

BINDURA UNIVERSITY OF SCIENCE EDUCATION



Examining the effectiveness of fraud detection and prevention in microfinance institutions from 2020 to 2022. A case study of Financial Charter Microfinance

A research project submitted to Bindura University of Science Education in partial fulfilment of the requirements for the Bachelor of commerce in financial intelligence

By

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BINDURA UNIVERSITY

APPROVAL FORM

The undersigned certify that they have read and recommended to Bindura University of Science Education for acceptance of a project entitled “**Examining the effectiveness of fraud detection and prevention in microfinance institutions from 2020 to 2022. A case study of Financial Charter Microfinance**” submitted by **NOBUHLE MAZHEKE** in partial fulfilment of requirements of a **Bachelor of commerce in financial intelligence**.

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DECLARATION

I do hereby declare that this study title “**Examining the effectiveness of fraud detection and prevention in microfinance institutions from 2020 to 2022. A case study of Financial Charter Microfinance**” my work that has not been submitted before any bachelor’s degree or examination in any other university and that all the sources I have used or I have been indicated and acknowledge as complete references.

NOBUHLE MAZHEKE

Signed.....

Date.....

DEDICATION

I dedicate this entire project to my mother who has been instrumental from the beginning, my dearest daughter and my beloved sisters. My husband whose consistent support and whose inspiration and encouragement have been a great influence in on my education.

ACKNOWLEDGEMENTS

I would like to thank my supervisor Miss Chitiyo who tirelessly guided me in conducting and compiling the entire research project. I appreciate your patience and professionalism.

Special thanks also go to my sisters, who gave me encouragement and patiently put up with difficulties and frustration faced in getting the work done.

Lastly, what could I be without the guidance and sustenance of the almighty God?! I therefore thank God for the strength and inspiration.

ABSTRACT

The main theme of this research was to examining the effectiveness of fraud detection and prevention in microfinance institutions from 2020 to 2022. A case study of Financial Charter Microfinance. Questionnaires and interviews were used for as data collection instruments. The population of the study was eight and a sample of twenty individuals were used to solicit data. Purposive sampling was done targeting the finance department only and four participants from the management were interviewed. The study indicated that the participants used were qualified and had adequate knowledge and experience. The study exploited the demographic information of the participants, from the study it was found that the females were more than males which were 56% and 44% respectively because of gender imbalance which exist at the microfinance. The company indicated a number of fraud detection software's they utilize at their organization these include Excel and MS Access two participants indicated that this works out in a good way for basic reviews like money recuperation. Audit Command Language (ACL) and straight-through processing (STP) is also used at this organization as highlighted by the participants. The study also managed to exploit the fraud deterrence strategies that are implemented at the microfinance. The researcher found out that the organization very often employ staff supervision and also ensure controls when accessing systems. It was evidenced from the mean score of 4.54(std 0.532) and 4.32 (std 0.354) was obtained for clear division of duty and staff close supervision respectively. Therefore it is clear that the organization very often do clear division of duty and staff close supervision so as to prevent and control fraud. On ensuring safe controls when accessing system a mean score of 4.60 (std 0.212) was obtained reflecting that the organization very often do that. However the organization not often use whistle blower strategy, incentives and hotline, strict legal consequences, high fines and penalties and fraud risk registers.

TABLE OF CONTENTS

| | |
|-----------------------|-----|
| RELEASE FORM..... | i |
| APPROVAL FORM..... | ii |
| DECLARATION..... | iii |
| DEDICATION..... | iv |
| ACKNOWLEDGEMENTS..... | v |

| | |
|---|----|
| LIST OF FIGURES | x |
| CHAPTER TWO | 19 |
| LITERATURE REVIEW | 19 |
| 2.1 Conceptual framework | 19 |
| 2.2 Theoretical Review | 20 |
| 2.2.1 Self-Control Theory | 21 |
| 2.2.2 Fraud Triangle Theory | 21 |
| 2.3 Mechanisms for Fraud Detection | 22 |
| 2.4 The Fraud Management Lifecycle | 24 |
| 2.5 Internal control | 25 |
| 2.5.1 Effectiveness of Internal Controls | 26 |
| 2.6 Climate control | 27 |
| 2.8 Activities that need to be managed and controlled | 28 |
| 2.9 The roots of bank fraud problems with finances: | 28 |
| 2.10. Chapter summary | 29 |
| CHAPTER THREE | 30 |
| RESEARCH METHODOLOGY | 30 |
| 3.0 Introduction | 30 |
| 3.1 Methodology | 30 |
| 3.1.1 Research methodology | 30 |
| 3.1.2. Limitations of the mixed methods approach. | 30 |
| 3.2.1 Descriptive survey | 31 |
| 3.3 Research techniques | 31 |
| 3.3.1 Questionnaire | 32 |
| 3.3.2 Interviews | 32 |
| 3.3.2.1 Semi-structured interview | 32 |
| 3.4 Population..... | 32 |

| | |
|--|----|
| 3.5 Sampling procedures for data collection | 33 |
| 3.5.1 Purposive sampling | 33 |
| 3.6 Sample size..... | 33 |
| 3.7 Data collection procedures | 34 |
| 3.8 Ethical considerations | 34 |
| 3.8.1 Voluntary participation and informed consent..... | 34 |
| 3.9 Summary | 35 |
| CHAPTER IV | 36 |
| DATA ANALYSIS, PRESENTATION AND DISCUSSION..... | 36 |
| 4.0. Introduction | 36 |
| 4.1 Data presentation and analysis | 37 |
| 4.2. Demographic data | 37 |
| 4.3.1. Distribution of respondents by gender N16 | 37 |
| 4.4. Distribution of the Accounting employees by professional qualifications | 38 |
| 4.5 Cases of Fraud encountered at the organization as from 2021 | 39 |
| 4.6 Frequency of the organization in monitoring Fraud cases risk indicators to pre-empt fraudulent activities..... | 40 |
| 4.7 What fraud detection and prevention tools and software packages can be used at Financial Charter Microfinance | 41 |
| 4.8 The effectiveness of fraud detection and prevention in microfinance institutions | 41 |
| 4.9 Fraud deterrence strategies employed by the organization as highlighted by employees | 43 |
| 4.10 Challenges associated with using accounting audit systems in fraud reduction and prevention..... | 44 |
| 4.12.0 ANALYSIS OF THE INTERVIEW GUIDE..... | 45 |
| 4.12.1 What can be done to improve the effectiveness of fraud detection and prevention mechanisms in microfinance institutions | 45 |

| | |
|--|----|
| 4.12.2 Which anti-fraud measures have been most effective in combating fraud in your organisation? | 45 |
| 4.12.3 How does the Auditor General ensure the implementation of the set fraud prevention and detection techniques?..... | 46 |
| 4.13 Chapter summary | 46 |
| CHAPTER V | 47 |
| SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATION | 47 |
| 5.1 Introduction | 47 |
| 5.2 Summary of the findings | 47 |
| 5.3 Conclusions | 48 |
| 5.4 Recommendations based on the findings and conclusions the study made the following recommendations: | 49 |
| 5.5 Suggested areas for further study | 50 |
| REFERENCES | 51 |
| APPENDICIES | 54 |
| APPENDIX 1: QUESTIONNAIRE FOR TEACHERS..... | 54 |
| APPENDIX 2: INTERVIEW GUIDE..... | 58 |

LIST OF TABLES

| | |
|--|----|
| Table 4.2 Participants working experience at the organization | 38 |
| Table 4.2 Frequency of the organization in monitoring Fraud cases risk indicators to pre-empt fraudulent activities..... | 40 |
| Table 4.3 mean data ranges..... | 41 |

Table 4.4 The effectiveness of fraud detection and prevention in microfinance institutions ..42
Table 4.5 Fraud deterrence strategies employed by the organization.....44

LIST OF FIGURES

Figure 2.1: Perceived Effect of Fraud Risk Management on Financial Performance Micro Finance Institutions (sources Arlene, 2009)20

Figure 2.2: The Fraud Triangle (Albrecht, Albrecht, Albrecht, & Zimbelman, 2009).....21
Figure 2.3 The Fraud Management Lifecycle (Wright, 2007).....24
Fig. 4.1. Distribution of respondents by gender.....37
Figure 4.2 Frequency of fraud cases at the organization39

CHAPTER 1

INTRODUCTION

1.0 Introduction

The purpose of this chapter is to cover the introduction, background to the study, and a statement of the problem demonstrating the problems which drove the need for research. Other crucial aspects such as research objectives, aim and research questions will also be covered in this chapter. The section also covers the limitations and definition of terms and a summary. This would be of major importance to various entities such as private financial institutions, banks and other businesses at large.

