

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF BANKING AND FINANCE



**THE DETECTION AND PREVENTION OF FRAUD IN BANKS. A CASE STUDY OF
CBZ BANK.**

BY

B190385B

**A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS OF THE BACHELOR OF COMMERCE HONORS DEGREE IN
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DEDICATION

This research project is dedicated to my mother, father, sisters and other family members for their true support and inspirations throughout my academic period.

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Firstly, I want to give great glory to the Lord Almighty for the gift of life and strength to reach this far, without him nothing is possible. I would like to express my gratitude to my academic supervisor, without her knowledgeable and specialized guidance during the course of the research project, it would have been difficult for me to magnificently carry out this research. I am also thankful to the people who sacrificed their precious time to respond to this study, as well as the staff members at CBZ Bank, without them this project would not have been viable.

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ABSTRACT

Fraud in banks has become a contentious issue worldwide as these fraudulent practices cause bankruptcy, the collapse of entire organizations, significant losses of investment, and loss of confidence in the financial industry due to the failure of internal control systems to perform their functions.

This research aimed at analysing the effectiveness of internal control systems on fraud detection and prevention in the banking industry. The study used a descriptive research design. Quantitative data was collected using self-administered close-ended questionnaires. The source of data for this research was a primary source. A population of 98 employees from CBZ bank was used and from which a sample of 40 respondents was carefully chosen randomly. Tables were used to present data, while the statistical tools known as the SPSS (statistical program for social sciences) and Microsoft Excel were used for data analysis.

The research findings showed that the internal control systems at CBZ bank was in place. Recommendations made were to make use of internal control audits, carryout a risk assessment process to detect the possible threats that can mostly affect the bank's operations and develop a mitigation strategy, employees' training and education, and management should conducting surprise audits.

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LIST OF ACRONYMS

ICS Internal Control Systems

BAZBanking Association of Zimbabwe

IAF Internal Audit Function

RTGSReal Time Gross Settlement

CBZCommercial Bank of Zimbabwe

CHAPTER 1

INTRODUCTION

This particular chapter incorporates an overview of a study “The detection and prevention of fraud in banks. A case study of CBZ Bank”. The researcher began by the background of study, problem statement, research objectives, research questions, justifications for research, limitations of study, delimitations then defining of key terms. The major aspects of the study are all covered in this chapter.

1.1 Background of the study

According to Gao & Jia (2015), fraud affects banks and companies all around the world on a constant basis. Banks all around the world are susceptible to fraud, which is typically perpetrated as a result of perceived pressure, opportunity, and justification. According to a 2007 independent analysis by the Association of Chief Police Officers (the ACPO), fraud causes billion-dollar losses every year in the United Kingdom. When Kroll approached the Economist Intelligence Unit (EIU) to survey over 900 CEOs worldwide in 2008, the EIU found that 85% of the organizations had experienced fraud of some kind in the previous three years.

Banking fraud incidents have been reported in India, a country in Southern Asia, in recent years, and they have seriously concerned regulators like the Reserve Bank of India (RBI). According to Kenya's The Treasury News from 2010, fraud results in the loss of 25% to 30% of the country's annual budget. Weak internal controls were to blame for the losses. Effective internal control systems have been shown to lessen the possibility of corporate sanctions for false financial reporting (Smith 2018).

In the case of Enron (United States of America), the controversy was caused, among other things, by wire fraud, mail fraud, and securities fraud. The Enron scandal prompted the adoption of new rules and practices to increase the accuracy of financial reports and eradicate fraud (the Sarbanes Oxley Act was then passed as a result). Banks have the chance to restore client confidence in their services through fraud prevention (Guardian Analytics, 2011).

The majority of financial institutions in Zimbabwe have been victimized by fraud, which scares away potential investors and erodes the confidence of creditors and customers. These customers, who are primarily from Zimbabwe, seek capital from banks through loans, and the banks must use every effort to maintain their confidence in order to continue operating successfully. Fraud may harm the connection between the bank and its customers since it destroys confidence and trust (Olaniyi, Owolabi, & Addul 2018). Banks should be required to create an adequate internal control system in order to protect their operations. Bank losses and their failure are viewed as indicators of poor corporate governance, particularly when it comes to the entity's internal controls.

Multiple financial institutions in Zimbabwe collapsed between the years 2003 and 2004 due to the global financial crisis. The number of financial institutions that are registered has reportedly decreased by about 27.5%. This followed the introduction of the multi-currency system and the attack on the Zimbabwean dollar by hyperinflation. Several banks failed, including Kingdom Bank, Time Bank, and Royal Bank (RBZ Report, 2006). Unsecured insider loans and the externalization of greatly valuable foreign cash into offshore accounts (fraud) were among the factors that led to the bankruptcy of the aforementioned institutions.

The aforementioned incidents merely serve to highlight how widespread and intense fraudulent activity has become. This indicates that fraud is becoming into a threat that needs to be addressed before certain entities fall apart. To save financial institutions and our Zimbabwean economy, fraud must be seriously controlled. The bank being discussed has had some publicized examples of fraud where the perpetrators were management-level employees, among other things.

1.2 Problem Statement

Financial fraud has become a common threat to businesses. In the current economic climate, fraud is a major issue worthy of discussion. Although this is generally considered a victimless crime, it can have significant psychological and social consequences for individuals, businesses and communities. The 2016 Steward internal audit records showed he lost \$1,698,000 due to fraud. This is becoming a worrying phenomenon since the money started pouring in. Fraud that

endangers the industry's reputation with customers is now one of their main concerns. Bank fraud poses a significant threat to banks with weak internal controls, but the increased focus on internal controls has also contributed to unexpected losses at some banking institutions.

The sophistication of fraudsters has become a major challenge for management and auditors, and when a fraud incident occurs, other parties involved in the reporting process shift much of the responsibility to the internal audit function. Fraud is real and can go unnoticed with serious consequences. The most direct consequences of fraud are financial loss and damage to reputation and goodwill. In doing so, researchers investigated the effectiveness of internal control systems in preventing fraud as a key area of research.

1.3 Objectives of the study

The major objectives of this study were;

- To examine the effectiveness of internal controls on fraud detection and prevention
- To determine the forms of fraud in the CBZ Bank.
- To identify methods or controls that are available for early detection of fraud.

1.4 Research Questions

The study was guided by the following questions;

- Can the CBZ bank internal control system effectively detect and prevent fraudulent activities?
- What will be the dominating fraud within the bank?
- What will be the factors that will impact the effectiveness of their internal controls in fraud detection and prevention?

