---|-------|-----|-------|
| Position | Freq. | % | Freq. | % | Freq. |
| Managers | 0 | 0 | 46 | 100 | 46 |
| Officers | 0 | 0 | 110 | 100 | 110 |
| Total | 0 | 0 | 156 | 100 | 156 |

Table 6.6: Q6. Whether the inter-branch reconciliation is being attended to properly in their branch?

| | Always | | Often | | Occasionally | | Never | | Total |
|----------|--------|-------|-------|-------|--------------|------|-------|------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 35 | 76.09 | 11 | 23.91 | | | | | 46 |
| Officers | 71 | 64.55 | 31 | 28.18 | 7 | 6.36 | 1 | 0.91 | 110 |
| Total | 106 | 67.95 | 42 | 26.92 | 7 | 4.49 | 1 | 0.64 | 156 |

Table 6.7: Q7. Do the managers and officers take more than 15 days in attending reconciliation?

| | Always | | Often | | Occasionally | | Never | | Total |
|----------|--------|-------|-------|-------|--------------|-------|-------|-------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 6 | 13.04 | 2 | 4.35 | 12 | 26.09 | 26 | 56.52 | 46 |
| Officers | 18 | 16.36 | 18 | 16.36 | 19 | 17.27 | 55 | 50 | 110 |
| Total | 24 | 15.38 | 20 | 12.82 | 31 | 19.87 | 81 | 51.92 | 156 |

Table 6.8: Q8. Do the managers and officers ensure that the cash book is balanced on the same day or not?

| | On The Same Day | | On The Next Day | | Total |
|----------|-----------------|-----|-----------------|---|-------|
| Position | Freq. | % | Freq. | % | Freq. |
| Managers | 46 | 100 | 0 | 0 | 46 |
| Officers | 110 | 100 | | | 110 |
| Total | 156 | 100 | 0 | 0 | 156 |

VII. Table 7.1 to Table 7.7 reflect the awareness level of bank employees about bank frauds

Table 7.1: Q1. Awareness of respondents about frauds that perpetrate in loans and advances

| | No | | To Some Extent | | To Large Extent | | Yes All | | Total |
|----------|-------|-------|----------------|-------|-----------------|-------|---------|------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 8 | 17.39 | 20 | 43.48 | 14 | 30.43 | 4 | 8.7 | 46 |
| Officers | 20 | 18.18 | 63 | 57.27 | 17 | 15.45 | 10 | 9.09 | 110 |
| Clerks | 18 | 18.56 | 57 | 58.76 | 14 | 14.43 | 8 | 8.25 | 97 |
| Total | 46 | 18.55 | 140 | 55.34 | 45 | 17.79 | 22 | 8.7 | 253 |

Table 7.2: Q2. Awareness of respondents regarding frauds in deposit accounts

| | No | | To Some Extent | | To Large Extent | | Yes All | | Total |
|----------|-------|-------|----------------|-------|-----------------|-------|---------|-------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 8 | 17.39 | 18 | 39.13 | 11 | 23.91 | 9 | 19.57 | 46 |
| Officers | 20 | 18.18 | 59 | 53.64 | 23 | 20.91 | 8 | 7.27 | 110 |
| Clerks | 21 | 21.65 | 52 | 53.61 | 10 | 10.31 | 14 | 14.43 | 97 |
| Total | 49 | 19.37 | 129 | 50.99 | 44 | 17.39 | 31 | 12.25 | 253 |

Table 7.3: Q3. Awareness of respondents regarding frauds in bills of operation including letter of credit

| | No | | To Some Extent | | To Large Extent | | Yes All | | Total |
|----------|-------|-------|----------------|-------|-----------------|-------|---------|-------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 19 | 41.3 | 21 | 45.65 | | | 6 | 13.04 | 46 |
| Officers | 54 | 49.09 | 34 | 30.91 | 16 | 14.55 | 6 | 5.45 | 110 |
| Clerks | 48 | 49.48 | 40 | 41.24 | 4 | 4.12 | 5 | 5.15 | 97 |
| Total | 121 | 47.83 | 95 | 37.55 | 20 | 7.91 | 17 | 6.72 | 253 |

Table 7.4: Q4. Awareness of respondents regarding frauds in credit cards

| | No | | To Some Extent | | To Large Extent | | Yes All | | Total |
|----------|-------|-------|----------------|-------|-----------------|-------|---------|-------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 20 | 43.48 | 17 | 36.96 | 4 | 8.7 | 5 | 10.87 | 46 |
| Officers | 41 | 37.27 | 42 | 38.18 | 21 | 19.09 | 6 | 5.45 | 110 |
| Clerks | 38 | 39.18 | 43 | 44.33 | 11 | 11.34 | 5 | 5.15 | 97 |
| Total | 99 | 39.13 | 102 | 40.32 | 36 | 14.23 | 16 | 6.32 | 253 |

Table 7.5: Q5. Awareness of respondents regarding bank frauds in inter-branch account

| | No | | To Some Extent | | To Large Extent | | Yes All | | Total |
|----------|-------|-------|----------------|-------|-----------------|-------|---------|-------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 15 | 32.61 | 17 | 36.96 | 8 | 17.39 | 6 | 13.04 | 46 |
| Officers | 32 | 29.09 | 57 | 51.82 | 13 | 11.82 | 8 | 7.27 | 110 |
| Clerks | 41 | 42.27 | 44 | 45.36 | 7 | 7.22 | 5 | 5.15 | 97 |
| Total | 88 | 34.78 | 118 | 46.64 | 28 | 11.07 | 19 | 7.51 | 253 |

