BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTANCY

THE ROLE OF INTERNAL CONTROLS IN MANAGING FINANCIAL RISK, FRAUD, AND REGULATORY COMPLIANCE IN BUREAUX. A CASE OF WEALTHLUC FINANCIAL HOLDINGS

BY

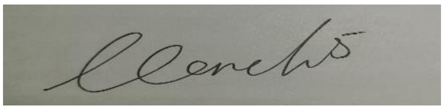
KENCHLOW MUSETA

THIS RESEARCH IS SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE BACHELOR OF ACCOUNTANCY HONOURS DEGREE OF BINDURA UNIVERSITY OF SCIENCE EDUCATION. FACULTY OF COMMERCE

JUNE 2025

RELEASE FORM

NAME OF THE AURTHOR:	KENCHLOW MUSETA
DISSERTATION TITTLE:	The Role of Internal Controls in Managing financial Risk, Fraud, and Regulatory Compliance in Bureaux. A case of Wealthluc Financial Holdings
DEGREE TITTLE:	Bachelor of Accountancy Honours Degree
YEAR GRANTED:	2025

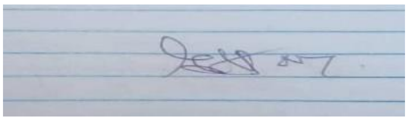
SIGNED:……  …..…

DATE…………………15 JULY…2025

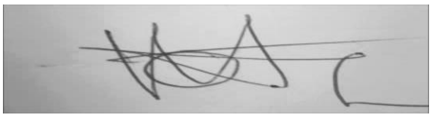
APPROVAL FORM

I certify that the above-mentioned student was under my supervision and that I support the submission of this dissertation for marking, as it meets the required academic standards. I further confirm that I provided adequate supervision and that the student has fulfilled all the requirements and expectations set before her under my guidance.

Name of Supervisor: ………MR N…HOVE………………………

Signature : 

Accountancy Department Chairperson:…. Mr ..O Manyani

Signature: 

Date:……………………..15 JULY….2025…………………….……

Dedication

This dissertation is dedicated to my beloved family, whose unwavering support, encouragement, and prayers carried me through this academic journey. To my parents, thank you for instilling in me the values of hard work, perseverance, and integrity.

To my friends and mentors who believed in me even when I doubted myself — your faith and encouragement gave me strength.

Above all, I dedicate this work to the Almighty God, whose grace and guidance have sustained me through every challenge and achievement.

Abstract

The study examined how internal controls help manage financial fraud, risks, and regulatory compliance in Zimbabwe's bureau de change sector, focusing on Wealthluc Bureau de Change. Using a quantitative design and data from 133 employees, the research applied the COSO framework to evaluate five control components. Analysis with SPSS showed strong positive links between internal controls, compliance, and financial risk management, and a negative link with fraud. Regression results confirmed that internal controls significantly influence compliance (47.3%), risk mitigation (38.6%), and fraud reduction (30.6%). The study concludes that strong internal controls enhance governance and recommends improving whistleblower systems, AML training, risk monitoring tools, and adoption of the COSO framework.

Acknowledgements

First and foremost, I want to extend my deepest gratitude to the Almighty God for granting me the strength, health, and wisdom to complete this dissertation.

I am profoundly thankful to my supervisor, Mr…N.HOVE……………, for their invaluable guidance, patience, and constructive feedback throughout the course of this research. Your encouragement and academic insight have been instrumental to the success of this work.

My heartfelt appreciation goes to the management and staff of Wealthluc Bureau de Change for their cooperation and support during the data collection process. Without their participation, this study would not have been possible.

Special thanks go to my family for their unwavering support, love, and understanding during times of pressure and long study hours. Your belief in me gave me the motivation to keep going.

I would also like to thank my lecturers, colleagues, and friends at Bindura University of Science Education who contributed in various ways academically and emotionally throughout this journey.

Finally, I am grateful to anyone who contributed to this dissertation, directly or indirectly. Your support is sincerely appreciated.

Table of Contents

List of tables

CHAPTER I

INTRODUCTION

This paper examines the significance of internal controls on controlling fraud, financial risks and regulatory compliance of bureau de change operations in Zimbabwe. With the considerable amount of cash and foreign currency they deal with day-to-day, bureaux de change are exposed to operational and regulatory risks. Add to that a rocky economy, which has currency fluctuations, inflation and changing monetary policy, as well as heightened regulatory oversight from the likes of the Reserve Bank of Zimbabwe. Internal controls are thus important for maintaining financial integrity and minimizing fraud and meeting legal and regulatory requirements. This study appraisals internal control measures as panacea to these risks with reference to Wealthluc Bureau de Change.

1.1 Background to Study

Bureau de change are important in the economy, as they provide a retail service for currency exchange to the general public. Case study is based on Wealthluc Bureau de Change, a licensed financial institution in Zimbabwe. Firstly, the basic function is to provide for the purchase and sale of foreign exchange in order to satisfy the demands of persons – individuals, tourists, importers and exporters – with the aim of ensuring smooth transactions across borders and economic stability. Bureau de change firms themselves are highly vulnerable to the volatility of the market in which they purchase, sell or trade foreign currency in large quantities relative to customers who wish to travel.

In the study carried out by Amudo and Inanga, (2009) on the effectiveness of internal control systems in certain selected African developing countries, focusing on public sector and financial institutions. The findings showed that the presence of well-designed and effectively implemented internal control systems helps improve financial accountability, risk mitigation, and fraud prevention. The study emphasized that internal controls particularly those aligned with frameworks like COSO serve as critical tools for safeguarding financial resources and ensuring operational compliance. This highlights the importance of strong internal controls in institutions that handle high-risk transactions, such as Bureaux de Change, where exposure to financial risk and regulatory demands is elevated.

The currently highly volatile macro-economic backdrop in Zimbabwe with its currency depreciation, rampant inflation and the pressures from the unofficial market all exacerbate the financial risk exposure of these organisations. These challenges are exacerbated by the necessity for compliance with intricate statutory and regulatory mechanisms imposed by the Reserve Bank of Zimbabwe (RBZ), the Financial Intelligence Unit (FIU) and other regulatory bodies. Such frameworks, inter alia, comprise AML and CFT rules, as well as requirements for the conducting of periodic audits and opening of accounts.

In such setting, adopting meaningful internal control structures is not only a best practice management function, but also a legal and regulatory requirement. Internal controls are system of structured measures, principles or procedures adopted by an organisation to safeguard assets, secure the soundness of financial and accounting information, to promote operational efficiency and encourage adherence to prescribed managerial policies and maintain governmental regulations. In bureau de change activities, the importance of internal control lies in mitigating key risks as exchange rate fixing, cash defalcation, fictitious operations or failure to comply with the legal regulations.

When they are either not in place or don't work, the consequences can be severe – from financial losses and reputation damage to loss of operating permits and criminal sanctions. There have been reported cases in Zimbabwe where financial improprieties have occurred due to the existence of poor internal control environment in financial institutions thus necessitating regulatory intervention. Therefore, the research aim is to explore the use of internal controls in the operations and also within other bureau de change operations in managing financial risk, detecting and preventing fraud, and enhancing compliance.

1.2 Statement of the Problem

Zimbabwean bureau de change have in recent years faced increased regulatory oversight arising from rising incidences of financial crime, breaching statutory laws and their susceptibility to systemic risks. Despite the existence of a broad range of controls, such as dual authorisation, audit trails and Know Your Customer (KYC), there is evidence that 'control' failures persist. Such failures often appear as undiscovered frauds, inefficiencies in processing transactions, and noncompliance with regulatory requirements.

Also, several circulars and directives under from RBZ and other supervisory bodies have been released to cover compliance and enhance internal governance. However, many bureau de change are having difficulty enforcing these rules. This also poses serious questions with regard to the effectiveness, adequacy and enforceability of existing internal controls. That the breaches persisted suggests a bit of a misalignment between policy aspiration and practical reality. Subsequently, this paper seeks to appraise the nature of internal controls in bureau de change and the extent to which these controls accomplish the objective of realising risk-mitigation, fraud deterrence and regulatory compliance.

1.3 Aim of the Study

The primary aim of this study is to examine the role of internal controls in managing financial risks, fraud, and regulatory compliance within bureau de change operations. Specifically, the study aims to:

- Identify and examine the types of internal controls implemented by bureau de change in Zimbabwe.
- Assess the effectiveness of these controls in mitigating financial risks.
- Evaluate the role of internal controls in detecting and preventing fraudulent activities.
- Investigate the contribution of internal controls to regulatory compliance.

1.4 Research Questions

To guide the study, the following research questions are posed:

- What types of internal controls are commonly adopted by bureau de change in Zimbabwe?
- How effective are these internal controls in managing financial risks?
- To what extent do internal controls aid in detecting and preventing fraud?
- How do internal controls support compliance with relevant regulatory frameworks?