1.1 Background to the Study

Numerous businesses have made an effort to monitor financial data relevant to their business operations, according to Kiragu's (2015) investigation. Additionally, when businesses grow, add new customers, enter new markets, and keep up with the quick advancements in information technology, they should maintain exceptionally precise and up-to-date accounting, inventory, and statutory records. A way for criminals to abuse corporate resources and steal money and resources from organizations has been made possible by the considerable increase in transaction volume (Hevesi, 2015). Due to this, research on fraud, particularly its detection and prevention inside microfinance firms, is now vital.

All over the world, fraud and scandalous activities in financial institutions have been on the rise. As a result, organizations are continuously facing new risks of fraudulent activities. As a matter of fact, auditing continues to gain ground particularly due to the rise of institutional scandals, collapses, eventual failures (Sang, 2014). Consequently,

these have made businesses to look for ways to investigate and unveil, various practices of fraud, and suggest and instil measures to prevent the continuous occurrence of such practices thereof (Power, 2013). According to Ogutu and Ngahu (2016), accounting auditing has proved to be very important in detecting and preventing fraud through investigations and financial institutions. However, the use of computerized accounting information systems enhanced service delivery, bank employee productivity, and profitability. It also led to the development of more sophisticated instruments for the detection and management of accounting fraud (Ige, 2015).

In Central African banks, new technology have created a regional door for fraudsters (Power et al., 2013). It is crucial to establish ways to stop or catch accounting fraud because of the cost and characteristics of offenders (Sang, 2014). The majority of businesses around the world have gone bankrupt as a result of their employees' dishonest behaviour. Fraud has also led to the fall of some of the biggest and most powerful companies in the world, including Enron, WorldCom, Lehman Brothers, and Tyco (Sachler, Juleff, & Paton 2017). To add to that, it was because of the nationwide fraud scandals that the Sarbanes-Oxley Act was put into effect in 2002.

At the local level, in the past years, several financial institutions have closed down due to poor financial performance. The period 2008-2018 in Zimbabwe has recorded the closure of commercial banks such as Micro King, and Beverly, microfinance institutions such as Impact Financial Services, and many firms because of fraud and other uncertainties in the business environment. Fraud in Zimbabwe has become a chief problem in many local financial institutions, such as Financial Charter Microfinance. Additionally, local microfinance institutions in Zimbabwe have lost huge sums of money due to fraud. For example, K.C.I Microfinance in 2016 suffered huge losses of up to \$10 000 USD following employing of mainly attachment students who would manipulate accounting systems, falsify reports and eventually return back to their respective colleges/ universities (KCI Audit Report, 2017).

In recent years many local financial institutions have tried to employ functioning internal audit sections and committees which audit their financial accounts monthly. Despite those efforts, many fraud cases are still occurring. It is therefore the fundamental aim of this research to investigate whether the inclusion of fraud detection and practice by microfinance institutions is an effective measure worth adopting in

business operations in order to eradicate losses emanating from fraud (Sang, 2014). Therefore, since Financial Charter Microfinance is also another firm which encounters huge losses because of fraud, it is imperative to evaluate the effectiveness of fraud detection and prevention practices in microfinance institutions.

1.2 Statement of the Problem

Fraud is constantly rising and has been a problematic feature in voluminous microfinance institutions across Zimbabwe. This is a worrying phenomenon especially where money is invested. For microfinance institutions to achieve and realise organisational success, there is a need for strong internal controls and financial oversight. Fraud detection and prevention is one such measure that can strengthen internal controls and ensure financial prudence. However, regardless of the utilisation of these in financial institutions, there are increasing cases of financial fraud and other fraudulent activities that have been recorded. Cases of fraud in the microfinance sector are reported in the media frequently if not on a daily basis. This raises many questions as to whether fraud detection and prevention practices are working. Is fraud detection and prevention effective in microfinance institutions?

1.3 Purpose of the Study

The research aimed at evaluating the effectiveness of fraud detection and prevention in microfinance institutions using a case of the Financial Charter Microfinance. The study sought to identify the types and nature of frauds common in microfinance institutions as well as to determine the challenges associated with using fraud detection and prevention tools. Also, the study sought to give recommendations on fraud detection and prevention tools that can be employed in microfinance institutions to fight fraud.

1.4 Research objectives

1.4.1 Main Research Objective

To investigate the effectiveness of fraud detection and prevention at Financial Charter Microfinance.

1.4.2 Specific Objectives

- To identify types, or the nature of frauds at Financial Charter Microfinance.
- To determine the challenges associated with using fraud detection and prevention tools at Financial Charter Microfinance.

- To recommend fraud detection and prevention tools that can be used at Financial Charter Microfinance.

1.5 Research questions

1.5.1 Main Research Question

- Are the existing mechanisms for fraud detection and prevention effective at Financial Charter Microfinance?

1.5.2 Specific Questions

- What are the types, or the nature of frauds at Financial Charter Microfinance?
- What are the challenges associated with using accounting audit systems in fraud reduction and prevention at Financial Charter Microfinance?
- What fraud detection and prevention tools and software packages can be used at Financial Charter Microfinance?

1.6 Significance of the Study to Financial Charter Microfinance and Other Microfinance Institutions

The research will provide a standard for management to create control mechanisms that target a rise in revenues and a decrease in losses resulting from fraudulent activities. Furthermore, the investigation will assess the significance of the auditing department in the management of fraudulent acts. Ultimately, the study will make suggestions on the most effective methods for detecting and preventing fraud, including the implementation of robust auditing and fraud detection systems.

To the researcher

The researcher will gain exposure to engage with different stakeholders to acquire the necessary information. Additionally, it will establish a foundation for future research at Bindura University Of Science Education. The research will enhance the researchers knowledge and comprehension of accounting information system.

To the policy makers

The research aims to provide recommendations on how information technology can enhance organisational performance while reducing cost and improving accuracy.

Additionally, it will identify weaknesses in previous policies and strategies that were ineffective.

To the Government

The research will aid the government in identifying additional factors contributing to losses and creating efficient cost reduction and control plans to ensure the success of the public sector. It will also assist local authorities in enhancing their revenue collection and debt recovery methods, thereby improving cashflow.

1.7 Assumptions

- The review of existing literature provides a comprehensive understanding of the topic under study.
- The conclusions drawn from this research can be applied to other financial organisations as well.
- The respondents are expected to actively participate in the research process.
- The data collected from the respondents is considered trustworthy, relevant and complete.
- The researcher will have access to the latest developments in accounting information systems.
- The recommendations proposed in this research can be implemented in various microfinance institutions.

1.8 Delimitations

- The research is mainly limited to Zimbabwe.
- The research is confined to one of the Financial Charter Microfinance which has 15 Branches across Zimbabwe, and it covers the period from January to March 2021.
- The research focuses on evaluating how well fraud detection and prevention measures work in microfinance institutions.

1.9 Limitations

- Some participants refuse to take part in the study which affected the research accuracy, while others provided incorrect information.
- Some respondents were hesitant to share their thoughts and opinions because of potential confidentiality breaches regarding company information.

Nevertheless, the researcher provided an authorisation letter from the University to demonstrate that the study was for academic purposes.

- Lack of funds to meet travelling costs to all Financial Charter Microfinance Branches, communication costs, printing and stationary costs and other fieldwork costs posed a challenge on the progress of the study. The researcher had limited financial resources. To overcome this challenge the researcher used his pocket money to cushion against financial expenses.
- The researcher being a student had limited time to work on the project. The researcher therefore worked on the project during weekends to meet the deadlines.

1.10 Definition of Terms

The following terms are defined operationally/conceptually for a better understanding of the study.

Accounting Information Systems refers to the collection and processing of transaction data and communication of financial information to interested parties Peavler (2016)

Information Systems: information systems is an organised means of collecting, processing and storing data to enable an organisation to achieve its goals (Romney 2009)

Computerised Accounting Systems. The term computerised accounting systems refers to software application that are installed on a company's computer network server or can be accessed remotely through the internet. These systems enable businesses to create and manage various accounts related to income, expenses and other financial aspects such as rental or sales income, salaries advertising expenses and material cost as explained by (Schofield 2016)

Accounting Fraud. Accounting fraud can be categorised as fraudulent financial reporting, misappropriation of assets or both (Kotsiantis et al 2006)

Financial Reporting, involves presenting financial data about a company's financial position, operating performance and the flow of funds (Rose and Hudgins 2008)

Fraud. Is any illegal action that involves deception, concealment or breach of trust, according to the Institute of Internal Auditors' *International Professional Practices Framework* (IPPF). The motivation behind fraud is to obtain money, property or services, avoid payments or loss of services or gain personal or business advantage as stated by the Global Fraud study (2010).

1.11 Organisation of the Study

Chapter 1: Introduction to the study. This provides a background to the study, a statement of the problem, research questions, objectives, significance of the study, limitations and the definition of terms.

Chapter 2: Literature Review. The chapter discusses theories relevant to the study and provides empirical literature previously done by other authors on forensic accounting in detecting and preventing fraud.