1.5 Significance of the Study Significance of the study

1.5.1 To the student

This study helps the student have an appreciation of detection and fraud prevention procedures and styles. The researcher got time to do some thorough research and is equipped with knowledge on the effectiveness of internal controls in Zimbabwean banks. The learner has also broadened and deep research skills and competencies.

1.5.2 To the CBZ Bank and Law Enforcers

This particular study is important for this particular bank as it helps identify the factors that influence the effectiveness of internal controls in detecting and preventing fraud. We provide an overview of this issue and its overlooked implications for banks. It helps banks develop perfect strategies and policies to combat fraud using new technologies and codes of conduct. The investigation will expose the misconduct facing the Reserve Bank of Zimbabwe, the Zimbabwe Republic Police and other anti-corruption agencies and ensure that those who do not comply face the consequences.

1.5.3 To the University (Bindura University of Science Education)

This helps the university personnel to grasp a different understanding of teaching and learning. It also portrays a clear picture on the fraud detection and prevention techniques which happens to be knowledge that can be incorporated in the content delivered when teaching and citing examples.

1.6 Delimitations

This study was bound to cover the CBZ Bank because it was better accessed by the researcher. The key respondents were mainly the bank's management team.

1.7 Limitations

The limitations to this research were;

Since some information within the bank is private and confidential, the researchers collected anonymous data that did not reveal the individual participants, but some information, especially about customers, was not collected. .

As it was not possible to investigate all banks, the decision was that he focused on only one bank and investigators involved multiple departments to ensure the reliability of the data.

Researchers attempted to schedule appointments with respondents to increase response rates, but participants took a long time to complete the questionnaire due to their demanding work schedules.

1.8 Assumptions

The study has an anticipation that;

- Whatever information is provided is reliable and there is no room for biased results.
- Respondents show maximum willingness to cooperate.
- Respondents have the necessary knowledge of internal controls for fraud detection and prevention.
- Address important and essential aspects of the course

1.9 Definition of terms

Bank - A “bank” refers to a commercial bank or an accepting house (Banking Act; Chapter 24.22)

Fraud – fraud can loosely be defined as any behavior by which one person intends to gain a dishonest advantage over another (Indian Contract Act, 1872) section 17.

Internal Control – According to COSO (2013), internal control is a procedure implemented by an organization's board of directors, management, and employees. Its aim is to ensure the reasonable assurance of accomplishing objectives in three categories: efficient and effective operations, trustworthy financial reporting, and adherence to relevant laws and regulations.

Internal Controls - Internal controls are the processes, policies, procedures, and practices put in place by an organization to reasonably ensure that its objectives are being achieved effectively and efficiently. A system of internal controls protects an organization's assets and prevents and detects fraud and errors (Albrecht, 2015).

Internal Audit – To ensure independence and objectivity, our internal audit organisation follows the guidelines set forth in the International Professional Practice Framework (IPPF) published by the Institute of Internal Auditors (IIA). This framework includes ethical and practical guidelines for internal auditing. Internal audit is integrated within the control system, although it is often a separate entity. According to Ahokas, internal controls are integrated throughout the organisation.

Bank Fraud – Bank fraud refers to the use of deceitful means to obtain or hold onto money, assets or other property of a financial institution, or to masquerade as a bank to obtain money from depositors (Institute of Internal Auditors, International Framework for Professional Practice 2009).

Effectiveness - The 2013 Business Dictionary states that effectiveness is the degree to which a desired result can be achieved. It's not just about doing something well, it's about doing the right thing and getting the desired result.

1.10 Structure of the study

This research consists of five chapters. Chapter 1 is the introduction, where the researcher explains the problem at hand and why the research was done. Chapter 2 is a literature review. It focuses on concepts, previous work on the same problem and its results, and theories and models surrounding the research. Chapter 3 describes the research methodology and describes how the research was conducted.

1.11 Summary

In this chapter, the researcher explained the background of the research, the problem statement, the research question, and the research goal. This is followed by assumptions and definitions of terms. The purpose of the investigation was to detect and prevent fraudulent activity at CBZ

Bank. In the next chapter, literature research will be discussed which includes different types of literature.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter picks up other studies published by other people who have done similar research in order to shed light on current research and avoid wasting time on specific things that have already been discovered. Cooper and Schindler (2003) state that the literature review section examines current or historically relevant research publications, business statistics, or industry reports on which to base proposed research. An extensive evaluation was conducted, with a large focus on studies conducted and published by previous researchers.

2.1 Conceptual Framework

In the past years, companies have got a better understanding of fraud risk and this has impacted on the appreciation of internal controls within companies. The internal control system differs from one company to another. Since 2009, fraudulent activities have increased as the country introduced the multi-currency system.

2.1.1 Concept of fraud

Fraud is the falsification, concealment, or ignoring of information regarding non-existent, inappropriate, non-genuine, or intentionally generated guaranteed products, services, or other benefits or results. It is defined as intentionally and knowingly deceiving an individual by manipulation for financial gain (Morgan, 2021). According to the Black Law Dictionary, fraud is deliberately misrepresenting the truth or omitting important facts in order to mislead others and bring them detriment. Fraud reduces a company's assets and increases its liabilities (Adeyemo, 2012). Accountancy Europe (2017) note that there is no uniform international definition of fraud. World bank (2014, pp. 3) define fraud as any act or omission , including a

misrepresentation , that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation.

Albrecht et al. (2009) state that pressure, opportunity and rationalization are the main causes of fraud. The fraudster can then justify that the victim owes more (Mutua, 2011).

2.1.2 Classes of fraud

- Internal fraud
- External fraud

Internal fraud

This fraud is committed by employees and can also be referred to as occupational fraud or internal fraud. According to Pedneault (2010), this type of fraud involves using one's position within a company to benefit oneself by misusing or misapplying the company's resources. This type of fraud is most commonly committed by high-level employees, who may justify their actions based on perceived unfair treatment. The most common types of insider fraud, according to the ACFE Report to the States (2018a), are asset misappropriation, corruption, and accounting fraud. Accounting fraud can involve various types of financial manipulation, including falsifying earnings, manipulating time differences, and improperly valuing assets and liabilities.

External fraud

Can be called fraud by suppliers. They are caused by causes beyond our control, such as natural disasters. Thieves may use credit and debit cards to steal. Electronic fraud is an example of external fraud. Other types of external fraud include check fraud, identity theft, and fraudulent loans. This is typically done by manipulating technology through hacking to allow intrusion.

2.1.3 Causes of bank fraud

Albrecht et al (2009) states that pressure, opportunity and rationalization are the main causes of fraud. These three are taken as excuses for committing fraud in banks and any other organizations. Bank fraud can be categorized into two groups which are internal and external causes.