1.5 Significance of the Study

This research carries multifaceted significance, providing distinct benefits to various stakeholders, including the student undertaking the study, Bindura University of Science Education (BUSE), and the research client operating within the financial services sector, particularly a bureau de change institution.

1.5.1 Significance to the Student

For the student, this dissertation represents a critical academic and professional milestone. It provides an opportunity to apply theoretical knowledge to real-world issues within the financial services industry, thereby enhancing both academic competency and practical insight. The study enables the student to:

- Develop Research Competence: Through formulating research questions, conducting a literature review, gathering empirical data, and analyzing findings, the student builds essential research skills that are valuable for future academic or professional endeavors.
- Enhance Critical Thinking: The complexity of financial risk, fraud, and compliance issues requires a high level of analytical thinking. This study helps the student critically assess organizational systems, identify control gaps, and propose actionable solutions.
- Gain Industry-Relevant Expertise: By focusing on the bureau de change sector—a niche yet vital component of the financial ecosystem—the student gains domain-specific knowledge, which is increasingly valued in financial compliance, auditing, and risk management careers.
- Strengthen Career Prospects: Successful completion of this research enhances the student's curriculum vitae by demonstrating practical knowledge of financial regulations, internal control systems, and corporate governance, making them a competitive candidate for roles in financial institutions, regulatory bodies, or consultancy firms.

1.5.2 Significance to Bindura University of Science Education (BUSE)

The study contributes directly to the academic standing and research agenda of BUSE, particularly within its Faculty of Commerce and financial disciplines. The significance to the institution includes:

- Enriching Academic Resources: The dissertation adds to the university's repository of scholarly work on internal controls, fraud prevention, and compliance within financial institutions, serving as a resource for future students and researchers.
- Promoting Applied Research: BUSE aims to bridge the gap between academia and industry. This study exemplifies applied research that addresses practical problems faced by financial institutions in Zimbabwe, thereby aligning with the university's mission to produce industry-relevant knowledge.
- Enhancing Curriculum Development: Insights from the study may inform the development or refinement of modules in accounting, finance, internal auditing, and corporate governance. Real-world case studies can be integrated into teaching material, improving student engagement and learning outcomes.
- Fostering Strategic Partnerships: By collaborating or engaging with industry players such as bureau de change for data collection and validation, BUSE may strengthen its ties with the private sector, opening avenues for internships, field research, and consultancy work.

1.5.3 Significance to the Research Client (Wealthluc Bureau de Change)

For the participating or target bureau de change institution, the research offers tangible and strategic value. It provides a diagnostic perspective on their internal control systems and opportunities for operational enhancement. The key benefits include:

- Assessment of Control Effectiveness: The study examines the implementation and efficacy of existing internal controls, offering the client objective insights into areas of strength and weakness in their risk management framework.
- Fraud Risk Mitigation: By identifying common loopholes and fraudulent schemes in the bureau de change context, the research equips management with recommendations to reinforce fraud prevention mechanisms and staff vigilance.
- Regulatory Compliance Assurance: The findings support the client in aligning with current regulatory expectations set by authorities such as the Reserve Bank of Zimbabwe (RBZ) and the Financial Intelligence Unit (FIU), helping avoid penalties or licence suspensions.
- Strategic Decision-Making: Recommendations from the study can inform policy updates, investment in control technologies, staff training programs, and governance reforms that enhance operational efficiency and long-term sustainability.

- Reputation and Stakeholder Confidence: Demonstrating a commitment to continuous improvement and academic collaboration enhances the public image of the bureau de change and builds trust with regulators, clients, and investors.

1.5.4 Significance to the Financial Services Industry

This study holds value for broader financial institutions beyond the case study organization. The findings can guide similar entities in:

- **Benchmarking Best Practices**: Other bureau de change and financial institutions can use the study to benchmark and improve their own internal control mechanisms.
- **Sector-Wide Policy Improvement**: The insights may inform sector-level discussions on enhancing financial stability and mitigating systemic risks caused by weak internal control frameworks.
- **Risk Awareness and Control Culture**: It raises awareness across the sector about the importance of fostering a culture of accountability, transparency, and ethical conduct in high-risk environments.

1.5.5 Significance to Regulators and Policymakers

The study may also provide valuable feedback to financial regulatory authorities such as the Reserve Bank of Zimbabwe (RBZ), Financial Intelligence Unit (FIU), and Zimbabwe Anti-Corruption Commission (ZACC) by:

- **Informing Regulation and Oversight**: Findings can support evidence-based policymaking and enhance the monitoring framework for bureau de change operations.
- **Identifying Compliance Gaps**: The study may uncover common compliance deficiencies, assisting regulators in refining inspection procedures and crafting more effective directives or sanctions.
- **Improving Training and Guidelines**: Regulators can use the findings to revise or develop training manuals, AML guidelines, and risk-based supervision models for licensed currency exchange operators.

1.5.6 Significance to Auditors and Risk Consultants

External and internal auditors, as well as risk and compliance consultants, can benefit from the study by: Improving Audit Focus: It highlights areas of high risk within bureau de change, helping auditors tailor their audit scopes and test controls more effectively. Developing Control Checklists: The research may contribute to the creation of industry-specific checklists and risk matrices that can be used during operational or forensic audits. Offering Training Resources: The study can serve as material in professional training sessions on internal controls, fraud detection, and regulatory compliance.

1.5.7 Significance to the Academic Community and Future Researchers

The dissertation adds scholarly value by contributing to the relatively limited academic literature focused on bureau de change operations in Zimbabwe and Sub-Saharan Africa. It provides: A Foundation for Further Research: Future scholars can use this study as a reference or starting point for exploring related topics such as fintech compliance, cryptocurrency exchanges, AML systems, or cross-border capital movement controls. Case-Specific Insight: By focusing on an under-researched sector, the study expands the scope of academic inquiry into financial regulation and operational risk in non-bank financial institutions. Empirical Evidence: It provides data-driven insights that support or challenge existing theoretical frameworks on internal control effectiveness and governance in small to medium-sized financial institutions.

1.6 Scope of the Study

This study is confined to selected licensed bureau de change operating within Harare, Zimbabwe’s capital and a key hub for foreign currency transactions. The focus is on examining internal control systems currently employed and their influence on financial risk management, fraud detection, and compliance performance. The temporal scope covers a five-year period (2020–2025), allowing for the analysis of evolving trends, policy impacts, and systemic challenges during this time.

1.7 Limitations of the Study

While the study strives for objectivity and thoroughness, certain limitations are anticipated: Restricted access to confidential operational data due to proprietary and security concerns.

Potential bias in responses from participants, particularly in disclosing weaknesses or failures in internal controls. The exclusion of informal foreign exchange operators who fall outside the formal regulatory perimeter, limiting the generalisability of findings. Possible changes in regulatory policies during the research period that could affect consistency in evaluating compliance practices.

1.8 Assumptions of the Study

The study proceeds under the following assumptions: Respondents will provide honest and accurate information regarding internal control practices and challenges. The internal control systems under investigation are actively in use and reflect current operational practices. Regulatory policies and frameworks governing bureau de change operations will remain relatively stable throughout the study period. The selected participants possess adequate knowledge and experience related to the internal control environment of their institutions.

1.9 Organisation of the Study

The dissertation is structured into five chapters, each addressing a key component of the research process:

- **Chapter One** introduces the study by providing background, articulating the research problem, outlining objectives and research questions, and establishing the significance, scope, limitations, and structure of the study.
- **Chapter Two** presents a comprehensive literature review, including relevant theories, empirical findings, and regulatory frameworks concerning internal controls, financial risk, fraud, and compliance.
- **Chapter Three** details the research methodology, including the research design, population and sample, data collection methods, and analytical techniques.
- **Chapter Four** presents and interprets the research findings based on data analysis.
- **Chapter Five** summarises the key findings, draws conclusions, and offers recommendations for practice and future research.

1.10 Definition of Key Terms

- **Internal Controls**: Organisational policies and procedures designed to safeguard assets, ensure the accuracy of financial records, and promote efficiency and compliance.
- **Financial Risk**: The potential loss resulting from exposure to adverse financial conditions such as exchange rate volatility or liquidity constraints.
- **Fraud**: Deliberate deception or manipulation of information or assets for unlawful personal or financial gain.
- **Regulatory Compliance**: The process of conforming to external legal and regulatory requirements set by oversight institutions.
- **Bureau de Change**: A financial service provider licensed to buy and sell foreign currency under regulatory supervision.
- **RBZ** : The central bank of Zimbabwe ,Reserve Bank of Zimbabwe

1.11 Summary

This chapter has laid the groundwork for the study by outlining the rationale, scope, and objectives of the research. It has identified the problem context and provided a roadmap for the subsequent chapters. With Zimbabwean bureau de change facing escalating financial risks and regulatory demands, the study's focus on internal controls is both timely and critical. The next chapter will present a detailed review of the literature, including theoretical models and empirical studies relevant to the research topic.