Chapter 3: Research Methodology. covers the research philosophy approach design, sampling procedures data collection methods

Chapter 4: presents the outcomes of the research in the form of statistical tables, pie charts and bar graphs the findings are then analysed and compared to the research questions additionally, the chapter examines the data presented in relation to the literature review

Chapter 5: Chapter 5 provides a summary of the findings and presents conclusions and recommendations based on the results of the study.

1.12 Chapter Summary

Fraud has proved to be the main challenge haunting microfinance institutions' business. The effectiveness of fraud detection and prevention has been found to be under-investigated hence the need to carry out research on it. Several organisations closed due to fraud and some were seriously affected. The following chapter will deal with a review of the conceptual framework, and theoretical and related empirical literature.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter focuses on the research findings of different authorities on the same subject. The author of this study will then bridge the gap that was left by these different authorities. The researcher reviewed their studies on the same matter and fitting work into the already existing body of knowledge. Arlene, (2009) views a literature review as one that surveys books, scholarly articles, and any other sources relevant to a particular issue, area of research or theory, and by so doing provides a description and assessment of different authors.

2.1 Conceptual framework

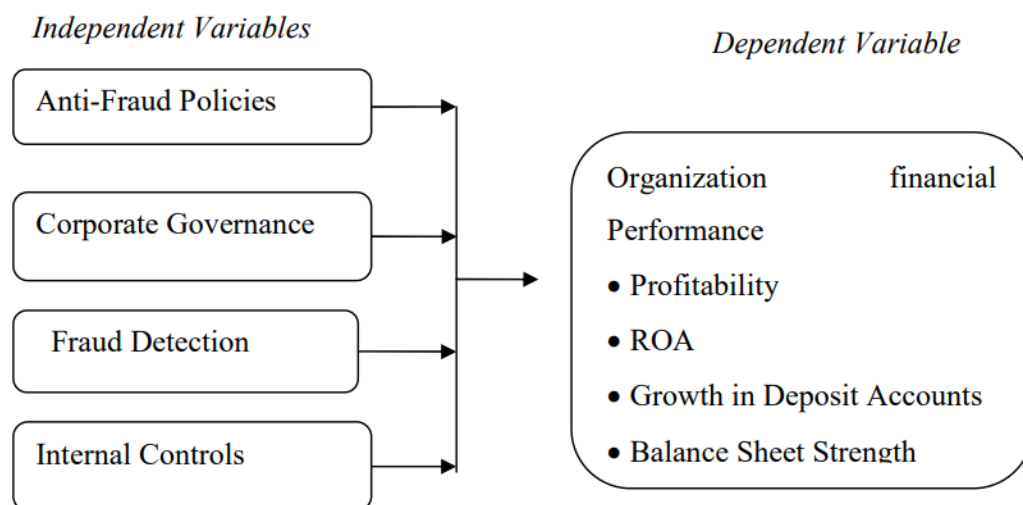


Figure 2.1: Perceived Effects of Fraud Risk Management on Financial Performance Micro Finance Institutions (sources Arlene, 2009)

Clear policies and procedures reduce instances of white-collar crime in corporations through operational governance (Hansen, 2009). According to Berstaker, Brody, & Pacini (2006), every institution ought to devise and implement a fraud policy to provide employees with direction. According to Berstaker (2009), it is the responsibility of the board of directors to develop an anti-fraud policy that considers cultural differences that influence how employees respond to fraud situations. All employees should sign a written acknowledgement that they have read and comprehended the anti-fraud policy, which should be communicated and distinct from a corporate code of conduct or ethics policy (Bierstaker et al., 2016).

According to Sachler, Juleff, & Paton (2017), corporate governance is the system by which businesses are directed and controlled. It is concerned with establishing structures and allocating responsibilities within businesses. Effective operational risk management is built on a solid internal governance framework (Basel Committee, 2011). The foundation for ethical behaviour throughout the organization is set by the tone set at the top (Law, 2011). Law (2011) suggest that when senior, management embraces core values and establishes a robust ethical culture, it promotes a moral atmosphere that reinforces employee's ethical perception and conduct in their work place. To foster ethical behaviour in the work place, leaders and managers must demonstrate a commitment to ethical values by strictly enforcing ethical standards or codes and holding accountable those who violate them, as noted by Rae and Wong (2012). In addition, it is argued that corporate culture may be more influential in influencing ethical behaviour and attitudes about fraud than an individual's cultural heritage (Albrecht et al., 2010).

2.2 Theoretical Review

This is a collection of theories-based, interconnected ideas. According to Macharia (2012), it is a reasoned collection of ideas that are derived from and supported by data or evidence. The following theories will serve as the basis for this study:

2.2.1 Self-Control Theory

According to Michael R. Gottfredson and Travis Hirschi (1990) self-control theory (Holtfreter, Beaver, Reissig, & Pratt, 2010), people who lack self-control are more likely to engage in a wide range of criminal acts and criminal activities. McMullen (1999) found that people who lack self-control are more likely to be impulsive, insensitive, physical rather than mental, risk-takers, short-sighted, and nonverbal. Higher self-control individuals eventually realize the low likelihood of long-term benefit and high likelihood of apprehension associated with criminal activity (McMullen, 1999).

2.2.2 Fraud Triangle Theory

Albert et al.'s Fraud Triangle Theory (2009) states that there are three components to fraud: the perception of pressure, the opportunity and the rationalization of the act of fraud; The term "fraud triangle" refers to these three components.

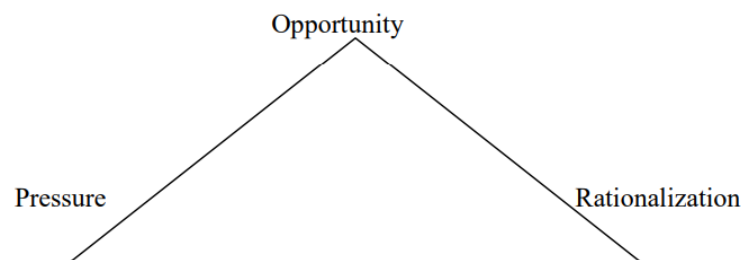


Figure 2.2: The Fraud Triangle (Albrecht, Albrecht, Albrecht, & Zimelman, 2009)

The three elements are always present in every fraud, regardless of whether it is committed against or on behalf of an entity (Albrecht et al., 2009). According to Albrecht, Turnbull, Zhang, & Skousen (2010), the three components of the fraud triangle are interconnected. For instance, the less rationalization required for someone to commit fraud is the greater the perceived opportunity or the greater the pressure. However, according to Rae & Subramaniam (2008), fraud is a multifaceted problem that arises from a variety of factors. For instance, Rae & Subramaniam (2008) found that while employees were able to circumvent the internal controls to commit fraud in some instances, there was no fraud in others despite the existence of adequate internal controls.

2.3 Mechanisms for Fraud Detection

Fraud detection and prevention methods involves taking steps to prevent fraud from occurring in the first place, while fraud detection involves identifying fraud quickly after it has been committed (Naicker, 2006).

According to research by Zhang, (2012) fraud detection and prevention must work together. According to Naicker (2006), fraud detection is a continuous process because once criminals learn about the detection method, they always find new ways to commit fraud. Misrepresentation prevention includes greater division of obligation, oversight of staff, observing work execution and further more setting up measures to guarantee that in any event, when frameworks are gotten to that appropriate control (Kimani, 2011).

According to Hardouin (2009), institutions should implement know-your-customer practices in order to identify all of their customers' characteristics. Management should also update existing files and keep an eye on their operations in order to spot fraud. In order to identify unusual transactions, daily transaction monitoring should also be carried out (Prabowo, 2012).

Extortion mindfulness can likewise be improved through courses and preparing occasions held in joint efforts with organizations like the national bank, the focal reference department and other monetary establishments, covering regions like misrepresentation counteraction measures and examination strategies (Prabowo, 2012).

Employees who are actively trained in risk management are better able to identify threats to the organisation because of the International Journal of Social Sciences and Entrepreneurship or non-existent internal controls (Rae & Subramaniam, 2008). As a result, staff training is an essential component of risk management. According to Hardouin (2009), one of the most important aspects of compliance is known as "know your customer." This requires a financial institution to update any files it already has, keep an eye on the day-to-day operations, and at the very least make sure that beneficiaries and originators are not on a "blacklist."

According to Grant, Miller, & Alali (2008), internal controls are processes that are intended to provide reasonable assurance that management achieves operational effectiveness and efficiency, financial reporting reliability, and compliance with

applicable laws and regulations, a system of internal controls may potentially prevent errors and fraud (Rae and Subramanian, 2008). When cost-effective measures are taken to limit deviations, such as improper or illegal acts, to a level that is tolerable, reasonable assurance is provided. According to Fadzil, Haron, and Jantan (2005), the internal audit examines the efficiency of the internal control system to determine whether it is working as intended.