2.1.3.1 Internal factors

Weak internal controls

Employee compliance must be monitored to determine whether employees are following legal procedures and adhering to policies. Receipts and documents should be inspected by supervisors to deter suspicious transactions. Monitoring is effective when it is performed by a person who is higher than the person who performs the work to be inspected. When internal controls are weak, employees use the opportunity to commit fraud.

Lack of rewards and job rotation

According to Adeyemo (2012), a bad working environment and financial incentives might lead to fraud. Workers need to be appraised and they become more knowledgeable of their work they require rewards. When there is no job rotation they get used to working in one place and it becomes so easy for them to commit fraud as they will have mastered the art of the work and ways to steal.

Poor bookkeeping

Financial books should be updated as per the policies. Backlogs can result in financial statements fraud. Everything and transactions ought to be done in time to avoid pressure which might force the workers to make their own figures to make sure that the work is completed and handed over when it is needed. Arithmetic errors also arise as postulated by Millichamp and Taylor, (2018).

Unqualified (inexperienced) workers

Benson and Edwards (2006) found that inexperienced employees are more likely to fall prey to the machinations of outside fraudsters and to lure bankers into committing fraud. The chances of unqualified personnel spotting or discovering fraudulent activity are extremely low and this task requires a great deal of experience and competence. Even if they knew, they might not have enough capacity to take action.

2.1.3.2 External causes

Economic crisis

Our Zimbabwean economy suffered terrible hyperinflation during the year 2008 which led to fraud as people held great amounts of paper money. This was due to an economic crisis that

was faced that time. From then the economy has not been stable and research shows that fraud is reported and happening in financial institutions. The introduction of the Real Time Gross Settlement (RTGS) promoted fraud because of its speed. There is need for effective internal control systems to detect such fraud.

2.1.4 Types of Fraud

Money Laundering

Conceal or conceal from trace the existence and source or use of illegally obtained funds; Money laundering destroys public confidence in financial institutions and corrupts the system. According to Madinger 2017, money laundering is the process of disguising illegally obtained funds as legitimate through a complex series of transactions. This has a negative impact on the economy, and policies and regulations cannot guarantee prevention of money laundering.

Loan fraud

Lending money to customers who have not borrowed or have already exceeded their credit limit. Loan fraud is a type of financial fraud that occurs when an individual or organization intentionally provides false information or omits relevant information in order to obtain a loan (Gerard 2013). Indicators of credit fraud include bad debt, unusually high sales, loan extensions, change of ownership, and abuse of change orders. Loan fraud is not a single scam, it has multiple facets. It could be internal or external fraud.

Automated Teller Machines Fraud

According to Edelbacher and Kratcoski (2018), ATM fraud is the unauthorized use of ATM cards or accounts to withdraw money, obtain account information, or exploit security flaws in ATM systems. refers to It could be a scammer stealing her PIN number or putting something in the opening of the machine to steal his Money Link card. After the owner walks away, the scammer retrieves the card and withdraws the money.

Cheque Fraud

This is the illegal practice of tricking banks and individuals into believing that counterfeit checks are genuine for the purpose of stealing money (Edelbacher and Kratcoski, 2018). This

scam can be done by a fraudster stealing a check and depositing it into another account under a false name. They can then use the deposited funds for their own purposes.

Wire Fraud

These are scams through networks such as interbank transfers, RTGS and SWIFT. This is stealing money by transferring money from one account to another. This is primarily done by employees making transactions who have access to money transfers. The fraudster will then withdraw the money from his account for personal use.

Financial Statement Fraud

This is the deliberate misrepresentation of financial information in order to mislead users of the financial information. It can take different forms such as overstating assets or revenues, understating liabilities or expenses, or hiding losses or liabilities (William et al., 2013).

Discounting fraud

Gottschalk (2016) defines discount fraud as a type of financial fraud that falsely discounts the value of assets or liabilities, usually to reduce tax payments or increase profits. If a company turns out to have a very high debt to the bank, the company will disappear with its customers and there will be no one to pay the bills to the bank.

Credit card fraud

Holt and Bossler (2016) explain that credit card fraud is a type of identity theft where an unauthorized individual gains access to another person's credit card information and uses it for illegal purposes. This type of fraud falls under the category of identity theft. In some instances, criminals fabricate new credit cards using stolen information, while other times they steal the physical card or access data from unsecured files. Fraudsters can also obtain credit card information from anyone with access to the account. They may take over legitimate bank accounts, pose as the account holder, and use stolen documents to open accounts in someone else's name.

2.1.5 Impact of Fraud

Dent the Morale of customers

Online banking-related fraud can erode customer confidence in banking services and affect customer morale. For a company to remain competitive, it must never break its customers or their trust. Some employees can conspire to falsify financial transactions and even other management information in ways that control systems cannot detect (Minnesota Management Budget, 2013). Therefore, it affects customer confidence.

Drives away investors

Responsibility for managing fraud stems from the fiduciary responsibility of directors and managers and the fact that directors and others act as custodians of assets entrusted to them by investors and other stakeholders (Kranacher & Riley, 2019).). No investor would want to work with an agency involved in illegal and abusive practices. They impede customer (depositor) behavior and lead to lower revenues. The bank's reputation is damaged, everyone involved loses confidence in the organization, and reputational risk arises.

Increase in operational and capital risk of the bank

Fraud can happen without the knowledge of the management. This adds even more risk and poses a threat to banks. Like the Enron case, there is a possibility that it will be discovered late. It can ruin business operations and lead to capital losses and bank failures.

2.1.6 Steps in Fraud Management

Prevention

Osisioma and Okoye (2015) state that prevention is the first step in fraud management. These are attempts to eliminate cheating.

Anti- fraud activities and measures

As a means to mitigate or prevent fraud, anti-fraud measures are of secondary importance and are intended to prevent. These are monitoring systems to track and detect fraudulent activity within the process.

Detection

This phase is the identification phase. A detection finds evidence that fraud has occurred or has been attempted. This is true for many industries including insurance and banking.

Mitigation

Measures are taken to ensure no loss of money or property within the organization, and those planning fraud are deterred and forewarned.

Root cause analysis

The fifth stage and it refers to a process of finding out what is behind fraudulent activities. What is making it possible for fraudsters to do fraudulent activities in the organization?

Policy

The sixth phase is about anti-fraud evaluation and implementation. Once the cause is identified, policies are discussed to protect company property and money from fraudulent theft.

Forensics or investigations

Investigations are done for the conviction of suspected fraudsters.

Prosecution

The last phase and in which criminals are charged.