CHAPTER II

LITERATURE REVIEW

2.1 Introduction

The review of the related literature is the theoretical and empirical background of this research. It combs through and evaluates relevant frameworks, models, and sources of literature on internal controls, financial risk management, fraud prevention and regulatory compliance, especially within the non-bank financial institutions (NBFI) space and in fact bureau de change. This chapter begins by presenting the theoretical framework of the research and by the elements and objectives of internal control system. It next discusses the relationship of internal controls with the three facets of research: financial risk management, fraud deterrence and regulatory compliance. We offer a synthesis of the empirical studies followed by the identification of the literature gaps that we aim to fill in this study.

2.2 Theoretical Framework

Background and organisation theory and agency theory The utilization and the architecture of internal control systems in banks are founded on established organisation and economic theories. These theories contribute to the understanding of the need for internal control and how it affects the behavior and outcomes in bureau de change businesses.

2.2.1 Agency Theory

Agency theory (Jensen & Meckling, 1976) holds that in firms - especially those featuring some form of delegated authority - exists a situation in which the owners (principals) and the managers or employees (agents) of the firm have conflicting interests. Agents can act in their best interest instead of for the benefit of a principal. In a typical bureau exchange, there could be cases of the staff conducting transactions and then agents could “dishonestly misbehave” if left unattended. Internal controls are designed to mitigate this "agency problem" by bringing to bear checks and balances (control points (approval processes), organizational reporting lines, and periodic auditing).

2.2.2 Control Theory

Control theory stresses the necessity self-regulating systems based on feedback. It would also follow that application of this theory in financial systems would be that internal controls and/or procedures assist institutions in operating within certain self-imposed operational guidelines by constantly checking themselves, measuring their performance as updated continuously (or periodically) and, when deviations occur, making adjustments in a timely fashion. For bureau de change, the practice of real-time monitoring tool, transaction threshold and exception report etc is recommended based on the control theory to lower the risks of non-complaint and loss.

2.2.3 Fraud Triangle Theory

Derived by Donald Cressey (1953) the Fraud Triangle, provides a framework for understanding the factors that cause individuals to commit fraud: (1) pressure (personal financial need), (2) opportunity (control system weakness or loophole), and (3) rationalization (justification of unethical act). Internal controls deal with the "opportunity" side through restricted access to assets and important systems, dual authorizations, and independent verification, thus decreasing the opportunity for fraud.

FIG 2.0 A detailed diagram of the Fraud Triangle

The Fraud Triangle helps understand *why* fraud occurs. Bureau de change must focus on **breaking the triangle.** Strong internal controls = less opportunity = lower fraud risk

2.3 Conceptual Framework

It represents what we are interested in understanding about the constructs or variables in our study in visual and narrative form. It describes the logical framework of what is expected to happen based on the research conducted, including how internal controls are expected to affect financial risk management, fraud prevention, and regulatory control in bureau de change.

An explicit conceptual framework connects theory to practice, and helps direct data collection, interpretation, and analysis. It is the researcher's conception of the relationships between essential ideas drawn from the review of literature and serves as an explanation of what the study is all about.

The theoretical approach in this research suggests that theories and practical applications of internal controls can be transformed into a three-dimensional view involving, i) the mitigation of financial risks -by the monitoring and control of foreign exchange operations, cash handling and reconciliation actives. Prevent and Detect Fraud – Via enforcement of duties separation, set up of approval hierarchy, whistle-blower mechanism. Improvement Of Regulatory Compliance – Via mapping with the laws, AML controls, regulatory obligations and audit preparation. It is this yardsticks that is used to assess the effectiveness of internal control system in bureau de change.

2.4 Summary of Internal Controls

Internal controls are the measures, regulations, and practices in place within an organization that serve to safegurad its assets, ensure the accuracy of its records, and contribute to the efficiency of its operations.

2.4.1 The COSO Framework

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission has established a popular framework for internal controls consisting of five integrated components (Control Environment – the foundation for all the other components, is concerned with governance structures, ethical values as well as management's commitment to ethics and integrity. Risk Analysis – Recognition and assessment of the risks which the organization's objectives are exposed to. Control Activities – Policies and procedures that help ensure management directives are carried out (e.g., approvals, authorizations, verifications, reconciliations). Communications – Information and Communication Systems, enabling employees at all levels to communicate efficiently and promptly. Surveillance – Continuing assessments of how well the controls are working and the action planning and remediation. These characteristics need to be aligned if internal control systems are to be effective in dynamic and high risk areas such as the foreign exchange environment.2.5 Internal Controls and Financial Risk Management

Despite this, bureau de change work on an extremely volatile financial playing field. The foreign currency and speculative trading and liquidity risks imposes substantial financial risks on these institutions. Internal controls serve to mitigate such risks by:

i) Regular transaction monitoring – To facilitate monitoring of foreign currency sales and purchases in real-time and to ensure that the same are within the limits as proposed. Operation

A real-time monitoring transaction process is a transactional monitoring that occurs shortly after the transaction have visited by automated procedures and managerial intervention. This allows management to monitor for any unusual or high volume trading which might overrun regulatory or internal policy limits. Verify whether the transactions were transacted at authorized spreads. Also, keep an eye on the frequency of transactions to deter any speculative behaviour - be it from clients or staff. Monitoring in real-time serves as a security measure, allowing intervention and response to potential threats if abnormalities are observed. This is especially appealing in the realm of volatile currency markets, where exchange rates can change within minutes.

ii) Cash management procedures – Such as verification of total cash, or of float outside permitted limits, and reconciliation of total cash in/out at the end of the business day to avoid overages/shortages. Cash is the dominant mode of transaction in most bureau de change especially in Zimbabwe. That is why robust procedures need to be in place when it comes to cash handling to prevent theft, losses and misappropriation. These policies generally involve having float policies Reducing exposure to physical cash loss, i.e., the funds at the counters or tills.

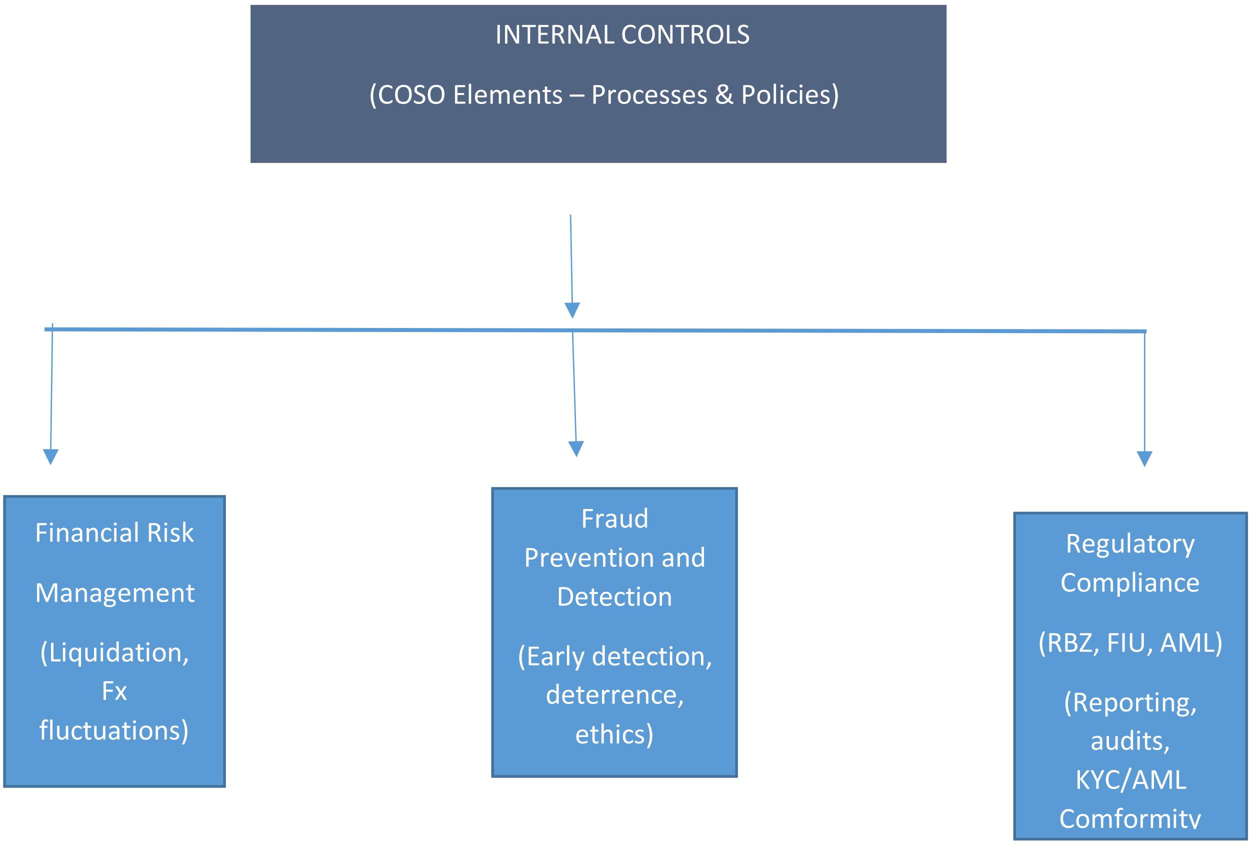
iii) Cash balance checks: Opening and closing check by two individuals to ensure responsibility. End of the day reconciliations; Paring physical cash with records transactions is an effective way of finding variances in the early stages and can save the company from compounded financial exposure. These controls are an important aspect of cash-flow management and provide that the bureau maintains adequate liquidity to meet customer needs.