According to Opromolla & Maccarini (2010), the system of internal controls should place an emphasis on accurate risk identification, measurement, and monitoring, control activities at each level of operation, the development of trustworthy information systems that promptly report anomalies and comprehensive reporting of all operations and activities. A company's board of directors, management, and other employees all have an impact on internal controls, which are designed to guarantee financial reporting reliability, compliance with applicable laws, and operational effectiveness and efficiency (Spira & Page, 2003). According to Rezaee (1995), an institution's stakeholders should be informed of the management's evaluation of the institution's internal controls' effectiveness. Control environment, risk assessment, control activities, information and communication, and monitoring activities should be the components of internal controls (Basel Committee, 2011). An adequate and functioning internal control system necessitates the presence and proper operation of these interrelated internal control components (Rezaee, 1995).

Criminals must be able to justify their actions as acceptable in some way (Albrecht et al., 2009). Support of deceitful way of behaving is normally because of a fraudster's absence of individual trustworthiness or other moral thinking (Rae and Subramanian, 2008). Personal integrity may be the most important limiting factor in preventing a person from misappropriating assets, so people do not commit fraud unless they can justify it as being consistent with their own personal code of ethics (Hillison et al., 1999). Justification by fraudsters radiates from their inclination that the people in question owe them and that they merit more than they are getting (Mutua, 2011). According to Cohen et al., some individuals have an attitude, character, or set of ethical values that make it possible for them to knowingly and purposefully commit a dishonest act. 2011). A solid moral code can forestall people from utilizing justifications to legitimize illegal way of behaving; inside evaluators anyway ought to accept that anybody is fit for legitimizing the commission of extortion (Hillison et al.,1999).

2.4 The Fraud Management Lifecycle

A common understanding of the lifecycle's stages is the first step toward effective management (Wilhelm, 2004). According to Albrecht et al., the fraud management lifecycle is a network lifecycle in which each stage is an aggregated entity composed of interconnected, interdependent, and independent actions, functions, and operations. (2009). There are eight stages in the lifecycle of fraud management: The deterrence stage entails making it more difficult for fraudsters to commit it by making it more difficult for them to do so, as fraudsters tend to follow the path that offers the greatest anonymity and the least resistance (Wilhelm, 2004). To deter, discourage, or prevent fraudulent activity from being attempted, deterrence is achieved by creating fear of the consequences or difficulty of committing (Kimani, 2011).

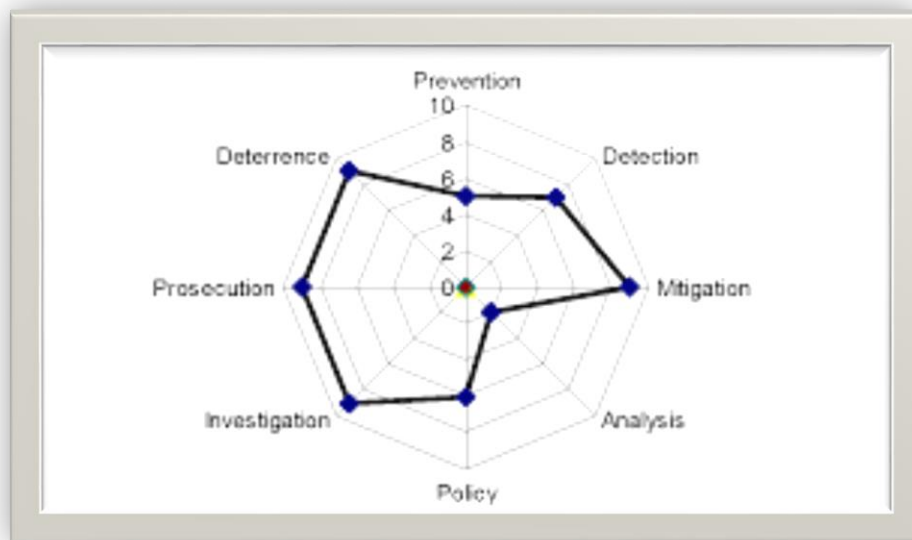


Figure 2.3 The Fraud Management Lifecycle (Wright, 2007)

According to Wright (2007) a policy that aims to achieve profitability, reduce losses, increase sales volumes, achieve operational scalability and reduced costs must be balanced. Policy development involves reconstructing situations that were deconstructed during the analysis stage. This is achieved by integrating the information obtained from analysis with information from internal and external and interactive environmental factors to develop policies that address the whole while using information from the parts (Wilhelm, 2004). According to Hassink et al. (2010), policy development staff are frequently the organization's leaders because they must take into account the requirements of the rest of the business as well as all disciplines within the

fraud management department. During the investigation phase, sufficient evidence and information are collected to stop fraudulent activity, recover assets or make restitution, and aid in the successful prosecution and conviction of the fraudsters (Albrecht, et al., 2019). Extortion examinations are centred upon three essential areas of activity; internal investigations, external examinations and policing. Customers, fraudsters, and organized groups are the subjects of external investigations, whereas internal investigations focus on employees, contractors, consultants, or vendors (Wilhelm, 2004). Policing as further contended by Gottschalk (2010) is the arrangement of data and assets to, and the support of, an association with federal, state, regional and neighbourhood policing.

Regular and thorough investigations help to keep a good relationship with law enforcement and incrementally increase deterrence. Finally, the prosecutorial and judicial authorities, as well as law enforcement, are the primary focus of the prosecution stage (Wilhelm, 2004). Albrecht, et al (2009) states that the primary objectives of fraud persecution include the gathering or restoring lost assets, enhancing the business reputation for deterring fraudulent activities and punishing the perpetrator to prevent future theft

2. 5 Internal control

The idea of internal control has been around since there were real business relationships. According to Ofori (2011), it dates back to civilized communities that existed around 5000 B.C. Individuals and businesses in these empires were subject to a variety of taxes. An intricate system of checks and counterchecks was established to ensure that these taxes were accurately recorded and collected. According to Ofori (2011), the primary goals of these early internal control systems were to minimize errors and protect state property from dishonest tax collectors. Mosher (2009) says that the earliest instances of internal control can also be found in the Babylonian and Egyptian periods.

Lakis and Giurinas (2008) present various organisational goals, values and achievements as the definition of internal control on the other hand, high tower (2008) defines internal controls as a program of activities designed to detect and monitor potential exposures that may lead to significant errors omissions, misstatements or fraud. According to Chambers and Rand (2010), an internal control system is one that

encompasses a company's policies, procedures, tasks, and behaviours, and other aspects. Internal control works with the accomplishment of the targets of the association successfully and proficient activity by empowering it to answer suitably to huge business, functional, monetary, and consistency dangers to accomplishing the organization's targets. Chambers and Rand (2010) explain that internal controls involve ensuring that assets are not misused, which could lead to fraud and loss, as well as identifying and managing liabilities. Hightower (2008) defines internal controls as a set of activities that are put in place to detect and monitor potential risk that may lead to significant errors.

All of the policies and procedures that an organization's directors and management use to help them achieve their goals are part of internal control. These goals might include: ensuring, to the greatest extent possible, the orderly and effective operation of its business, which includes adhering to internal policies, protecting assets, preventing and detecting fraud and errors, maintaining complete and accurate accounting records, and promptly preparing reliable financial information (SAS, 300).

2.5.1 Effectiveness of Internal Controls

The degree to which a business or organization is operating efficiently will serve as the basis for evaluating the effectiveness of internal controls. According to Millichamp (2010), there are different types of internal controls, which are classified as preventive, investigative and corrective. Examples of these types of control systems include: protection of assets, segregation of duties, monitoring, verification, approval and authorization, documentation, and reporting. Management implements preventive controls to deter and prevent noncompliance with instructions, policies, and procedures. Lacotelli (2009) explains that preventive controls aim to protect against financial transaction errors, fraud and irregularities thereby preventing loss. Such controls include segregation of responsibilities, proper authorisation and approval, assigning jobs to responsible officers through an organisational chart, adequate documentation, physical asset control and staff training. On the other hand, detective controls aim to identify and expose errors, irregularities and fraud after they occur. These controls include post audits exception reports and validation. Even though prevention is preferable to detection, detective controls are essential in preventing losses and providing evidence that preventive controls are effective. Wells (2011) suggests that

reveals, variance analysis reconciliation, physical inventories and audits provide evidence of loss but do not prevent it

2.6 Climate control

Controlling climate involves the general control awareness of an organisation affected by the board through strategies, methods, ethical guidelines, and monitoring procedures (Hevesi, 2005). An organization's vision and mission are examples of management philosophy in a controlling environment. The elements of the control environment similarly cover the official designs that determines the responsibility in the implementation of financial and non-financial obligations, the working style of officials, temperament, moral qualities, honesty, abilities and capability of staff (Hevesi, 2015).

Management puts these actions into action to make sure that the organization's goals are achieved and risks are reduced (Walker, 2017). The control environment, risk assessment, control activities, monitoring, and information and communication are the primary categories under which internal controls are categorized. According to Hohler (2005), these components can be thought of as both the fundamental principles and an aid to planning, evaluating, and updating controls in any organization.