2.1.7 Internal Controls

Internal control systems are a lesser subject in the management literature, as fraud is a more real threat than ever in any modern industry (Kramer, 2015). The Basel Committee is one of several banking regulators focused on internal controls. The Company Law encourages sound internal control systems. The number and type of internal controls an organization employs depends on the type and size of the organization. When implementing new internal controls, a clear explanation or documentation is required so that deviations can be identified. As part of risk management, internal controls need to be revised to ensure they are responsive to the changing business environment.

Types of Internal Control

Preventive controls

Chambers (2010) states that these are controls that reduce the likelihood of error or fraud before it occurs, and are essential from a quality perspective because they are proactive. These include segregation of duties, access controls such as computer passwords, shortlists for talent, and door locks to prevent theft and cash vaults.

Detective controls

These are controls designed to detect miscalculations or damage after the operation is complete (Lander, 2021). Help provide evidence that preventive controls are working as intended and take responsibility for ensuring that anomalies are spotted in hindsight. Gray, Mason, and Crawford (2015) provide examples of physical inventory counting, adjustments, and internal controls.

Corrective controls

Corrective controls address unpleasant problems or reduce threats to acceptable levels when previous controls are ineffective. Track problem detection through trend setting controls and uncover previously undiscovered anomalies through corrective controls. Lander (2021) provides examples of monitoring and management reviews, such as cost centre report and personal expense report reviews.

Directive controls

These controls are the actions that are taken to bring about or bring about the desired result. They help achieve specific results. The examples of these include job descriptions, procedures, policies, rules, and regulations.

Five classes of internal control

Control environment

The control environment refers to a collection of regulations, protocols, and contracts that form the basis of internal controls across an organization such as a bank (Schandl and Foster, 2019). The IIA claims that the control environment is the cornerstone of a functioning internal control system, which is responsible for providing dependable financial reporting to both internal agencies and other stakeholders. Additionally, it helps businesses operate smoothly while complying with all applicable regulations and safeguarding assets. It is the result of the

philosophy, personality, and supportive attitude of management and competence, ethical ideals, integrity, and morals of the bank's personnel. The control environment is influenced by the organizational structure and associations of responsibility (Mendes de Oliveira *et al*, 2022).

Risk Assessment and Management

To continuously identify and analyze risks to achieve organizational goals, risk assessment is a dynamic process (COSO, 2013). Risk refers to the likelihood of an adverse event occurring that may hinder an organization from achieving its objectives. As per Schandl and Foster (2019), when assessing risks, supervisors examine the impact of potential deviations in both internal and external environments, and take hypothetical actions to mitigate them. If a risk cannot be prevented, management must decide whether to accept, mitigate, or avoid it. Management should ensure that all risks are analyzed and managed effectively to achieve organizational objectives.

Control Activities

Company policies and procedures. Technological change is common, but better management reduces risk within an organization. COSO (2019) states that control activities should be organized around policies that define what is expected and the processes that implement the policies. Before implementing control measures, a cost-benefit analysis should be performed.

Information and Communication

Information can be provided orally, in writing, or electronically. Everyday communication is verbal, but documenting or writing information is critical to business. Information should be communicated in a timely manner to interested parties who need it so that they can receive it and use it to fulfill the various roles that need to be implemented. This makes it more secure as it creates a permanent record that you can refer to later. Communication with customers (clients), suppliers and external parties is essential for effective internal control.

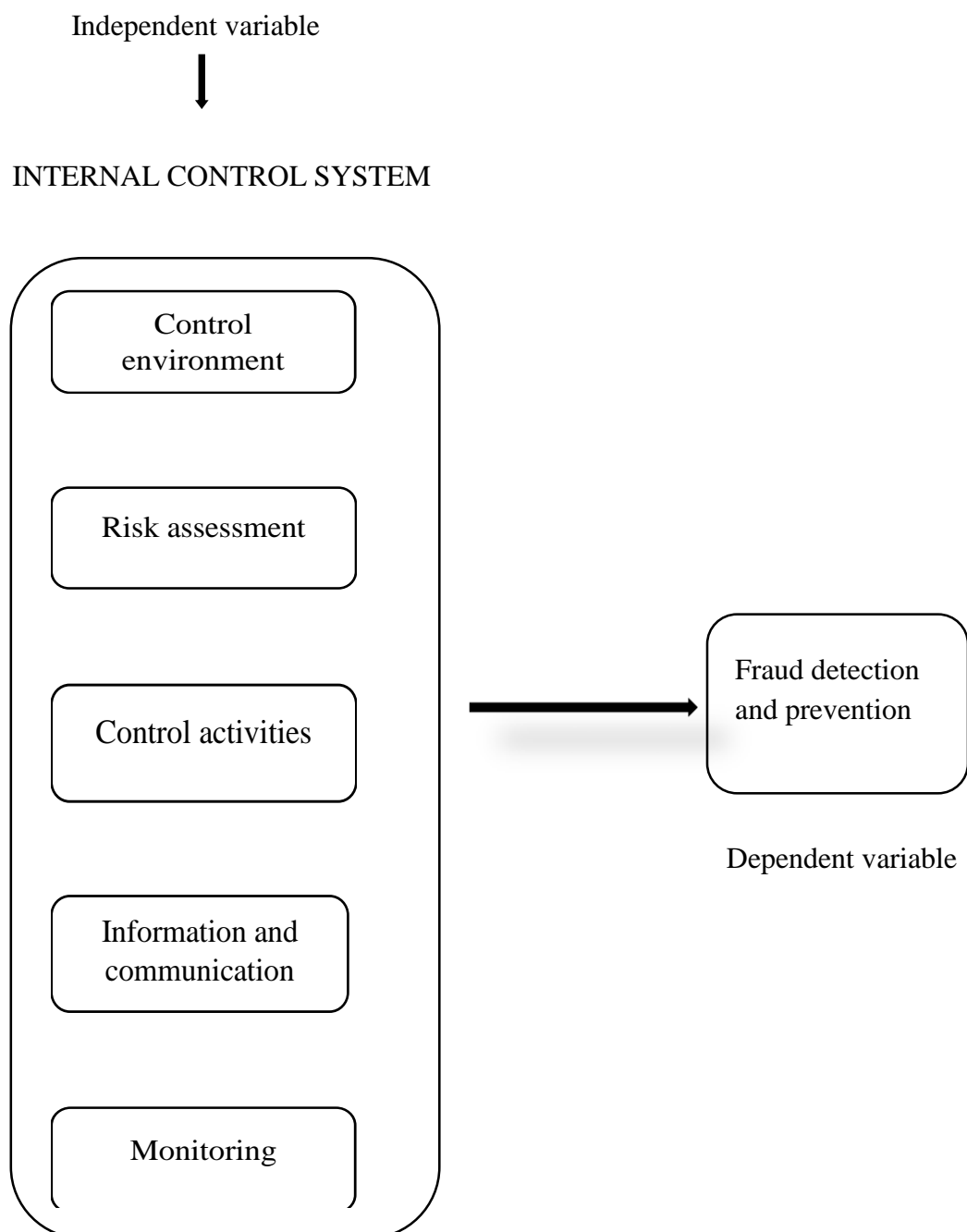
Monitoring and Assurance

According to Matthews (2020), monitoring is the process of evaluating the effectiveness of control systems over time. This is done through monitoring activities. Regular management and monitoring activities are necessary as part of monitoring and protecting your organization.