iv) System Access Controls-Restrictions on access to information systems are in place to prevent unauthorized parties from being able to initiate and approve high-Risk Transactions. In the context of a bureau de change, this can involve: Limiting access to trading platforms and core financial systems by job role. Mandating multi-tier approval for high value transactions or rate changes. All user activities are logged to support post-transaction audits and fraud investigations. Internal controls restrict accessibility and the capacity to modify transaction data to help prevent internal manipulation, or unauthorized trading that limit operational and financial risk. Effective management of currency discrepancies entails acquiring optimal currency volumes to avoid the risks associated with exchange rate under-valuation or over-valuation Foreign Exchange Spreads. The difference between the price of the purchase (bid) and the sale (ask) of foreign exchange. Keeping the spreads accurate is essential to profitability and competitiveness, since deviations from the fixed spread could result in Loss of profit if currencies are priced too low or sold at too high a price, respectively. Customers not happy if rates are not competitive or unnecessarily high. Penalties related to rate fixing and market manipulation. Internal limits govern the determination of spreads on the basis of the market situation, central bank policy and cost. Deviation from standard spreads are usually approved, changes are documented for accountability

For example, in a study in Zambia, Musonda and Lubinda (2021) found that firms with strong internal risk control were more likely to have stable profit margins, and few liquidity problems, even during recessions.

2.6 Internal Controls and Fraud Prevention

Fig 2.6.0



From petty pilfering, roguery escalates to complex acts of collusion and false reporting. Common scams include: Creating fictitious records of transactions. Fixing the currency for personal benefit. Attempting to pocket the cash proceeds or providing false deposit information.

Internal Control Procedures Preventing or Detecting Fraud Include Authorship: Separation of duties -Your staff should never authorise, initiate and record the same transaction. Channels For Whistle Blowing -Enabling reporting of suspicious activities without disclosing the identity. Regular internal checks – Undertaken by independent department or consultant to spot irregularities. According to the Association of Certified Fraud Examiners (2022), where strong internal controls and ethical culture exist, fraud detection occurs at one-half the time and financial losses are approximately 40% less.

2.7 Control Environment and Statutory Compliance

Conformity to RBZ Exchange Control Regulations in the Zimbabwe foreign exchange market is mandatory. Anti-Money laundering and Counter Financing of Terrorism laws. Reporting of Foreign Exchange Transactions. Current Know Your Customer (KYC) norms

And if we are to think about the role of the internal control as that of ensuring compliance, that is what it is done through the KYC and Customer Due Diligence (CDD) Function, integrated into the on-boarding system. Automated issues for transactions above those thresholds. Conformity of transaction records to statutory inspection requirements of forms. Violations of such laws can be punished with suspension of license, a heavy fine, or criminal conviction and prison terms, as evidenced in the 2022 closures of bureaux of change by the RBZ, which accused those of money laundering.

2.8 Empirical Review of Literature

There are emerging internal control issues in the financial service firms, many regional and international studies have emphasized the effectiveness of internal controls in financial service firms Kipkemboi & Kioko (2018) Internal control activities and supervisory reviews were found to be significant in reducing fraud in Kenyan forex bureaus. Mhlanga & Sibanda (2020) Only found a positive and direct relationship between audit effectiveness and compliance by microfinance institutions in Zimbabwe. Kariuki (2019) For instance, technology-aided internal controls (such as biometrics, block chain logs) were associated with reduced unauthorized cash withdrawals in forex bureaus in Ghana. Nyamongo & Temesgen (2013): Found that absence of have internal control training was a determining factor for lack of control in financial organizations based in East Africa. Yet, investigations on Zimbabwe’s bureau de change industry with particular reference to the trends under the current monetary regime and the digital innovations is scant, thus creating a research gap which this study seeks to fill.

2.9 Gaps in the Literature

Though they are being increasingly examined and studied in relation to internal controls in banks and microfinance institutions, the practices of bureau de change have remained relatively marginalised, especially in the context of Zimbabwe. https://nymag.com https://nymag.com/travel/ What the Discovery of Anomalous Gravitational Waves Would Mean for Science What the Discovery of Anomalous Gravitational Waves Would Mean for Science. There are few empirical studies of the efficacy of control systems in controlling the operational risk of a firm. Inadequate assessment of compliance behaviour in Zimbabwe's dynamic financial regime. This paper seeks to fill these gaps by presenting a detailed case-oriented analysis of internal control systems and their role in bureau de change operations in Zimbabwe.

2.10 Summary

This chapter reviewed significant theories and related literature on internal control system and its importance in the management of financial risk minimization and fraud prevention and compliance in banks. Theories such as agency theory, control theory and the fraud triangle theory present the theoretical perspective in interpreting the tendency and performance of bureau de change in a high risk environment. In addition, the COSO framework and various empirical studies have highlighted the significance of strong internal controls. However, there is a void in the literature regarding bureau de change in Zimbabwe. In the next chapter, the research methodology to address these issues in-depth will be discussed.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides a comprehensive discussion of the methodology adopted in the study examining the role of internal controls in managing financial risks, fraud, and ensuring regulatory compliance within bureau de change operations. The chapter articulates the research design, approach, population, sampling techniques, data collection instruments, validity and reliability tests, ethical considerations, and the methods applied in data presentation and analysis. The objective is to ensure that the research is logically structured, reproducible, and scientifically sound.

3.2 Research Design

A research design refers to the overall blueprint guiding the systematic collection, analysis, and interpretation of data (Kothari, 2014). This study employed a descriptive research design, which is suitable for investigations seeking to understand the existing conditions, relationships, and practices. Descriptive design is most appropriate in determining the relationship between internal controls and outcomes such as financial risk reduction, fraud prevention, and regulatory adherence. According to Mugenda and Mugenda (2003), descriptive design enables researchers to collect quantitative and qualitative data from a sample population and generalize findings to a broader context. In this study, the descriptive design facilitated the exploration of real-world control mechanisms applied by bureau de change in Zimbabwe and their impact on institutional integrity and performance.

3.3 Research Philosophy

The study followed a positivist philosophy, which is grounded in the belief that reality is objective and can be observed and measured without bias (Saunders et al., 2009). Positivism is appropriate for quantitative studies where structured methods are used to test hypotheses and draw conclusions based on observable phenomena. By adhering to this paradigm, the researcher sought to objectively assess whether control practices within bureau de change correlate with fraud prevention, risk mitigation, and compliance outcomes. This approach ensured that the study outcomes are reliable and verifiable.

3.4 Research Approach

A quantitative approach was adopted to gather measurable and analyzable data. Quantitative research involves the collection of numerical data and the application of statistical methods to test relationships between variables (Creswell, 2014). In the context of this study, the quantitative approach enabled the measurement of the extent of implementation of internal control procedures. The level of financial risks encountered. The incidence of fraud, the level of compliance with RBZ guidelines. Through structured questionnaires and statistical analysis, the study identified the strength and nature of relationships between internal controls and operational outcomes in bureau de change.

3.5 Target Population

A target population refers to the entire group of individuals or entities to which the research is intended to generalize findings (Sekaran & Bougie, 2016). The target population for this study comprised operational and finance personnel working in licensed bureau de change operating in Harare, Zimbabwe. According to the Reserve Bank of Zimbabwe (RBZ), as of December 2023, there were 51 licensed bureau de change in Zimbabwe, with the majority concentrated in the capital city. These institutions collectively employ hundreds of staff, including operations officers, finance officers, compliance officers, and cashiers who are directly involved in transaction processing, control oversight, and compliance monitoring.

3.6 Sampling Design

A well-structured sampling design ensures that selected participants accurately represent the broader population, thereby enhancing the validity of the findings.

3.6.1 Sampling Frame

The sampling frame consisted of employees from selected bureau de change branches in Harare, specifically those with designated compliance units or financial reporting functions. The list of target institutions and their respective staff roles was obtained through direct requests to the RBZ registry and institutional managers.

3.6.2 Sampling Technique

The study used stratified random sampling. Stratification was based on job designation (compliance officers, operations officers, finance officers, and managerial staff). This method ensured representation across all functional areas associated with internal control execution.

Stratified sampling is preferred in heterogeneous populations as it improves the precision of estimates by reducing sampling error (Kothari, 2014).