2.7 Control procedures

Control procedures refer to the policies and protocols that ensure the proper and timely implementation of management directives such as performance reviews, information processing and physical controls are examples of these procedures (Lamore, 2005). Control activities involve the instructions, rules, methods, and decisions made by management to prevent or reduce risks that could hinder the organisations' ability to achieve its objectives. These activities occur at all levels and functions of the entity and may include endorsements, authorisations, cheques reconciliations, conducting surveys, supporting security and creating and maintaining related records that provide evidence of the implementation of these activities and appropriate documentation (Walker 2004)

Moreover, the control exercises would incorporate, audits by the administration of the utilitarian or movement level, the executives of human resources control over data handling, actual command over weak resources, foundation and survey of execution measures and markers, isolation of obligations, legitimate execution of exchanges and occasions, access limitation and responsibility for assets and records furthermore, suitable documentation of exchanges.

2.8 Activities that need to be managed and controlled

Fraud detection in financial statements has been the subject of a lot of empirical research. A comprehensive review of empirical studies on internal auditors' ability to spot fraudulent financial reporting is provided by Nieschwitz, Schultz, and Zimbelman (2010). Albrecht & Dunn (2001) looked at both the empirical research on fraud detection and the fraud detection aspects of the current auditing standards. Holmes and Homes (2012) contend that word related misrepresentation gambles expanded with incapability in composed approaches. According to Kiragu (2015), fraud management necessitates management controls.

2.9 The roots of bank fraud problems with finances:

"Trusted persons become trust violators when they conceive of themselves as having a financial problem that is non-shareable, are aware that this problem can be secretly resolved by violating the position of financial trust, and are able to apply to their own conduct in that situation verbalisations which enable them to adjust their conceptions of themselves as trusted persons with their conceptions of themselves as users of the entrusted funds or property" (Source: The first factor, employee pressure, is brought on by "non-shareable" financial issues (Cressey, 2018).

According to Cressey (2018), fraud is the result of issues that the individual believes are in some way unshakeable. He identified six types of non-sharable issues that were thought to present a risk of fraud on the part of the individual. According to Cressey (2013), the concept of "non-shareable" varies from person to person. As a result, what is private to one person may not be private to another. However, he concluded that activities that seek or maintain status were the focus of non-shareable issues. The six classes of non-shareable issues incorporate infringement of commitments, individual disappointments, business inversions, seclusion from companions and partners, status acquiring requests, and issues in the employer-employee relationship (Cressey, 2013).

2.10. Chapter summary

This chapter has reviewed literature related to this study on the examining the effectiveness of fraud detection and prevention in microfinance institutions. The next chapter is to look at the research design and methodology.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This previous chapter focused on a literature review and theoretical framework. The review related to literature on the effectiveness of fraud detection and prevention in microfinance institutions. This chapter will focus on research methodology, research design, sampling procedures for data collection and ethical considerations.

3.1 Methodology

This chapter presented the research methodology used to address the research questions of the study. It explains the approach used to establish the effectiveness of fraud detection and prevention in microfinance institutions., it included information on population and sample, the data collection procedures and the data analysis plan

3.1.1 Research methodology

The methodology for collecting data in research projects can be done either theoretically or practically and is a framework for addressing a problem using specific technique tools, task and phases (Wright 2007).

In this research a mixed approach will be employed, which combines both qualitative and quantitative research methods this approach is innovative and combines concepts from both designs to achieve best results. The advantage of using both methods is that they complement each other and provide sufficient data that is representative of both the geographical area and the subjects under study Cresswell (2016)

3.1.2. Limitations of the mixed methods approach.

Cooper and Schindler (2013) observed that quantitative studies may involve complex statistical operations that require expert understanding, making them tedious and time

consuming. The use of quantitative data methods such as counting and measuring, may not provide an explanation for the trends observed. Qualitative research, on the other hand may be influenced by the reader interpretation and is usually more involving in terms of data collection methods such as interviews. Additionally, qualitative research may be affected by bias, as noted by Mugenda and Mugenda (2003).

3.2.1 Descriptive survey

In a descriptive survey, a researcher is solely interested in describing the situation or case under their research study (Cohen, Manion and Morrison, 2011). It is a theory-based design method created by gathering, analysing, and presenting collected data. This allows a researcher to provide insights into the why and how of research. A descriptive survey helps others better understand the need for the research. If the problem statement is not clear, you can conduct exploratory research.

3.3 Research techniques

Research technique is the strategies, processes or techniques utilized in the collection of data or evidence for analysis in order to uncover new information or create a better understanding of a topic (Denzin, 2019). Research techniques refer to the various methods, processes, and tools used to collect, analyse, and interpret data for the purpose of answering research questions or testing hypotheses (Berg and Howard, 2012). Therefore, from the two definitions research technique can be simply defined as tools, methods or processes engaged by a researcher to collect data. There are a number of research techniques that can be utilised by a researcher these include surveys, experiments, case studies, observational studies, content analysis, focus groups, questionnaires, meta-analysis, action research and interviews (Denzin, 2019). In this research, the research is going to utilise questionnaires and interviews. The researcher deemed these instruments to be the most helpful for this study's data collection. A research instrument is a device used to observe data beyond the reach of the observer (Leedy, 2017). The researcher only used questionnaires and interviews as research methods because of the limited time available. Since they allowed her to learn what the majority of people thought, the researcher decided to gather data through interviews and questionnaires.

3.3.1 Questionnaire

Kombo and Tromp (2016) state that a questionnaire is a type of research instrument used to collect data from a large sample. The questionnaire, according to Saunders (2008), is straightforward, easy to administer, and well-organized for easy analysis. It is also capable of collecting a significant amount of data. Marasu (2000) adds that when wide coverage is required, a questionnaire is the most effective method for collecting data, and respondents are free to provide information because they remain anonymous. This saves time. However, there are disadvantages to questionnaires, such as the inability to clearly explain incomplete responses and the low response rate.

3.3.2 Interviews

May (2011) says that interviews are ways to keep and start conversations with people about a particular topic or range of topics to help social researchers figure out what the data means. As indicated by Favour and Higson-Smith (2000), they include individual contact with the members who are asked to answer research-related inquiries. A direct attempt to obtain verbal responses from one or more respondents in the form of reliable and valid measures is referred to as an interview (Knight,2019).

3.3.2.1 Semi-structured interview

Semi-structured interview is a data collection method that involves asking participants a set of open-ended questions and following them up with probe questions to explore further their response and the topic of interest (Denzin, 2019). Semi-structured interviews are said to give immediate feedback and high response rates (Chiromo, 2009). The researcher was also able to use the interviews on a relatively large sample in a short space of time because they were conducted quickly. The semi-organized interviews' information was effectively measured and the researcher was able to change the order of the questions and dig deeper for more information and clarity by using semi-structured interviews. This was helpful in getting specific information about private feelings, observations, and evaluations from the participants on the effectiveness of fraud detection and prevention in microfinance institutions. In the process, the researcher was able to fully comprehend the discussions as a result. According to Chiromo (2009), interviews can also be used to gather primary data.

3.4 Population

According to Polit and Hungler (2015), the term "population" refers to the total number

of items, subjects, or members that satisfy a set of requirements. The population for this study will be 80 members on microfinance institutions. The target population, as defined by the researcher's sample criteria, is a comprehensive collection of elements that share a few common characteristics, as stated by Cohen and Manion (2011).

3.5 Sampling procedures for data collection

According to Nachmias and Nachmias (1987), sampling is the process by which a researcher conducts research on a subset or portion of the entire population. May (2011) defines sampling as selecting a subset or portion of a larger group to be studied. Sampling, according to Bless and Higson-Smith (2000), is the selection of participants to be studied in order to uncover characteristics that can be applied to the entire population. This research is cost-effective and practical, and the collection of data takes less time with sampling than with the entire population. The researcher is going to use purposive sampling in this study.

3.5.1 Purposive sampling

Purposive sampling refers to a group of non-probability sampling techniques in which units are selected because they have characteristics that you need in your sample (Denzin, 2017). Through purposive sampling, the study sought to generate knowledge regarding the experiences of participants, the importance of availability and willingness to participate, and the ability to communicate experiences and opinions in an articulate, expressive, and reflective manner were of vital significance to this study. Unlike random studies, which deliberately include a diverse cross section of ages, backgrounds and cultures, the idea behind purposive sampling was to concentrate on a population that possessed the most intricate data (Maxwell 2005). Maxwell (2005) highlights that purposive sampling is a form of non-probability sampling, which is any sampling method where some elements of the population have no chance of selection (these are sometimes referred to as 'out of coverage'/'undercover redunder covered'), or where the probability of selection cannot be accurately determined. Maxwell (2005) further posits that it involves the selection of elements based on assumptions regarding the population of interest, which forms the criteria for selection.