Monitoring takes place during operation. Management must constantly manage or monitor internal controls in order to properly work towards achieving the organization's mission. To conduct effective monitoring activities, all employees must understand the company's purpose, risk tolerance and genuine employee responsibilities.

Fig 2 below shows the COSO Framework on internal control classes;

Fig 2 : COSO Framework on internal control classes



Source: Researcher's design Based on COSO Framework

2.1.8 The roles of internal control system in banks

The role played by internal controls in a bank or financial institution is published by the International Federation of Accountants (IFA, 2012). The roles are:

- Fraud prevention and detection (reduces likelihood of fraud). This prevents personal use of organizational resources by administrators. Assets are protected against unauthorized use or disposal.
- Mitigate the risk of asset loss, ensure reliable financial reporting and regulatory compliance in all aspects, especially crime prevention.
- Ensure that transactions are properly settled.
- Facilitates timely production of financial reports.
- Ensure that appropriate supervision is in place at all times, where appropriate.
- Anomalies are recognized immediately.

2.1.9 Effect of Internal Control System in fraud detection and Prevention

Hochberg, Sapienza & Jorgensen (2009) states that internal controls are becoming more and more important due to large losses incurred by a number of financial institutions. An effective and efficient internal control system is important in fraud detection and prevention. Fraud is a major threat and a huge risk to organizations thereby there is need for a control system to expose every mishap and prevent fraud from happening.

2.1.10 Factors that affect the effectiveness of the internal control system

- Lack of resources to fully train anti-fraud skills.
- Weak operating environment with inefficient management ignoring critical issues.
- Lack of qualified and knowledgeable personnel.

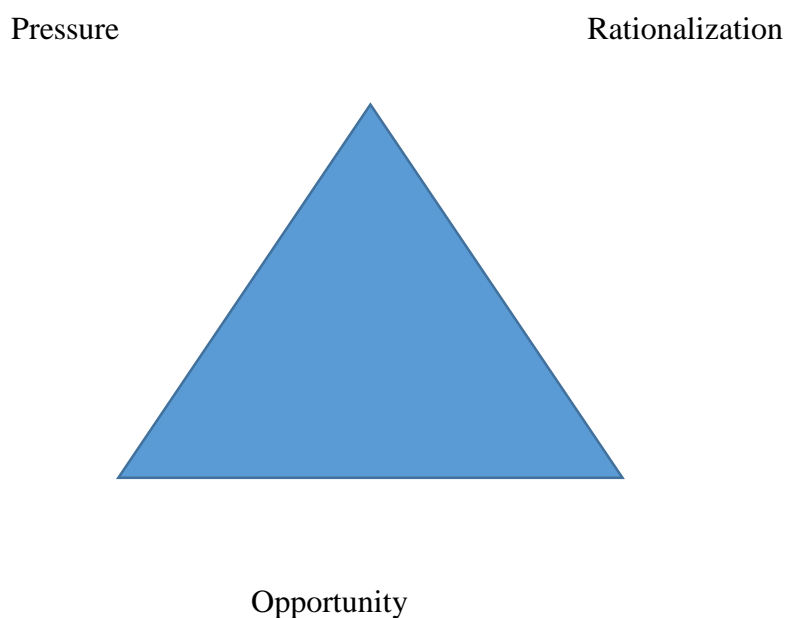
- The complexity of fraud stems from technological advances that allow extreme levels of obfuscation by management.

2.2 Theoretical Literature

2.2.1 The Fraud Triangle Theory

This section will focus on an overview of fraud and fraud theory. The Cheating Triangle is a framework that identifies the reasons why some decent people perpetrate: perceived pressure, perceived opportunity, and rationalization. Biegelman and Bartow (2012) were developed and implemented by Dr. Donald Cressey. This triangle serves to explain why cheating takes place. According to Biegelman and Bartow, the three triangular components exist simultaneously. A fraud triangle is shown in Figure 2.1 below.

Figure 2.1: The Fraud Triangle



Reference; Biegelman and Bartow (2012, pp. 32)

Pressure

Pressure is financial pressure and motivation. It usually stems from two things he is greedy or greedy. It deceives someone and causes them to commit fraud. One factor or motive may be to cover debt. Employees are pressured by management to produce compelling results that can be distorted or embellished. According to the Fraud Track Survey, approximately 63% of fraud is caused by greed, with roots dating back to 2007. All scammers are under pressure to act unethically at some point (Abdullahi and Mansor, 2015a). Other causes of pressure cheating include the need for status symbols in the form of more money, better cars and bigger houses.

Rationalization

Another is rationalization. Immoral acts can be justified as something other than illegal using rationalization (Abdullahi and Mansor, 2015). Scammers justify themselves as to why they are doing the wrong thing. If the fraudster does not consider himself a criminal, he will come up with an excuse to commit the crime. It makes him feel good, but then he breaks the law. He tells himself in his head that the company owes him something, or that everyone does. People justify fraud like this:

Necessary – May be done for the business.

Harmless - may be due to the victim being strong enough to absorb the effects of their actions.

Justification - This may be because the victim is entitled to compensation for what he stole or for the abuse. .