3.6.3 Sample Size

The Yamane (1967) formula was used to calculate an appropriate sample size at a 95% confidence level and 5% margin of error.

n = N / (1 + N(e)^2)

Where:

- n = required sample size
- N = target population
- e = margin of error (0.05)

Assuming a population of 200 employees across selected bureau de change:

n = 200 / (1 + 200(0.05)^2) = 200 / (1 + 0.5) = 133.33 ≈ 133

Thus, a sample of 133 employees was surveyed.

3.7 Data Collection Instruments

Primary data were gathered using structured questionnaires designed to measure perceptions, practices, and observed outcomes regarding internal controls. The questionnaire was divided into four sections:

1. Demographics (position, years of experience, educational background).
2. Internal control practices (based on COSO framework).
3. Financial risk and fraud occurrences.
4. Regulatory compliance levels.

Closed-ended questions using Likert scales were adopted for ease of analysis and objectivity. Likert scales ranged from 1 (Strongly Disagree) to 5 (Strongly Agree).

3.8 Validity and Reliability of Instruments

3.8.1 Validity

Validity refers to the degree to which an instrument measures what it is intended to measure (Saunders et al., 2009). Content validity was established through expert review by three internal auditors and two academic advisors. Face validity was also tested via a pilot study involving 10 participants from non-sampled bureau de change.

3.8.2 Reliability

Reliability concerns the consistency of the instrument. Cronbach's alpha coefficient was used to test the internal consistency of questionnaire items. A pilot study showed an alpha value of 0.86, indicating a high level of reliability (Nunnally, 1978).

3.9 Ethical Considerations

Ethical approval was obtained from the Research Ethics Committee at Great Zimbabwe University. Key ethical issues observed include:

- Informed consent: All participants signed consent forms.
- Anonymity: Questionnaires omitted personal identifiers.
- Confidentiality: Data were stored securely and used only for academic purposes.
- Voluntary participation: Respondents could opt out at any stage without consequence.

3.10 Data Collection Procedure

Upon receiving permissions from institutional heads, digital and printed questionnaires were distributed to participants. The researchers utilized email, in-person drop-offs, and follow-up calls to enhance the response rate. The data collection phase lasted four weeks.

Completed questionnaires were screened for completeness and manually coded for analysis. Incomplete or contradictory responses were excluded from the final dataset.

3.11 Data Analysis Techniques

Data analysis involved both descriptive and inferential statistics. SPSS version 26 was used for data processing.

- Descriptive statistics (frequencies, means, standard deviations) were used to summarize internal control practices, financial risks, and compliance levels.
- Inferential statistics (Pearson correlation and regression analysis) were applied to test relationships between internal controls and outcome variables (fraud, financial risks, and compliance).

The following hypotheses guided the inferential analysis:

H_o1: There is no significant relationship between internal controls and financial risk management.
H_o2: There is no significant relationship between internal controls and fraud mitigation.
H_o3: There is no significant relationship between internal controls and regulatory compliance.

3.12 Variables Identification

Table 1 Definition and Measurement of the key variables

Variable	Definition	Measurement
Internal Controls	Practices and procedures based on COSO framework	Composite index from questionnaire responses
Financial Risk	Exposure to exchange rate volatility, liquidity shortages	Likert scale indicators
Fraud	Unauthorized activities, theft, embezzlement	Reported occurrences, audit trail indicators
Regulatory Compliance	Adherence to RBZ and AML guidelines	Compliance checklist score

3.13 Limitations of the Methodology

- The reliance on self-reported data may introduce response bias.
- Access limitations due to organizational confidentiality may have restricted the scope.
- The cross-sectional nature of the data limits conclusions about causality.

Efforts were made to mitigate these issues through validation techniques, anonymity, and triangulation with regulatory documents.

3.14 Summary

This chapter has outlined the methodological approach for investigating the roles of internal controls in managing financial risks, preventing fraud, and ensuring regulatory compliance in bureau de change. It justified the use of a descriptive, quantitative design with stratified sampling and structured questionnaires. Validity, reliability, and ethical rigor were observed throughout the process. The next chapter presents and analyzes the data collected.

CHAPTER IV

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter presents, analyzes, and interprets data collected on the roles of internal controls in managing financial risks, fraud, and regulatory compliance within bureau de change operations in Zimbabwe. The analysis focuses on data gathered through structured questionnaires administered to 133 respondents across selected bureau de change in Harare. The data are analyzed using descriptive and inferential statistical techniques, with results presented in tables, graphs, and figures. The findings are discussed in relation to the study objectives and relevant literature.

4.2 Response Rate

A total of 133 questionnaires were distributed, and 124 completed responses were received, yielding a response rate of 93.2%. This high response rate enhances the reliability and representativeness of the findings.

4.3 Demographic Information

Table 4.3.1 below is Respondent Demographics of the people in the organisation

Variable	Category	Frequency	Percentage
Gender	Male	72	58%
	Female	52	42%
Age	20–30	31	25%
	31–40	57	46%
	41–50	24	19%
	51+	12	10%
Experience	< 2 years	20	16%
	2–5 years	56	45%
	6–10 years	30	24%
	11+ years	18	15%

Department	Compliance	33	27%
	Finance	42	34%
	Operations	30	24%
	Management	19	15%

Primary Data collected from questionnaires administered to employees 2025.

The table above outlines the demographic characteristics of the respondents who participated in the study. The analysis provides insight into the composition of the sample based on gender, age, work experience, and department.

Gender Distribution

Out of the total respondents, 72 (58%) were male, while 52 (42%) were female. This indicates a slightly male-dominated workforce in the bureau de change sector.

Age Distribution

The majority of respondents (46%) fell within the 31–40 age group, followed by 25% in the 20–30 age bracket. Respondents aged 41–50 accounted for 19%, while 10% were above 50 years, suggesting that most employees are relatively young to middle-aged.

Work Experience

Respondents with 2–5 years of experience made up the largest group (45%), followed by those with 6–10 years (24%). Participants with less than 2 years of experience constituted 16%, while those with more than 11 years of experience represented 15%. This suggests that a significant number of respondents had adequate exposure to the operational and control systems of the institutions.

Departmental Representation

The majority of the respondents were drawn from the Finance department (34%), followed by Compliance (27%), Operations (24%), and Management (15%). This distribution ensured representation across different functional areas critical to internal control and risk management processes.

4.4 Descriptive Analysis of Key Variables

4.4.1 Internal Controls

Respondents were asked to rate the implementation of internal control mechanisms based on COSO elements. The results below were obtained and analysed using Likert scale. The mean scores reflect the extent to which internal control components are implemented within the sampled bureau de change, while the standard deviations indicate the variability in respondents' perceptions. Table 4.2 summarizes the mean scores for each component.

Table 2 Table 4.2:1 Internal Controls Implementation

Component	Mean	Std. Dev
Control Environment	4.10	0.67
Risk Assessment	3.92	0.75
Control Activities	4.02	0.61
Information & Communication	3.88	0.82
Monitoring Activities	3.95	0.68
Overall Internal Controls	3.97	0.71

Primary data collected from questionnaire responses (2025)

Internal controls Implemented

These findings suggest that internal controls are moderately to strongly implemented in most bureau de change. Control Environment and Control Activities were the most emphasized. The Control Environment recorded the highest mean score (M = 4.10), indicating that respondents generally agree that the organization has a strong ethical climate, integrity, and governance culture that supports internal control practices. A solid control environment provides the foundation for all other components of internal control. Control Activities had a relatively high mean (M = 4.02), suggesting that standard procedures, authorizations, and approvals are consistently followed to reduce risks. This indicates a disciplined approach to daily operational controls. Monitoring Activities (M = 3.95) also scored positively, implying that internal control systems are subject to regular reviews, audits, and supervisory checks to ensure they remain effective over time. Risk Assessment yielded a moderate mean score (M = 3.92), reflecting that although risk identification and evaluation processes are in place, there may be inconsistencies in how thoroughly these are conducted across the sampled institutions. The Information & Communication component had the lowest mean score (M = 3.88) and the highest standard deviation (SD = 0.82), indicating some variation in how respondents perceive the adequacy and timeliness of control-related communication. This suggests that improvements may be needed in how information regarding risks and controls is disseminated internally.

The **overall internal controls mean score** of 3.97 demonstrates a generally positive implementation of internal control systems across bureau de change. However, the variations across components—particularly in risk assessment and communication—highlight areas that may require strengthening to enhance financial risk management, prevent fraud, and support regulatory compliance.

4.4.2 Financial Risk Exposure

This section presents the respondents' perceptions of financial risk management practices within bureau de change operations. Participants were asked to rate their level of agreement with specific statements relating to how financial risks—particularly currency risk and liquidity risk—are managed within their institutions.