3.6 Sample size

Sample size refers to the number of individuals selected to participate in a research study (Cohen and Manion 2011). For this particular research the sample size will

consist of 20 participants who are presumed to possess the ability to comprehend the efficiency of fraud detection and prevention in microfinance institutions.

3.7 Data collection procedures

This section discusses the data collection methods utilised in this research. To collect data, researchers need to develop instruments such as questionnaires, interview schedules, observational forms and standardized tests (Cohen, Manion and Morrisson 2011). For this study, semi structured interviews and questionnaires were employed as they are effective and suitable for data collection under limited resources and time constraints. The primary data collected was used to investigate the efficiency of fraud detection and prevention in microfinance institutions.

3.8 Ethical considerations

Saunders et al (2019), say what is meant by the term "ethics" is the appropriateness of the researcher's behaviour in relation to the rights of those who become the subject of the researcher's work or are affected by it. By informing respondents of the intention to conduct the study, the general ethical concerns will be addressed; soliciting all participants' consent, and protecting privacy by concealing identities. Ethical concerns, concern how to carry out research in a way that does not in any way harm the people who take part in it. "Doing no harm," as defined by Sapsford and Jupp (2016), is an ethical act. The purpose of the study and the uses of the data were explained to the participants and during the data collection process, the interviewees were informed of their rights.

3.8.1 Voluntary participation and informed consent.

Informed consent is one of the founding principles of research ethics. Its intent is that human participants can enter research freely (voluntarily) with full information about what it means for them to take part, and that they give consent before they enter the research (Berg, and Howard, 2012). Voluntary participation is when you decide on your own, not that you want to take permission from somebody before you participate. If you feel like participating and you participate, not that you are being forced to do it (Denzin, 2019). Therefore, in this research the participants are going to be enlightened about the research and asked if they are willing to participate.

3.9 Summary

The main emphasis of the chapter was on the research methodology, design, techniques, sampling procedures for data collection, sample size, data collection procedures, ethical considerations, and limitations of methodology. The following chapter will concentrate on presenting and interpreting of the data.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND DISCUSSION

4.0. Introduction

This chapter focuses on data analysis, presentation and discussion. This section is mainly based on two sections that is the first one focuses on the analysis and presentation of data and the second part is based on discussion of the data. This chapter will present data collected on the effectiveness of fraud detection and prevention in microfinance institutions from 2020 to 2022.

4.1 Data presentation and analysis

Data in this chapter is presented under two classes namely, personal details of the respondents or the participants and the other category is on the responses to the research questions that were given by the respondents.

SECTION A

4.2. Demographic Data

The overall characteristics of the respondents involved in this study were established through the inclusion of questions in the questionnaire. The questionnaire was distributed to sixteen workers at Financial Charter Microfinance. Figure 1.1 below shows the distribution of the selected workers at Financial Charter Microfinance in terms of their professional qualifications.

4.3.1. Distribution of respondents by gender N16

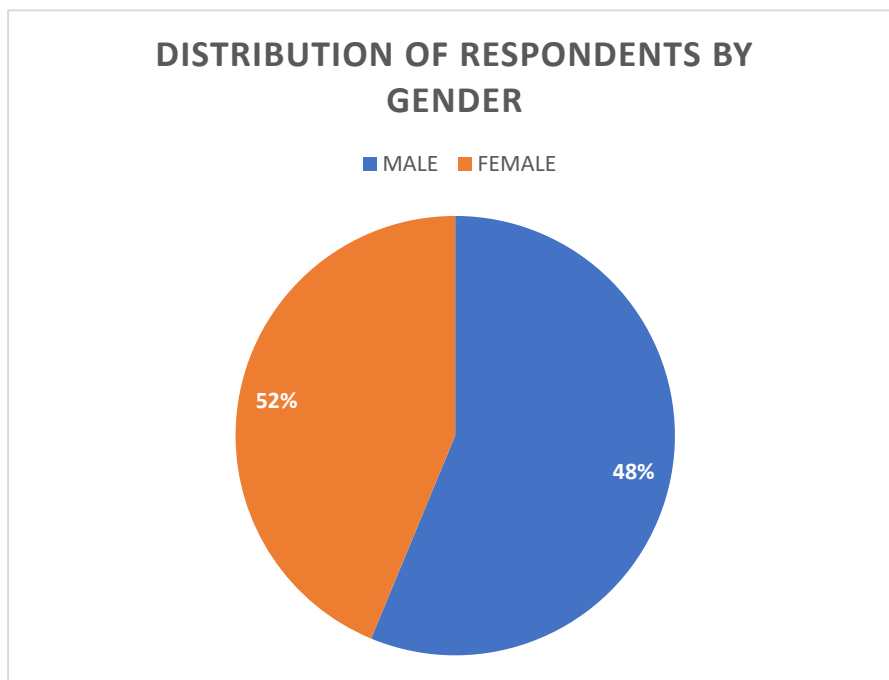


Fig. 4.1. Distribution of respondents by gender

Figure 4.1 shows the gender of the respondents selected Financial Charter Microfinance who are males and female as shown in the pie chart. The males from were treated as one as well as the females were treated as one group. The females were more than males

which were 56% and 44% respectively because of gender imbalance which exist at the microfinance.

4.4. Distribution of the Accounting employees by professional qualifications

Table 4.1. Distribution of the Accounting employees by professional qualifications. (N=16)

| Qualifications | Frequency | Percentage (%) |
|--------------------------|------------------|-----------------------|
| Certificate | 0 | 0 |
| Diploma | 5 | 31 |
| Bachelor's Degree | 8 | 50 |
| Master's Degree | 3 | 19 |
| Other | 0 | 0 |
| Total | 16 | 100 |

From table 4.1, it is evident that all accounting employees at Financial Charter Microfinance as respondents have the necessary qualifications for executing their tasks and to participate in the research. The least qualification of these workers is a Diploma in Accounting there were 5 representing 31% and highest qualification is a Master's Degree and only three (19%). Therefore, this showed that the participants increased the trustworthiness of the responses from the workers that might have vast knowledge about the effectiveness of fraud detection and prevention mechanisms. Therefore, the failure of fraud detection and prevention cannot be attributed to the workers experience or qualification since the research showed that they have the adequate experience and qualifications.

Table 4.2 Participant's Working experience at the Organization

| Experience | Frequency | Percentage (%) |
|-------------------|------------------|-----------------------|
| 1-5 years | 10 | 62% |

| | | |
|--------------|-----------|-------------|
| 6-10 years | 4 | 25% |
| 11-15 years | 2 | 13% |
| 16 + years | 0 | 0% |
| Total | 16 | 100% |

Table 4.2 shows that the selected participants at Financial Charter Microfinance have adequate experience in the field and appropriate qualifications. Only two participants in the sample have between 11 and 15 years of experience.

SECTION B

4.5 Cases of Fraud encountered at the organization as from 2021

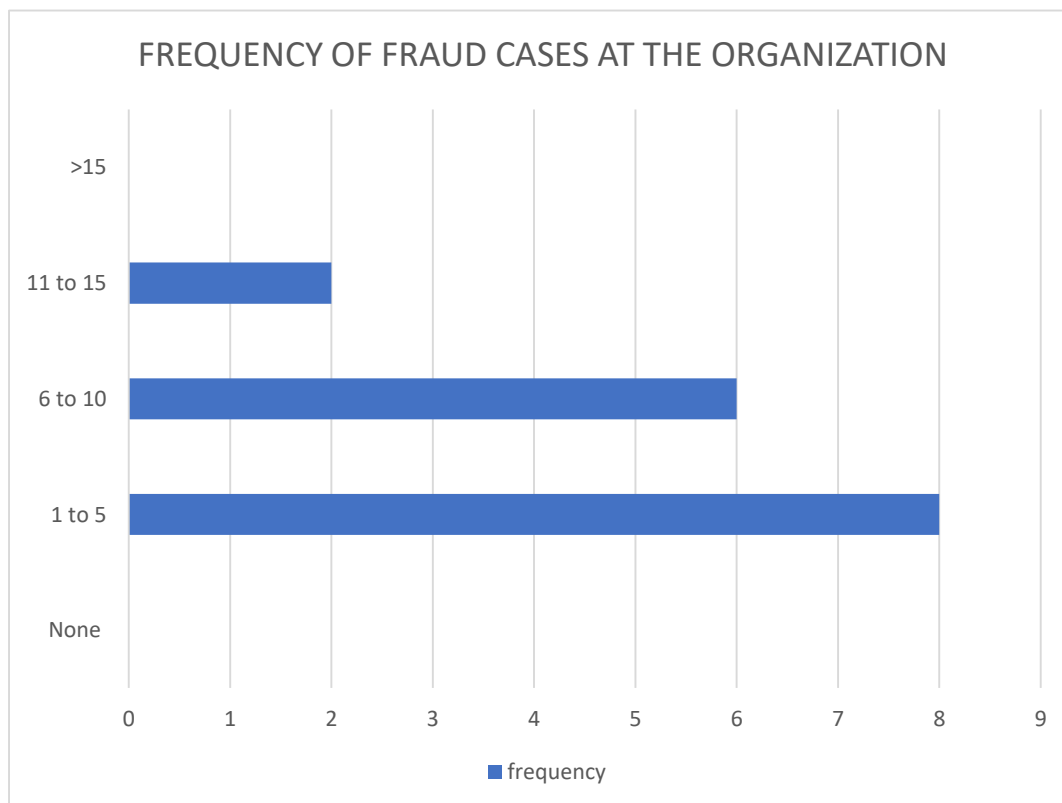


Figure 4.2 Frequency of fraud cases at the organization

Figure 4.2 above indicate the level of frequency of fraud cases at the Financial Charter Microfinance. It is beyond reasonable doubt that the fraud cases are still striking this organization at large in the sense that majority of the participants 50 % highlighted that there are about one to five cases of found at the organization since 2021. 38% representing six participants affirmed that the level of fraud cases its between six to ten and only two representing 13% highlighted that the level of fraud during this period is between eleven to fifteen cases. These finding clearly suggest that fraud is still a matter need to be dealt with at this organization.