Opportunity

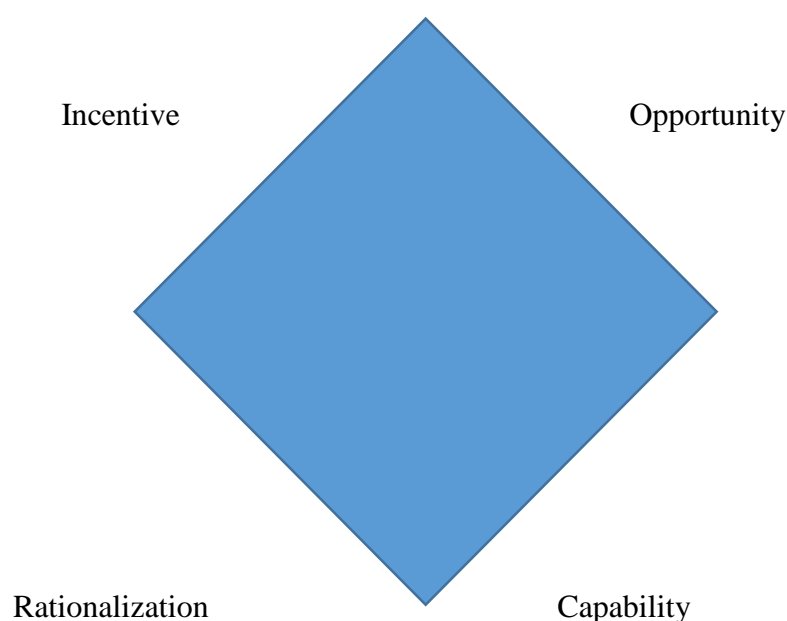
Finally, the cheating triangle has a chance. This shows how easy it is to cheat. Why not do it when it's easy? Fraud is more likely to occur when the probability of detection is minimal (Cressey, 1953). According to Ruankaew, Mansor, and Abdullahi (2016), this aspect of the fraud triangle can most likely be mitigated by anti-fraud measures such as processes, procedures, controls and early detection. Opportunities, however, are influenced by the effectiveness of internal controls within an organization. Only if the company's internal controls are weak, company assets are inadequately secured, fear of disclosure or potential detection is low, or policies about acceptable behavior within the organization are unclear, an opportunity arises.

Although the fraud triangle can be criticized (Biegelman and Bartow, 2012), this theory contains reasons why people commit fraud. This helps management and internal control teams address these root causes and prevent fraud. Highlighted in the graph, he monitors three causes and can also ensure that internal control systems are effective.

2.2.2 The Fraud Diamond Theory

We also consider fraud diamond theory, which includes factors such as incentive/pressure, competence, rationalization, and opportunity. A model that shows the risk of fraud like a triangle. It shows how fraudulent activity is carried out within the enterprise. The additional component of competence refers to the character or traits of the person committing the fraud. According to Kassem and Higson (2012) and Sorunke and Abayomi (2013), many frauds do not occur without the right people with the necessary skills to commit them. Minnesota (2007) defines internal controls as a comprehensive set of controls, including financial and non-financial measures, created by management to conduct business in a methodical and effective manner, ensuring adherence to business policies, protecting assets, and ensuring the accuracy and completeness of records. Dorminey et al (2012) states that the main attributes thought to be required for committing fraud, particularly for significant amounts over long periods, are a mix of intelligence, position, ego, and the ability to deal well with stress. The model is shown in Fig 2.2 below;

Figure 2.2: The Fraud Diamond



Reference; Wolfe and Hermanson (2004,pp 38)

The Fraud Diamond is almost the same as the triangle articulating causes of fraud though it includes another element which is capability. The diamond theory articulates fraud causes and how it is becoming a problem and a threat to the banking sector and organizations. Therefore, this theory is relevant to this study.

The Rotten Apple Theory

Biegelmann and Bartow (2012) explained the Rotten Apple Theory as the third theory. It suggests that when employees of an organization witness other employees committing fraud without facing any consequences, they also tend to engage in fraudulent activities to fulfill their needs, leading to an increase in fraud. This theory is significant for research to detect and prevent fraudulent activities facilitated by passive systems within an organization. Ignoring fraudulent activities shows ineffective corporate governance and weak internal controls. Additionally, Biegelmann and Bartow propose that addressing low-risk fraud is equally important.

The Potato Chip Theory

This theory was also introduced by Biegelmann and Bartow. The duo argue that cheating can become an addiction if scammers take greater risks and cheat again. Criminals may even commit new frauds. This clearly shows a significant lack of fraud management. As a result, organizations lose funds and assets. This model or theory requires a tight internal control system to achieve fraud detection and prevention.

2.3 Empirical Literature

This will be an evaluation on previous empirical studies to respond to a specific issue that is at hand. It is also referred to as systematic literature review.

Sources of Literature

2.3.1 Ali, Khan, Fatima and Masud (2008): Effectiveness of internal controls in banks in Bangladesh; Internal control and its impact in banks.

In 2008, the survey was conducted on seven banks in Bangladesh. The investigation found that four of the seven banks had committed serious fraud. His remaining three companies practiced good governance and met their fraud prevention and detection requirements. It was also pointed out that internal controls in developing countries are still lagging behind and are less effective than developed countries such as Japan, Germany, and the United Kingdom and the United States. The method of implementing internal controls varies from country to country, even in developed countries. The results also suggested that the effectiveness of internal controls towards improving fraud detection and prevention is guaranteed if the control culture is brought in through policy guidelines and structural changes at the banks that fall victim (affected banks). Systems have to be reviewed so that fraud will be avoided.

2.3.2 Alktani and Ghareb (2014): Evaluation of the quality of the Internal Auditing Position in the financial Sector in Saudi Arabia.

The study conducted qualitative research on 42 internal auditors from the Saudi banking sector to determine the challenges faced by internal controls in detecting and preventing fraud. The research referenced the Internal Audit Criterion number 1130 which addresses threats that may affect auditors' independence and objectivity, including conflicts of interest, restricted work scope, and limited resources. The research confirmed that each of the above threats, if present, should provide information in favor of the parties involved. Other common internal control issues are ranked in order as lack of resources, training, lack of standards for performance evaluation, constant changes in legislation and so on. The study then explored some of the possible solutions to the above problems. External auditors must be neutral to avoid conflicts of interest. It was revealed that internal auditors must not disclose any information that might weaken the objectivity of their work course and they must stop examining any work that may strip them of their independence when auditing that work.

2.3.3 Koivisto Nella 2019: Preventing fraud through internal control; Accounting.

Arwinge et al. (2013) explain that the concept of internal control has been in existence for over a century, but its significance has increased in recent decades. Earlier, internal control procedures were referred to as accounting controls, as noted by Maijoor (2000). The Sarbanes-

Oxley Act of 2002 made it mandatory for companies listed on the American Stock Exchange to demonstrate the quality of their internal controls concerning their financial positions. This was a risk management measure against fraud. In a study conducted by interviewing various groups, it was revealed that companies facing a higher risk of fraud should invest more in their internal controls. Therefore, effective internal control systems are crucial, according to the research.

2.3.4 Hussaini Umar and MuhammedUmar Dikko (2018): The effect of internal control on the performance of commercial banks in Nigeria.

This study was to look on the how effective were the internal controls in Nigerian commercial banks. They used questionnaires as their study tool and distributed about 382 of them. The outcome proved that the pillars of internal control (control environment, control activities, monitoring and risk assessment) are positively related to the performance of the commercial banks.