Table 3 Financial Risk Management Practices

Item	Mean	Std. Dev
There are limits on forex exposures	3.90	0.88
Hedging policies are in place	3.21	1.02
Real-time monitoring of exchange rates	3.87	0.79
Liquidity management policies	3.68	0.92
Use of early warning systems	3.45	0.97

Primary data collected from questionnaire responses (2025)

The results show a moderate level of financial risk control, as reflected by an average mean score of 3.62 across all five indicators. The highest mean score (M = 3.90) was for the presence of limits on foreign exchange exposures, suggesting that most bureau de change employ control thresholds to manage currency volatility and safeguard against excessive forex risk. Real-time monitoring of exchange rates (M = 3.87) also scored high, indicating that respondents perceive their organizations as responsive to dynamic market conditions—an essential practice for minimizing exchange rate losses. In contrast, the lowest mean score (M = 3.21) was recorded for hedging policies, with a relatively high standard deviation (SD = 1.02), suggesting both underutilization and inconsistency in applying formal hedging techniques such as forward contracts or currency swaps. This could be attributed to limited access, cost barriers, or low awareness of such instruments in the local financial context. Liquidity management policies (M = 3.68) and early warning systems (M = 3.45) scored moderately, showing that while there is an awareness of liquidity risk and potential systemic threats, the implementation of proactive risk indicators may not be fully institutionalized.

Overall, these findings point to a foundational level of financial risk controls, with strengths in exposure limits and monitoring, but gaps in strategic risk tools such as hedging and predictive analytics.

4.4.3 Fraud Incidence and Controls

This section assesses the extent to which bureau de change have implemented fraud prevention and detection mechanisms. Respondents were asked to indicate their level of agreement with statements related to internal fraud mitigation practices.

Table 4: presents the descriptive statistics for five key fraud control measures.

Item	Mean	Std. Dev
Daily cash reconciliation procedures	4.25	0.62
Segregation of duties is enforced	4.02	0.73
Surprise audits are conducted	3.64	0.85
Whistleblower mechanisms exist	3.22	1.01
Staff rotation in sensitive areas	3.47	0.91

Primary data collected from questionnaire responses (2025)

The overall average mean of 3.72 suggests a moderately strong presence of fraud control mechanisms within the studied bureau de change. The highest-rated control was daily cash reconciliation procedures (M = 4.25, SD = 0.62), reflecting strong adherence to routine verification of cash balances—an essential safeguard against misappropriation. Segregation of duties also scored highly (M = 4.02), indicating that critical tasks are generally divided among different staff to prevent concentration of control that could lead to fraud. In contrast, whistleblower mechanisms had the lowest mean score (M = 3.22) and the highest variability (SD = 1.01), suggesting limited implementation or trust in anonymous reporting systems. Similarly, staff rotation in sensitive areas (M = 3.47) was only moderately practiced, despite its importance in disrupting potential long-term fraud schemes. Surprise audits (M = 3.64) received a moderate rating, pointing to some use of unannounced checks, though not at an optimal frequency or across all departments.

Overall, while cash-handling and procedural controls appear to be well established, soft controls such as whistleblowing and rotation are less developed. This indicates a need for more robust internal policies and cultural support to detect and deter internal fraud effectively.

4.4.4 Regulatory Compliance

This section assesses the level of regulatory compliance within bureau de change operations in Zimbabwe. The focus was on key statutory requirements, including Know Your Customer (KYC) protocols, reporting obligations to the Reserve Bank of Zimbabwe (RBZ), and Anti-Money Laundering (AML) practices. Respondents provided their perceptions based on the extent of implementation of various compliance practices.

Table 5: Regulatory Compliance Practices

Item	Mean	Std. Dev
Customer due diligence (KYC) is implemented	4.33	0.57
Suspicious transactions are promptly reported	4.08	0.71
Regular compliance audits are held	3.85	0.88
Staff are trained on AML laws	3.62	0.93
Timely submission of RBZ reports	4.16	0.63

Primary data collected from questionnaire responses (2025)

The results indicate a strong level of regulatory compliance, with an overall average mean of 4.01 across all indicators. The highest-rated compliance measure was Customer Due Diligence (KYC) (M = 4.33, SD = 0.57), which shows that most bureau de change have effectively implemented processes for verifying customer identity and monitoring transactional behavior.

This is a fundamental AML control that supports both fraud prevention and regulatory oversight. Timely submission of RBZ reports followed closely (M = 4.16), indicating that reporting frameworks are operational and that institutions are generally meeting their statutory deadlines. Similarly, prompt reporting of suspicious transactions (M = 4.08) reflects compliance with AML regulations and a culture of vigilance in detecting potential money laundering or fraudulent activity. On the other hand, compliance audits (M = 3.85) and staff training on AML laws (M = 3.62) had slightly lower ratings. The relatively lower score and higher variability in training (SD = 0.93) suggest that human capital development in regulatory matters remains a weak point. This gap could undermine the effectiveness of other compliance controls if staff are not adequately informed about legal expectations or emerging threats.

In summary, bureau de change in Zimbabwe appear to demonstrate strong adherence to externally mandated compliance measures, particularly those that are strictly monitored by the RBZ. However, internal institutionalization through training and periodic audits requires strengthening to ensure sustainable and holistic compliance.

4.5 Inferential Analysis

4.5.1 Correlation Analysis

To examine the strength and direction of relationships between internal controls and key financial management outcomes—namely **financial risk**, **fraud**, and **regulatory compliance**—a **Pearson correlation analysis** was conducted. This technique measures the linear association between two continuous variables and determines whether these relationships are statistically significant.

Table 6 Correlation Matrix

Variables	Internal Controls	Financial Risk	Fraud	Compliance
Internal Controls	1.000	0.621**	-0.553**	0.688**
Financial Risk	0.621**	1.000	-0.472**	0.505**
Fraud	-0.553**	-0.472**	1.000	-0.409**
Compliance	0.688**	0.505**	-0.409**	1.000

Primary data collected from questionnaire responses (2025)

Note: Correlation is significant at the 0.01 level (2-tailed)

The correlation results indicate statistically significant relationships between internal controls and all three dependent variables at the 0.01 significance level:

- Internal controls and financial risk: A moderately strong positive correlation (r = 0.621) was found, suggesting that better internal controls are associated with enhanced financial risk management. This supports the view that controls such as risk assessments and monitoring mechanisms reduce exposure to adverse financial events.
- Internal controls and fraud: A strong negative correlation (r = -0.553) suggests that as internal control mechanisms improve, incidences of fraud decrease. This aligns with fraud theory and internal control frameworks such as COSO, which emphasize segregation of duties and monitoring as deterrents to fraud.
- Internal controls and compliance: A strong positive correlation (r = 0.688) indicates that effective internal controls are significantly associated with higher levels of regulatory compliance. This implies that well-structured controls help ensure adherence to RBZ requirements, AML laws, and reporting protocols.

Additionally, fraud shows a moderate negative relationship with both financial risk (r = -0.472) and compliance (r = -0.409), reinforcing the interlinked nature of these variables—that higher fraud tends to erode financial stability and reduce regulatory adherence.

Overall, these findings substantiate the hypothesis that robust internal controls contribute to better risk management, reduced fraud, and stronger regulatory compliance in bureau de change operations. The results also support the theoretical assumption that internal controls serve as a critical governance tool in financial institutions.

4.5.2 Regression Analysis

Multiple regression analysis was performed to determine the extent to which internal controls predict financial risk mitigation, fraud reduction, and regulatory compliance.

Table 7: Model Summary

Dependent Variable	R	R^2	Adj. R^2	Std. Error
Financial Risk	0.621	0.386	0.379	0.553
Fraud	0.553	0.306	0.297	0.579
Compliance	0.688	0.473	0.467	0.498

Primary data collected from questionnaire responses (2025)

The regression results show that internal controls significantly predict each of the three dependent variables:

- For financial risk, the R^2 value of 0.386 implies that 38.6% of the variance in financial risk management practices can be explained by the effectiveness of internal controls. This indicates a moderate predictive power.
- For fraud incidence, internal controls account for 30.6% of the variance ($R^2 = 0.306$), suggesting that stronger controls are associated with fewer occurrences of fraud, though other factors outside internal controls may also play a role.
- The model shows the strongest relationship with regulatory compliance, where 47.3% of the variance ($R^2 = 0.473$) is explained by internal controls. This reinforces the critical role of internal control frameworks in ensuring adherence to laws and regulatory requirements.

The adjusted R^2 values, which account for sample size and number of predictors, are closely aligned with the R^2 values in all three models, confirming the robustness of the regression estimates.

Overall, the model summary supports the study's conceptual framework, highlighting that internal controls are significant determinants of financial risk mitigation, fraud prevention, and regulatory compliance within bureau de change operations.

Table 8 ANOVA Results (Compliance Model)

Source	Sum of Squares	Df	Mean Square	F	Sig.
Regression	21.237	1	21.237	85.672	0.000
Residual	23.657	122	0.194		
Total	44.894	123			

Primary data collected from questionnaire responses, analyzed using SPSS (2025)

The F-statistic of 85.672, with a p-value of 0.000, confirms that the regression model is statistically significant at the 0.01 level. This means that internal controls, as an independent variable, contribute meaningfully to predicting variations in regulatory compliance.

the probability that this result occurred by chance is extremely low (less than 0.1%), indicating that the model provides a good fit for the data. The high F-value also suggests a strong overall explanatory power of the independent variable in the model.