4.6 Frequency of the organization in monitoring Fraud cases risk indicators to pre-empt fraudulent activities.

Table 4.2 Frequency of the organization in monitoring Fraud cases risk indicators to pre-empt fraudulent activities.

| | Frequency | Percent |
|---------------|-----------|------------|
| Monthly | 10 | 63 |
| Quarterly | 2 | 13 |
| Semi Annually | 0 | 0 |
| Annually | 0 | 0 |
| Other | 4 | 25 |
| Total | 16 | 100 |

Table 4.2 above indicated the frequency of the organization in monitoring Fraud cases risk indicators to pre-empt fraudulent activities. 25% of the respondents indicated that the organization daily and weekly monitor fraud while majority of the respondents representing 63% alluded that they monthly monitor fraud. Only 13% of the selected participants indicated that the organization quarterly monitor fraud. These findings confirmed that fraud has been treated by this organization though it is not done frequently as alluded by the majority of the participants.

4.7 What fraud detection and prevention tools and software packages can be used at Financial Charter Microfinance?

Two participants highlighted that the organization use Excel and MS Access they indicated that this works out in a good way for basic reviews like money recuperation. One of the selected participants alluded that the utilize Audit Command Language (ACL) she indicated that excellence of this instrument is that it fits 100 percent testing and persistent reviewing. Majority of the respondents 8(50) indicated that they use straight-through processing (STP), this is an extortion preventive device accessible especially for inside review use. STP idea is planned so that once an activity is started, the framework is planned with installed work process.

4.8 The effectiveness of fraud detection and prevention in microfinance institutions

Using Likert scale 1=strongly agree, 2=Agree, 3=not sure, 4=Disagree, 5=strongly agree to extract feedback from the selected participants, the researcher managed to sought the effectiveness of fraud detection and prevention in microfinance institutions. Whereas the standard deviation of >1.0 implied heterogeneity and a standard deviation of <1.0 implied homogeneity. Mean and standard deviation were used to analyse the data. According to the researcher the following ranges were used in the data analysis:

Table 4.3 mean data ranges

| | <i>Range</i> |
|--------------------------|----------------|
| Strongly Disagree | <i>1-1.8</i> |
| Disagree | <i>1.9-2.6</i> |
| Not sure | <i>2.7-3.4</i> |

| | |
|-----------------------|---------|
| Agree | 3.5-4.2 |
| Strongly Agree | 4.3-5 |

The researcher noted that factors with a mean close to 4.3 were rated as having a very significant impact, while those with a mean close to 1.0 were not considered or had no impact. The level of disagreement or dispersion among the respondents was higher when the standard deviation was higher.

Table 4.4 The effectiveness of fraud detection and prevention in Microfinance institutions

| Aspects | N | Min | max | (\bar{x}) | Std. Dev |
|--|----------|------------|------------|-------------------------------|-----------------|
| The organization has policies in place to prevent fraudulent activities and to provide guidance to its employees including those in management positions | 16 | 1 | 5 | 3.82 | 0.66 |
| The anti-fraud policies of the organization provide clear guidance to workers at all levels of management regarding their responsibilities and the consequences that will follow in the event of fraud | 16 | 1 | 5 | 3.7 | 0.821 |
| The anti-fraud policy clearly stipulates fraud detection and prevention | 16 | 1 | 5 | 2.3 | 0.567 |

| | | | | | |
|---|----|---|---|------|-------|
| The organization has dedicated sufficient resources to managing the risk of fraud. | 16 | 1 | 5 | 2.54 | 0.432 |
| Poor internal controls lead to financial mismanagement within microfinance and encourage fraud | 16 | 1 | 5 | 4.2 | 0.672 |
| The financial sustainability of the organization has been enhanced due to improved fraud risk management practises. | 16 | 1 | 5 | 1.56 | 0.713 |
| Ethical organization culture influences the success of detecting fraud within the organization | 16 | 1 | 5 | 3.43 | 1.22 |

4.9 Fraud deterrence strategies employed by the organization as highlighted by employees

The study also managed to exploit the fraud deterrence strategies that are implemented at the microfinance. The employees at the organization indicated some of the strategies employed to fight fraud the following dimensions were used Very often=1, Often=2, Not Sure=3, Not often=4 and Not at all=5. From the results 1.00 to 1.8 implied Not at all, Not often 1.90-2.60, Not sure 2.70-3.40, Often 3.50-4.20 and Very often 4.30-5.00. The researcher found out that the organization very often employ staff supervision and also ensure controls when accessing systems. It is evidenced as highlighted in table 4.5 below were the mean score of 4.54(std 0.532) and 4.32 (std 0.354) was obtained for clear division of duty and staff close supervision respectively. Therefore, it is clear that the organization very often does clear division of duty and staff close supervision so as to prevent and control fraud. On ensuring safe controls when accessing system, a mean score of 4.60 (std 0.212) was obtained reflecting that the organization very often do that. However, the organization not often use whistle blower strategy, incentives and hotline, strict legal consequences, high fines and penalties and fraud risk register as highlighted on the table below.

Table 4.5 Fraud deterrence strategies employed by the organization

| Aspects | N | Min | Max | Mean score | Standard deviation |
|---|----|-----|-----|------------|--------------------|
| Clear division of duty | 16 | 1 | 5 | 4.54 | 0.532 |
| Staff close supervision | 16 | 1 | 5 | 4.32 | 0.354 |
| Monitoring work performance | 16 | 1 | 5 | 3.67 | 0.421 |
| Whistle blower strategy, incentives and hotline | 16 | 1 | 5 | 1 | 0.722 |
| Ensuring safe controls when accessing system | 16 | 1 | 5 | 4.60 | 0.212 |
| Strict legal consequences | 16 | 1 | 5 | 1.72 | 0.532 |
| High fines and penalties | 16 | 1 | 5 | 1.32 | 0.634 |
| Fraud risk register | 16 | 1 | 5 | 1.232 | 0.642 |

4.10 Challenges associated with using accounting audit systems in fraud reduction and prevention

The study also managed to exploit some of the challenges being faced by the organization associated with using accounting audit systems in fraud reduction and prevention. Participants highlighted the following challenges:

Lack of training and expertise in fraud detection, auditors' need preparing in fraud recognition strategies or fraud examination methods. Some indicated in the same vein that auditors are in steady communications with the board and may foster trust patterns that disrupt their capacity to actually handle fraud prompts. They are also expensive. The auditor might have a conflict of interest arising from the client paying the audit and other fees. Participants also indicated that the auditors might have a high level of time pressure and securities laws do not effectively punish auditors for failing to detect fraud.

If not constantly monitored and updated systems might crash and some might be hacked.

4.11 What can be done to improve the effectiveness of fraud detection and prevention mechanisms in microfinance institutions

Internal audits should be effectively and frequently done at the organization. The organization financial department should effectively improve the fraud detection and prevention mechanisms. Expertise should be frequently hired so as to monitor and update fraud detection and prevention mechanism. The company should hire well trained and experienced auditors. Computer systems and fraud mechanisms should be constantly managed. The management should craft clear policies and penalties on fraud issues.

4.12.0 ANALYSIS OF THE INTERVIEW GUIDE

4.12.1 What can be done to improve the effectiveness of fraud detection and prevention mechanisms in microfinance institutions

Participant 1: Electronic fraud detection systems should be consistently updated and monitored so as to prevent hacking and system failures that might cost the organization at end

Participant 2: People should be constantly monitored on the execution of duty

Participant 3: Every individual should have a culture of doing good and to report incidents of fraud the organization is facing

Participant 4: The management should participant in all activities and processes that involve fighting against fraud and clear penalties should be crafted

4.12.2 Which anti-fraud measures have been most effective in combating fraud in your organization?

Participant 1: Internal audits and external audits are frequently conducted at the organization

Participant 2: penalties are given when one is found on the wrong side of the laws

Participant 3: Duties are correctly assigned for accountability

Participant 4: Constant supervision and auditing is done

4.12.3 How does the Auditor General ensure the implementation of the set fraud prevention and detection techniques?

Participant 1: Auditor General should design and play out a review to acquire sensible confirmation about whether the budget summaries are liberated from material misquote, whether brought about by mistake or extortion.