2.3.5 Zubair Ahmed Khan Amity International Journal of Juridical Sciences (Vol-3) 2017: Fraudulent practices in Banking Institutions; Legal issues and challenges.

The investigation was conducted to shed light on fraudulent practices in the Indian banking industry, where fraud cases are on the rise. The Reserve Bank of India, chaired by AK Ghosh, has convened a high-level committee to investigate the dire state of fraud and related fraud in banks. All banks must be held accountable to their parent bank for their activities and transactions. Banks need to produce annual reports and balance sheets without ambiguity or inconsistency in a timely manner. Researchers have found that the possible types of fraud in banking are deposit account fraud, loan process fraud, and modern technology age fraud. The study suggests that modern fraudsters are using new technologies to cheat fraudulent transactions, so banks need to play a vigilant role in fraud detection.

2.3.6 Gombarume Fungai Brian (2014) : Challenges of Internal Bank Fraud Policy. A case study of Commercial Banks in Harare Central Business District.

The survey covered 16 banks in Harare. He randomly selected 3 lines from 90 people and conducted questionnaires and interviews with 31 bank employees. Management, bankers, security guards, risk managers and investigators participated in the survey. They used questionnaires and interviews as research tools. Researchers have found a surge in computer fraud in Zimbabwe's banks since the introduction of internet banking. Inadequate internal

controls caused fraud. They found out it was a wire transfer scam. Fraud and fraudulent transactions are on the rise in the banking industry. Accounting fraud and theft also increased.

2.3.7 DeZoort and Harrison 2008 : Evaluation of the Internal Audit Responsibility For Fraud Detection in Florida, USA.

This particular study examined 783 internal auditors, utilized a quantitative approach. The research revealed that the responsibility of auditors in detecting fraud differs based on the country. The study focused on Belgium and Mexico, and determined that this is due to developed countries having the financial means to hire skilled accountants. The research indicated that 19% of the responsibility of detecting fraud falls on internal auditors. Additionally, it was found that internal auditors are more responsible for asset misappropriation than for fraudulent financial reporting. Moreover, the study established a significant positive correlation between the severity ratings of internal audit fraud incidents and perceived audit responsibility.

2.3.8 Atwine Clovis (2016): Internal controls and fraud prevention in banks. A case study of Centenary bank, Entebbe road branch.

A study was conducted to investigate the correlation between internal controls and fraud prevention in the banking sector. The researchers employed a cross-sectional survey design and used closed-ended questionnaires to collect quantitative data from 30 respondents, selected through targeted sampling techniques from a population of 80 Centenary Bank employees. The researchers used frequency tables, graphs, and charts to present the collected data. Prior to testing, a pilot test was conducted to ensure the validity and consistency of the research tool. The study found that Centenary Bank's internal controls were preventive controls, with accounting approval and separation of duties being the most effective control measures. The researchers concluded that there is a positive relationship between internal controls and fraud prevention in banking. The study recommends that all administrative activities and regular reviews of bank operations should be carried out to reflect the latest trends in fraud prevention within the organization.

2.4 Research Gap

The previously published studies investigated were conducted in other countries, most of them in developed countries. These countries focused primarily on internal audit, ignoring other problem areas and members such as management, boards and regulators. To fill gaps in the study, the study involved other members and stakeholders such as directors and auditors in fraud detection and prevention. This has improved the bank's internal management system, making it effective and efficient. If top management was willing to work on it, good governance could well have been put in place to catch fraudsters and so-called mistakes. Other researchers' literature dealt with fraud, which was complex and required a highly skilled internal team familiar with the corrective actions to be taken in such scenarios. A bank (CBZ) needed to improve its internal control system to maintain effectiveness and efficiency, and encourage employees to learn and expand their knowledge.

2.5 Summary

This chapter reviews the conceptual, theoretical, and empirical literature. The internal control systems of banks, which are central to dealing with fraud problems, were discussed. The next chapter describes the research methodology of this study, including study design, data sources, data collection procedures and analysis. Ethical considerations will also be highlighted.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

This chapter focuses on explaining the techniques used to collect data and the approach that was used to conduct the research. The researcher was collecting and analyzing data on the effectiveness of the CBZ bank internal control system in matters to do with fraud detection and prevention. These include the research design, research instruments, data collection procedures and data presentation and analysis procedures.

3.1 Research Design

The study was conducted in a manner that achieved its objectives. A study design is the various structures implemented to support and guide the researcher during the study. Creswell (2014) describes study design as the detailed steps involved in the research process, data collection, data analysis and report writing. Descriptive research is done to identify and describe the properties of variables of interest in a context (Sekaran, 2000). This study used a descriptive approach to illustrate how fraud can be detected and prevented from the perspective of a CBZ bank's internal control system. Solomon (2011) states that descriptive research is concerned with describing population data and characteristics. The goal of descriptive research is to obtain realistic, accurate and logical data that can be used for statistical planning. Descriptive statistics were used to represent different characteristics of the dataset after descriptive analysis.

3.2 Study population

Gupta et al. (2014) provide a definition of a population study as a collection of individuals who meet certain eligibility criteria and are part of a study. The focus of this study was the employees and management of CBZ bank. The target population consisted of 98 of employees, and a random sample of 40 respondents was drawn from the target population. Babbie and Mouton (2015), target group refers to the group of people from which the researcher wishes to draw conclusions.

3.3 Sampling and Sampling Technique

According to Kapwani (2014), a sampling technique is a procedure that selects a set of characters or objects from a population such that a nominated group exhibits traits that characterize the group. Sampling techniques influence the outcome of a particular study. Purposive and convenience sampling methods were used. Purposive sampling is a non-probability sampling technique in which researchers select participants based on certain characteristics or traits relevant to their research question (Tuckett, 2016). The target group was of bank employees, from whom a sample of 40 participants was selected.

This research had a sample of respondents from the bank. A sample is a group of people or things to be studied. Respondents can be randomly selected from the entire target group. The sample is shown below;

Population sample

$$n = \frac{Z^2 pqN}{e^2(N-1) + Z^2 pq}$$

$$n = \frac{1.96^2 + 0.5 \times 0.5 \times 98}{0.05^2(98-1) + 1.96 \times 0.05 \times 0.5}$$

$$n = 40$$

Where;

Z = level of significance

p = probability that individual has the characteristics or outcome of the study

q = probability that individual does not have the characteristic or outcome being studied

N = target population

e = expected error

The reason for choosing these 40 employees as a sample was to focus on a small group representative of the target population so that there will not have too much to capture and manageable for the researcher to analyze.. This minimized wasted time in the course of this investigation.