These results reinforce the findings from the model summary (Table 4.7), which showed that internal controls account for 47.3% of the variance in compliance outcomes. The ANOVA further substantiates that the relationship between internal controls and compliance is not only statistically significant but also practically meaningful for financial governance in bureau de change.

The F-statistic (85.672, $p < 0.001$) confirms the model is statistically significant.

4.5.3 Compliance Model

To determine the individual contribution of internal controls to regulatory compliance, the regression coefficient table is analyzed. The unstandardized coefficient (B) indicates the extent of change in the dependent variable (compliance) for every unit change in the predictor variable (internal controls), while the standardized coefficient (Beta) helps compare the relative impact of predictors when variables are measured on different scales.

Table 9: Coefficient Table (Compliance Model)

Variable	B	Std. Error	Beta	t	Sig.

(Constant)	1.447	0.203	—	7.125	0.000
Internal Controls	0.683	0.074	0.688	9.252	0.000

Primary data collected from questionnaire responses, analyzed using SPSS (2025)

□The constant (intercept) of 1.447 indicates the expected baseline value of the compliance score when internal controls are absent or neutral (i.e., score of zero). While hypothetical in nature, this helps in modeling the regression line.

□ The unstandardized coefficient (B = 0.683) for internal controls implies that for every one-unit increase in internal control effectiveness, the regulatory compliance score increases by 0.683 units, holding other factors constant. This demonstrates a strong positive relationship.

□The standardized beta coefficient ($\beta = 0.688$) confirms that internal controls are a strong predictor of regulatory compliance relative to the scale of the other variables in the model.

□The t-value (9.252) is well above the conventional threshold of 2, and the p-value (0.000) confirms that the relationship is statistically significant at the 0.01 level.

4.6 Discussion of Findings

The results of this study provide compelling evidence that internal controls play a pivotal role in safeguarding operational integrity and ensuring regulatory alignment within bureau de change operations in Zimbabwe. Each of the three primary dimensions examined—regulatory compliance, fraud mitigation, and financial risk management—exhibited meaningful associations with the implementation of internal control mechanisms.

1. Internal Controls and Regulatory Compliance

The strong and statistically significant positive correlation between internal controls and regulatory compliance ($r = 0.688$, $p < 0.01$) underscores the effectiveness of structured control systems in meeting external reporting and procedural obligations, especially those mandated by the Reserve Bank of Zimbabwe (RBZ). These findings are consistent with Mugo (2018) and Nyamunda (2021), who reported that the adoption of anti-money laundering (AML) frameworks, including Know Your Customer (KYC) protocols and routine compliance audits, enhanced institutional accountability in Kenyan and Zimbabwean financial sectors respectively.

The regression results further confirmed that internal controls account for 47.3% of the variance in compliance outcomes, indicating a strong explanatory power. This reinforces the view that a well-designed internal control environment—comprising reliable reporting lines, audit systems, and supervisory mechanisms—is essential in promoting compliance with financial regulations and minimizing exposure to legal or regulatory sanctions.

2. Internal Controls and Fraud Mitigation

The findings also revealed a significant negative correlation between internal controls and fraud incidence ($r = -0.553$, $p < 0.01$), suggesting that institutions with stronger control environments experience fewer occurrences of internal fraud. This supports the insights of Wells (2014), who argued that the establishment of segregation of duties, reconciliations, audit trails, and independent reviews significantly limits fraud opportunities by minimizing collusion and unauthorized access.

Moreover, the regression analysis indicated that internal controls explain 30.6% of the variance in fraud occurrence, reflecting their preventative role. However, descriptive results from Table 4.4 pointed out deficiencies in mechanisms such as whistleblower systems (mean = 3.22) and staff rotation (mean = 3.47)—areas often associated with early detection of misconduct. These weaknesses suggest that while core controls are in place, fraud detection capabilities remain reactive rather than proactive, leaving potential blind spots unaddressed.

3. Internal Controls and Financial Risk Management

In relation to financial risk, internal controls was found to have a moderate positive correlation ($r = 0.621$, $p < 0.01$) with financial risk mitigation. Although this suggests a positive correlation, the average scores for some of the risk control measures, such as the use of hedging tools (mean = 3.21) and the existence of early warning systems (mean = 3.45), are relatively low. This may be a sign that bureau de change are relying only marginally on early-generation internal control such as transaction limits and man ꜱ` aul control, and have not yet adopted sophisticated internal control recommendations such as real-time data analysis, scenario modeling and forward contracts which can be used to hedge foreign exchange fluctuation risks.

As Karanja and Muathe (2019) observed, banks in high risk environments must shift their traditional compliance based controls to predictive and adaptive control systems, to effectively respond to changing financial risks. And it is more vital than ever before in the volatile forex markets of Zimbabwe where inflation is running high, the local currency value is eroding fast and regulations change with great frequency.

4. Weak Areas: Whistleblowing and Staff Rotation

Despite the generally positive outlook on control systems, the study identified notable deficiencies in whistleblowing practices and staff rotation policies. The low average scores in these areas imply that staff may be reluctant or unable to report unethical behavior, and that repetitive assignment of sensitive duties to the same individuals increases the risk of undetected fraud.

This reflects findings by Button et al. (2015), who observed that whistleblower protection and employee rotation were among the most underutilized yet critical components of internal fraud prevention in small to medium-sized financial firms. Improving these aspects could enhance early fraud detection and reduce institutional vulnerabilities.

4.6.1 Synthesis and Theoretical Implication

Overall, the findings align well with the COSO Integrated Framework (2013) and Agency Theory, both of which assert that internal control systems are essential in reducing information asymmetry and managerial opportunism. The data empirically confirms that robust internal controls not only promote compliance but also reduce fraud and moderately improve risk management capabilities.

However, to optimize these controls, a more strategic integration of advanced risk tools, staff accountability structures, and a stronger ethical culture—particularly around whistleblowing—will be necessary. These enhancements can make bureau de change more resilient and compliant in Zimbabwe's rapidly evolving financial sector.

4.7 Summary

This chapter presented and analyzed data on the role of internal controls in managing financial risks, fraud, and regulatory compliance within bureau de change operations. The results provide strong evidence of the positive impact of internal controls, particularly in enhancing compliance and reducing fraud. The following chapter presents recommendations, conclusions and areas that needs further study.

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the conclusions drawn from the study findings and offers recommendations for enhancing the effectiveness of internal controls in managing financial risks, fraud, and regulatory compliance in bureau de change operations. It also provides suggestions for future research to extend the scope and depth of inquiry into internal control practices within the financial services sector.

5.2 Summary of the Research

The purpose of this dissertation was to appraise the roles of internal controls in mitigating financial risks, preventing fraud, and enhancing regulatory compliance in bureau de change operations in Zimbabwe. The study adopted a descriptive research design and a quantitative approach, surveying 133 employees across multiple functions (compliance, operations, finance, and management) from licensed bureau de change based in Harare.

Using the COSO internal control framework, the study measured five components of internal controls: control environment, risk assessment, control activities, information and communication, and monitoring. These components were correlated with performance indicators related to financial risk, fraud prevention, and regulatory compliance. Data were analyzed using descriptive and inferential statistical tools.

5.3 Summary of Major Findings

This section presents practical suggestions based on the researches of the study titled *"The Role of Internal Controls in Managing Financial Risks, Fraud and Regulatory Compliance in Bureau de Change Operations in Zimbabwe"*. The results highlighted the significance and value of internal controls in enhancing financial integrity and compliance in bureau de change operations. However, several gaps were also identified, particularly in advanced risk management techniques, whistleblower systems, staff rotation, and staff training. The following recommendations are proposed for management, policymakers, and researchers.

5.3.1 Strengthen Internal Control Frameworks Using COSO Principles

The study revealed that internal controls are generally in place but not consistently institutionalized. To strengthen these controls, bureau de change should adopt the COSO Internal Control – Integrated Framework as a formal policy guide. Each component of the COSO model can be operationalized as follows:

- Control Environment: Establish a culture of integrity and ethical behavior by developing a code of conduct, setting up clear reporting lines, and ensuring that management leads by example. Leadership should also ensure that governance structures are clearly defined and that employees understand their roles and responsibilities.
- Risk Assessment: Introduce formal risk assessment processes, including maintaining a risk register to track identified risks, assess their severity and likelihood, and assign responsible departments to monitor them. Regular risk workshops can help ensure this is updated quarterly or after major policy changes.
- Control Activities: Enforce standard operating procedures (SOPs) for key processes such as currency handling, authorizations, reconciliations, and transaction approval thresholds. These SOPs should be periodically reviewed and updated in line with regulatory changes or identified weaknesses.
- Information and Communication: Ensure internal control-related information is shared timely and clearly across the organization. A compliance dashboard or internal bulletin system can help disseminate updates on RBZ policies, internal audit outcomes, and procedural changes.
- Monitoring Activities: Establish or outsource an internal audit function that conducts risk-based audits at least twice a year. This unit should be independent and report directly to senior management or an audit committee, ensuring accountability and continuous improvement.