Table 7.6: Q6. Awareness of respondents regarding computer related frauds

| | No | | To Some Extent | | To Large Extent | | Yes All | | Total |
|----------|-------|-------|----------------|-------|-----------------|-------|---------|------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 14 | 30.43 | 21 | 45.65 | 8 | 17.39 | 3 | 6.52 | 46 |
| Officers | 32 | 29.09 | 67 | 60.91 | 7 | 6.36 | 4 | 3.64 | 110 |
| Clerks | 39 | 40.21 | 47 | 48.45 | 4 | 4.12 | 7 | 7.22 | 97 |
| Total | 85 | 33.6 | 135 | 53.36 | 19 | 7.51 | 14 | 5.53 | 253 |

Table 7.7: Q7. Awareness of respondents regarding fraud in nominal account

| | No | | To Some Extent | | To Large Extent | | Yes All | | Total |
|----------|-------|-------|----------------|-------|-----------------|-------|---------|------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % | Freq. |
| Managers | 17 | 36.96 | 17 | 36.96 | 9 | 19.57 | 3 | 6.52 | 46 |
| Officers | 49 | 44.55 | 46 | 41.82 | 10 | 9.09 | 5 | 4.55 | 110 |
| Clerks | 50 | 51.55 | 34 | 35.05 | 7 | 7.22 | 6 | 6.19 | 97 |
| Total | 116 | 45.85 | 97 | 38.34 | 26 | 10.28 | 14 | 5.53 | 253 |

VIII. Table 8.1 to Table 8.3 shows the training status of bank employees and their perception towards it

Table 8.1: Q1. Whether the employees have undergone through any formal training in prevention of bank frauds?

| | Yes | | No | |
|----------|-------|-------|-------|-------|
| Position | Freq. | % | Freq. | % |
| Managers | 23 | 50 | 23 | 50 |
| Officers | 40 | 36.36 | 70 | 63.64 |
| Clerks | 16 | 16.49 | 81 | 83.51 |
| Total | 79 | 31.23 | 174 | 68.77 |

Table 8.2: Q2. Whether training has helped them in prevention of bank frauds?

| | Yes | | No | | Not Applicable | |
|----------|-------|-------|-------|-------|----------------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % |
| Managers | 22 | 47.83 | 1 | 2.17 | 23 | 50 |
| Officers | 25 | 22.73 | 15 | 13.64 | 70 | 63.64 |
| Clerks | 14 | 14.43 | 2 | 2.06 | 81 | 83.51 |
| Total | 61 | 24.11 | 18 | 7.11 | 174 | 68.77 |

Table 8.3: Q3. Whether advanced training is required in prevention of bank frauds?

| | Yes | | No | | Not Applicable | |
|----------|-------|-------|-------|------|----------------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % |
| Managers | 21 | 45.65 | 2 | 4.35 | 23 | 50 |
| Officers | 35 | 31.82 | 5 | 4.55 | 70 | 63.64 |
| Clerks | 15 | 15.46 | 1 | 1.03 | 81 | 83.51 |
| Total | 71 | 28.06 | 8 | 3.16 | 174 | 68.77 |

IX. Table 9.1 and Table 9.2 reflects the difficulty level of the bank employees in following the procedures prescribed by RBI

Table 9.1: Q1. Whether RBI procedures are too long?

| | Yes | | No | |
|----------|-------|-------|-------|-------|
| Position | Freq. | % | Freq. | % |
| Managers | 19 | 41.3 | 27 | 58.7 |
| Officers | 65 | 59.09 | 45 | 40.91 |
| Clerks | 63 | 64.95 | 34 | 35.05 |
| Total | 147 | 58.1 | 106 | 41.9 |

Table 9.2: Q2. Whether it is practically possible to comply with RBI's procedure to carry out day-to-day working of bank?

| | No | | To Some Extent | | To Large Extent | | Yes | |
|----------|-------|-------|----------------|-------|-----------------|-------|-------|-------|
| Position | Freq. | % | Freq. | % | Freq. | % | Freq. | % |
| Managers | 8 | 17.39 | 17 | 36.96 | 12 | 26.09 | 9 | 19.57 |
| Officers | 22 | 20 | 57 | 51.82 | 3 | 2.73 | 28 | 25.45 |
| Clerks | 17 | 17.53 | 55 | 56.7 | 9 | 9.28 | 16 | 16.49 |
| Total | 47 | 18.58 | 129 | 50.99 | 24 | 9.49 | 53 | 20.95 |

X .Table 10: Whether they have sufficient staff to carry out work meticulously?

| Position | Yes | | No | | To Some Extent | | To Large Extent | |
|----------|-------|-------|-------|-------|----------------|-------|-----------------|-------|
| | Freq. | % | Freq. | % | Freq. | % | Freq. | % |
| Managers | 15 | 32.61 | 17 | 36.96 | 9 | 19.57 | 5 | 10.87 |
| Officers | 32 | 29.09 | 40 | 36.36 | 33 | 30 | 5 | 4.55 |
| Clerks | 23 | 23.71 | 42 | 43.3 | 29 | 29.9 | 3 | 3.09 |
| Total | 70 | 27.67 | 99 | 39.13 | 71 | 28.06 | 13 | 5.14 |

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