Participant 2: Encourage the organization management to fully participate and engage them in fraud prevention and detection mechanisms

Participant 3: Assembles data expected to distinguish dangers of material misquote because of Fraud

Participant 4: Auditors serve an important gatekeeping and investor protection function by helping to verify that issues are promptly identified and addressed

4.13 Chapter summary

The chapter presented the findings from the research instrument used in the collection of data, which is the questionnaires and interviews. Data was collected through the use of Questionnaires and interviews. Data was analyzed and interpreted in light of the reviewed literature. The next chapter 5 presents the discussion, summary, conclusion and recommendations of the study.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This section includes the synopsis of the discoveries analysis of the outcomes, and the deduction made from the investigation, along with suggestion based on the studies' findings recommendations for future research

5.2 Summary of the Findings

The study exploited the demographic information of the participants, from the study it was found that the females were more than males which were 56% and 44% respectively because of gender imbalance which exist at the microfinance. It was also found out that the least qualification of these workers is a diploma in accounting there were 5 representing 31% and highest qualification is Master's Degree and only three (19%). Therefore, this showed that the participates increased the trustworthiness of the responses from the workers that might have vast knowledge about the effectiveness of fraud detection and prevention mechanisms. The selected participants at Financial

Charter Microfinance have adequate experience in the field and appropriate qualification. It was found out that frequency of the organization in monitoring fraud cases risk indicators to pre-empt fraudulent activities is on monthly bases as represented by majority of the participants.

The company indicated a number of fraud detection software's they utilize at their organization these include Excel and MS Access two participants indicated that this works out in a good way for basic reviews like money recuperation. Audit Command Language (ACL) and Straight-through processing (STP) is also used at this organization as highlighted by the participants. The study also managed to exploit the fraud deterrence strategies that are implemented at the microfinance. The researcher found out that the organization very often employ staff supervision and also ensure controls when accessing systems. It is evidenced as highlighted in table 4.5 below were the mean score of 4.54(std 0.532) and 4.32 (std 0.354) was obtained for clear division of duty and staff close supervision respectively. Therefore, it is clear that the organization very often do clear division of duty and staff close supervision so as to prevent and control fraud. On ensuring safe controls when accessing system, a mean score of 4.60 (std 0.212) was obtained reflecting that the organization very often do that. However, the organization not often use whistle blower strategy, incentives and hotline, strict legal consequences, high fines and penalties and fraud risk registers. As highlighted by Kishore and type, (2011) that organizations have not successfully implemented a great number of fraud detection instruments and that the fraud detection's processes do not mostly rely on technology.

5.3 Conclusions

Based on the findings the study made the following conclusions guided by the study objectives:

The study indicated that the organization have suffered from fraud occurrences considering what the participants have alluded it was found out that the prevalence of fraud at the organization is a bit higher. The organization should frequently monitor fraud so as to increase the effectiveness of their monitoring systems. On the other hand the organization anti-fraud policies do not consider cultural differences and dynamicity in responding to fraud among the employees.

The study has concluded that the effectiveness of fraud detection and prevention is enhanced by involvement of expertise and experienced people in audits (internal and external). Additionally, it was found out that the engagement of top management in fraud control and prevention is key. However, the study found out that there is need for the organization to implement vast fraud detection tools and these should involve technology.

The findings of the study indicated fraud deterrence it was found out that very often supervision is done and safe control when assessing systems. It was concluded that the organizations should include clear division of duties, strict measures and penalties and fines and engagement of whistle blowing technique in fraud detection.

5.4 Recommendations based on the findings and conclusions the study made the following recommendations:

- The research has found out that there is need for constant monitoring process which seek to tackle fraud related issues this can be done on daily, weekly or monthly basis. Therefore, time should not elapse without monitoring and reviewing the fraud monitoring process.
- The researcher also recommend that organizations should craft clear policies to manage and monitor fraud at organizations. The policy should clearly define roles and duties of workers and guide employees and also measures that can be done in case of deviations thus penalties and judgment pertaining to fraud occurrences.
- In addition, an appropriate oversight process needs to be developed to assist in preventing fraudulent financial operations
- Organizations are also recommended to effectively carry out internal and external audit as a measure to control and prevent fraud. The audits should be frequently done and expertise and experienced individuals should be involved in fraud detection audits. More the management should be involved and support these audit
- Organization management should be directly involved fraud audit processes and also chip in to finance in processes such as automation of fraud detection processes.
- The findings of the research indicated that the organizations should utilize measures such as staff constant monitoring, use of fraud risk registers, safe control

when accessing processes, monitoring of work performance, fraud awareness training and well-defined fines and penalties.

5.5 Suggested areas for further study

The objective of the study exploited the the effectiveness of fraud detection and prevention in microfinance institution. The research only focused on single microfinance institution, therefore further studies can be stretched to cover vast microfinances in sack of reliability and coverage. Beside carrying out the similar study on wide coverage further research can be done to exploit impact of variables such as audits, financial performance, organizational structure and their influence to microfinance institutions.

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APPENDICIES

APPENDIX 1: QUESTIONNAIRE FOR COMPLAINANTS

SECTION A: PERSONAL INFORMATION

In this section you are requested to provide your personal information by ticking where suitable.

1. GENDER:

Male: Female

2. AGE:

25-30 years 31-35 years 36-40 years 41-45 years
46 + years

3. PROFESSIONAL QUALIFICATIONS:

Certificate Diploma Bachelor's Degree Master's Degree

Other specify-----

4. EXPERIENCE:

| Experience | TICK |
|--------------------|-------------|
| 1-5 years | |
| 6-10 years | |
| 11-15 years | |

| | |
|------------|--|
| 16 + years | |
|------------|--|

SECTION B:

5. How many cases of Fraud have you encountered as an organization so far since from 2021

None [] 1-5 [] 6-10 [] 11- 15 [] Above 15[]

6. How frequently does the organization monitor Fraud cases risk indicators to pre-empt fraudulent activities.

Monthly [] quarterly [] Semi Annually [] others (specify)

7. What fraud detection and prevention tools and software packages can be used at Financial Charter Microfinance?

8. THE EFFECTIVENESS OF FRAUD DETECTION AND PREVENTION IN MICROFINANCE INSTITUTIONS

| Aspects | Strongly Agree | Agree | Disagree | Strongly disagree |
|---|----------------|-------|----------|-------------------|
| a) The organization has policies in place to prevent fraudulent activities and to provide guidance to its employees including those in management positions | | | | |
| b) The anti-fraud policies of the organization provide clear guidance to | | | | |

| | | | | |
|--|--|--|--|--|
| workers at all levels of management regarding their responsibilities and the consequences that will follow in the event of fraud | | | | |
| c) The anti-fraud policy clearly stipulates fraud detection and prevention. | | | | |
| d) The organization has dedicated sufficient resources to managing the risk of fraud. | | | | |
| e) Poor internal controls lead to financial mismanagement within microfinances and encourages fraud | | | | |
| f) The financial sustainability of the organization has been enhanced due to improved fraud risk management practises. | | | | |
| g) Ethical organization culture influences the success in detecting fraud within the organization | | | | |

9. The following table indicate aspects related to fraud deterrence strategies. Please indicate your opinion on how organization apply the following strategies to eradicate fraud.

| Aspects | Very often | Often | Not Sure | Not often | Not at all |
|----------------|-------------------|--------------|-----------------|------------------|-------------------|
| | (1) | (2) | (3) | (4) | (5) |

| | | | | | |
|--|--|--|--|--|--|
| Clear distinction of responsibilities | | | | | |
| closely supervised staff | | | | | |
| Monitoring work performance | | | | | |
| Whistle blower strategy in place and has a hotline | | | | | |
| Ensure safe controls when accessing system | | | | | |
| Enforcement of strict legal consequences | | | | | |
| High fines and penalties | | | | | |
| Fraud risk register | | | | | |

10. What are the challenges associated with using accounting audit systems in fraud reduction and prevention at Financial Charter Microfinance?

11. What can be done to improve the effectiveness of fraud detection and prevention mechanisms in microfinance institutions

APPENDIX 2: INTERVIEW GUIDE

- 1. What fraud detection and prevention tools and software packages can be used at Financial Charter Microfinance?**
- 2. What can be done to improve the effectiveness of fraud detection and prevention mechanisms in microfinance institutions**
- 3. Which anti-fraud measures have been most effective in combating fraud in your organization?**
- 4. How does the Auditor General ensure the implementation of the set fraud prevention and detection techniques?**
- 5. What are the strengths and limitations of the set fraud prevention and detection techniques in your organization?**