5.3.2 Invest in Advanced Financial Risk Management Tools

While basic controls such as exposure limits and rate monitoring are implemented, the study showed a lack of sophistication in risk tools such as hedging and early warning systems. To improve risk mitigation:

- Adopt real-time transaction monitoring systems that alert managers when currency positions or liquidity thresholds are breached. This helps prevent cash shortages or overexposure to foreign currency volatility.
- Engage financial institutions or forex service providers to access forward contracts and currency options to hedge against adverse exchange rate movements, especially for clients transacting in large volumes.
- Implement scenario analysis and stress testing tools that simulate potential economic shocks or currency swings. This prepares management to respond with pre-designed contingency plans, reducing financial uncertainty.

5.3.3 Enhance Fraud Detection and Prevention Mechanisms

- In sum, fraud is a severe risk in bureau operations, given the high risks of sensitive roles' lack of rotation and low levels of whistleblower use. As such, the following recommendations have emerged from the study's findings:
- Create a whistle blower platform, that could be an email, mobile app, or third-party hotline, allowing both employees and customers to anonymously report suspicious behaviour. It is imperative for management always to act on the file file and shield the whistleblower from any form of retribution.
- Mandatory staff rotation, particularly in high-risk roles such as cashiers, compliance officers, and treasury personnel. This will not afford collusive employees the opportunity to perpetrate a fraudulent activity over many years before detection.
- Implement fraud analytics software to spot transaction patterns that do not add up. For example, multiple transactions that just fall below the threshold for reporting, known as structuring, should be red flags.
- Surprise audits and cash counts need to be incorporated into the control schedule, promoting the lack of accountability and deterring fraudulent activity.

5.3.4 Strengthen Regulatory Compliance Capacity

Although the study found good compliance with RBZ requirements, staff knowledge on AML regulations was inconsistent. To strengthen compliance sustainability:

- Implement structured, continuous training programs on AML, Counter-Terrorist Financing (CTF), and Know Your Customer (KYC) regulations. These should be delivered by certified trainers or in collaboration with the RBZ or Financial Intelligence Unit (FIU).
- Develop compliance scorecards or dashboards to track key metrics such as STR submissions, audit findings, and timeliness of RBZ report filing. These metrics should be reviewed monthly by compliance managers.
- Participate in regulatory sandbox programs, which allow financial institutions to test new compliance technologies under regulatory supervision. This will keep the institution aligned with emerging standards and innovations.

5.3.5 Improve Communication and Control Culture

Lastly, a successful internal control system is not only dependent on policy but also on people and culture. While the study established that control does exist within the office communication gaps and limited staff involvements have hampered their efficacy. Therefore. Additionally, inculcate the “speak-up culture” and encourage staff to report control lapses or process inefficiencies. However, such emergencies and process improvement measures among the contributors. Additionally, ethical considerations and internal controls should became apart of staff performance appraisal system, promoting accountability.

5.3.6 Policy Recommendations for Regulators (RBZ and FIU)

Given the national importance of bureau de change operations in managing currency markets, regulators have a critical role in supporting sector-wide control improvements:

- The RBZ should issue a sector-specific internal control guideline tailored to the bureau de change industry. This could include minimum standards for segregation of duties, transaction monitoring, and audit frequency.

- Create an industry-wide fraud database, maintained by the FIU or RBZ, where all registered bureau can report or consult on known fraud patterns. This helps prevent repeat offenders from exploiting multiple institutions.
- Consider mandating whistleblower policies and reporting procedures for all registered money service businesses, to align with FATF (Financial Action Task Force) standards.

5.3.7 Recommendations for Future Research

This study explored internal controls in one organization and could be developed to draw conclusions more broadly: A comparative study of financial institutions could be conducted: banks, microfinance, bureaux. It might reveal differences in control practices depending on size and sector A mixed method could be utilized by combining interviews and focus groups to study such factors as organizational culture and attitude toward control by employees * A longitudinal study could also be made to observe the evolution of internal control systems due to changing macroeconomic indicators or regulation.

5.4 Conclusions

Based on the findings of the study, the following conclusions are drawn:

1. Internal controls are vital mechanisms for sustaining financial stability and institutional integrity in bureau de change.
2. Strong internal controls directly reduce the exposure to fraud, particularly in high-cash environments such as foreign exchange operations.
3. The existence of regulatory enforcement from the RBZ appears to have positively influenced the prioritization of compliance practices.
4. Financial risk remains a challenge for bureau de change, partly due to a lack of sophisticated risk management instruments and real-time data analytics.
5. Bureau de change that implement all five COSO components comprehensively are more likely to achieve effective oversight, fraud resistance, and full regulatory compliance.

5.5 Recommendations

Based on the study’s findings, the following recommendations are proposed for policy makers, compliance officers, management of bureau de change, and regulatory authorities:

1. Strengthen Whistleblower Programs:
    - Establish confidential and anonymous reporting mechanisms.
    - Promote a culture of transparency and non-retaliation.
2. Enhance Staff Rotation and Mandatory Leave Policies:
    - Implement rotation of employees handling sensitive financial data.
    - Enforce mandatory leave to enable detection of irregularities.
3. Adopt Advanced Risk Management Tools:
    - Train staff in the use of hedging techniques to manage currency exposure.
    - Invest in real-time monitoring and predictive analytics tools to detect anomalies.
4. Broaden Internal Audit Coverage:
    - Increase the frequency and scope of internal audits.
    - Include operational audits and control testing beyond financial audits.
5. Improve Compliance Training:
    - Conduct periodic training sessions on emerging AML/CFT regulations.
    - Include scenario-based learning to enhance regulatory responsiveness.
6. Collaborate with the RBZ and External Stakeholders:
    - Engage in regulatory sandbox initiatives to test innovative controls.
    - Partner with fintech firms for automation of compliance reporting.
7. Institutionalize Monitoring and Evaluation (M&E):
    - Develop KPIs to track the effectiveness of internal controls over time.
    - Perform quarterly reviews using M&E frameworks tailored to forex operations.

5.6 Recommendations for Further Research

The scope of the study was limited to licensed bureau de change operating within Harare, Zimbabwe. Further research could be conducted as follows:

1. Comparative studies between rural and urban bureau de change to identify geographic disparities in control practices.
2. A qualitative inquiry into behavioral factors affecting fraud in foreign exchange operations.
3. An industry-wide assessment involving banks, microfinance institutions, and bureau de change to evaluate the broader financial control ecosystem.
4. An analysis of the role of technology, particularly blockchain and AI, in enhancing internal controls and compliance in the forex sector.

5.7 Final Thought

The findings reaffirm that internal control systems are indispensable tools in promoting operational soundness, minimizing financial mismanagement, and fulfilling regulatory obligations in bureau de change operations. Stakeholders must ensure continuous improvement of these systems in response to emerging threats and evolving regulatory expectations.

References:

Adebayo, I. S., & Dada, S. O. (2020). Internal controls and fraud prevention in foreign exchange firms in Nigeria. *International Journal of Finance and Accounting*, 9(2), 45-53.

Amudo, A., & Inanga, E. L. (2009). Evaluation of internal control systems: A case study from Uganda. International Research Journal of Finance and Economics, 27(1), 124–144.

Arens, A. A., Elder, R. J., & Beasley, M. S. (2017). *Auditing and assurance services: An integrated approach* (16th ed.). Pearson.

Bertalanffy, L. V. (1968). *General system theory: Foundations, development, applications*. George Braziller.

Button, M., Johnston, L., & Frimpong, K. (2007). Fighting fraud: The case for a national fraud strategy. *Criminal Justice Matters*, 66(1), 10–11.

Committee of Sponsoring Organizations of the Treadway Commission (COSO). (2013). *Internal Control – Integrated Framework.*

Cressey, D. R. (1953). *Other People's Money: A Study in the Social Psychology of Embezzlement*. Free Press.

Hull, J. C. (2018). *Risk management and financial institutions* (5th ed.). Wiley.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics*, 3(4), 305–360.

Mugo, E. (2018). Internal controls and operational efficiency of foreign exchange bureaus in Nairobi. *International Journal of Business and Social Research*, 8(1), 35-43.

Nyamunda, P. (2021). Regulatory compliance in Zimbabwean bureaux de change: An RBZ audit perspective. *Zimbabwe Journal of Finance and Economics*, 13(4), 102–118.

Reserve Bank of Zimbabwe (RBZ). (2022). *Monetary Policy Statement*. https://www.rbz.co.zw

Tyler, T. R. (1990). *Why people obey the law.* Yale University Press.

Wells, J. T. (2014). *Principles of fraud examination* (4th ed.). Wiley.