Respondents for the survey were drawn from the bank's six key departments: finance, risk management, internal audit, security and fraud, human resources, and information and communication technology. These were thought to provide better information about the research being conducted.

Table 3.2: Respondents

DEPARTMENT	SAMPLE
Finance	7
Risk Management	7
Internal Audit	7
Security and Fraud	7
Human Resources	5
Information and Communication Technology	7
TOTAL	40

3.4 Research Instruments

The researcher used questionnaires although there were more ways of data collection like conducting surveys and so on.

3.4.1 Self -Administered Questionnaires

A standardized questionnaire was created and distributed to collect numerical data from the respondents. A questionnaire is an instrument for collecting primary data. This primary data is free from manipulation by humans, as it was obtained by the researcher from personal experience (Kabir, 2016). The American Statistical Association (2021) defines a questionnaire as a series of questions asked to a sample of people to obtain statistically useful information about a particular topic. Kotler and Armstrong (2004) agreed that questionnaires are tools for collecting data by designing questions to ask respondents. For closed survey questions, respondents had to check the most appropriate answer. In self-administered surveys, respondents answer questions by filling out the questionnaire themselves.

Advantages of Questionnaires

- Easy analysis and evaluation of responses as provided answers were brief and straight forward addressing the question.
- Respondents were willing to disclose even sensitive information since there is privacy.
- Easy for respondents to give opinion especially on closed questions (data accuracy).
- The researcher does not need to be physically available when questionnaires were completed.

Disadvantages of Questionnaires

- No room for researcher's explanations and confirmation.
- Provide only limited insight into a problem.
- In order to deal with the drawbacks, the researcher used in-depth interviews to get all the information and give the respondents an appreciation of what the questions required before they produced their answers.

3.5 Sources of Data

Data refers to factual information from which conclusions may be drawn (Ajayi, 2017). This study incorporates primary data collected through questionnaires. The management of the bank answered to questions asked pertaining this particular study.

3.6 Data Presentation and Analysis Procedures

Data collection is a very important part of the research process and data must be analyzed to make sense. An analysis was performed to summarize the collected data. This includes interpreting data collected through analytical and logical thinking to determine patterns, relationships, or trends. The researcher presented data using tables. Findings were analyzed using the Statistical Package for Social Scientists (SPSS) to show relationships between various factors.

3.7 Data Collection Procedures

This procedure includes obtaining approval from CBZ banking authorities, arranging appointments with eligible participants, and administering research equipment to the samples. Questionnaires were used to collect data on closed questions or precise, focused questions. They were distributed and the respondents were free and honest in their responses as their names and personal information were never known or disclosed.

3.8 Validity and Reliability

The study aimed to achieve validity by asking questions that align with its research goal and obtaining accurate responses. Validity is defined by Morling (2014) as the degree to which a study measures what it intends to measure. The researcher also validated the research tools by consulting with supervisors. Drost (2011) defines validity as the extent to which a tool supports the study design being evaluated.

Reliability, according to Coolican (2017), refers to the consistency and stability of research findings. To ensure reliability, the researcher employed internal consistency by using different questions that require the same responses in the questionnaire. If the same response predominated, it was probable that the information was accurate. The questions varied in wording but had the same answer options.

3.9 Ethical Considerations

The researcher would seek for consent and would give clear objectives to respondents. It is advised to address ethical problems when doing qualitative research including people. How and what activities we should engage the respondents. Questionnaires helped on respondents' confidentiality. Respondents were assured that the information that they were supplying was private and anonymous. The research process called for honesty and voluntary participation from respondents. No respondent was forced to answer or disclose any information they were not willing to give.

3.10 Summary

The chapter has an introduction, the research design as well as the subjects. Data collection procedures, data presentation and analysis procedures were highlighted and discussed. In this chapter, the advantages and disadvantages of these techniques were discussed. The ethical practices of the researchers and the validity and reliability of the research tools used in the studies were also mentioned. The next chapter describes the data collected by researchers in this chapter. There is a statistical representation of that data collected.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter is following an outline of chapter three in estimation, presentation and interpretation of results. Descriptive statistics presented first followed by stationary results. After finding a suitable regression and hypothesis, tests and estimations will be done. Variance decomposition and impulse response analysis will follow.

4.1 Response Rate

Table 4.1: Response rate

		Sent /Scheduled	Returned /Conducted	Response rate
Questionnaires		40	40	100%

Source: Primary data 2023

Questionnaires were distributed to 40 CBZ employees and all of them were returned answered because the researcher made a follow up and pleaded with every one of them to return therefore all were collected answered. This represents a response rate of 100%.

4.2 Demographics

Table 4.2.1:Age of respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Below 20 years	6	15.0	15.0	15.0
21 to 30	7	17.5	17.5	32.5
Valid 31 to 40	14	35.0	35.0	67.5
Above 40	13	32.5	32.5	100.0
Total	40	100.0	100.0	

SPSS Data 2023

Regarding the age of the respondents, 15% (6 people) were below the age of 20, 17.5% (7 people) between 21 and 30 years, 35% (14) being the age group between 31 and 40 years and the 32.5% (13 people) were the ones above the age of 40years. This is showing that majority of personnel at CBZ in the targeted departments were older which is a probability that they as well have served for a longer time now and have correct information.

Table 4.2.2: Gender of respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	22	55.0	55.0	55.0
Female	18	45.0	45.0	100.0

Total	40	100.0	100.0	
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SPSS Data 2023

Regarding to respondent gender, majority were male gender accounting for 55% (22 respondents) as compared to female counterpart with 45% (18 respondents) though there is a slight difference in numbers. This is showing that majority of personnel at CBZ in the stated departments are male.

Table 4.2.3: Department of respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Finance	7	17.5	17.5	17.5
Risk Management	7	17.5	17.5	35.0
Internal audit	7	17.5	17.5	52.5
Valid Security and Fraud	7	17.5	17.5	70.0
Human Resources	5	12.5	12.5	82.5
ICT	7	17.5	17.5	100.0
Total	40	100.0	100.0	

SPSS Data 2023

Demographic results with regards to work department at CBZ reveals that 17.5% (7 people) of respondent were in finance department, 17.5% (7 people) in risk department, 17.5% (7 people) in internal controls department, 17.5% (7 people) were in security and fraud department, 12.5% (5 people) were in human resources department and 17.5% (7 people) in IT department as shown in figure 4.2.3. This finding reveals that majority of respondents were people in departments that have to do with fraud including the security officers, therefore information collected were reliable and relevance to topic.

Table 4.2.4: Time of service of respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 1 year	4	10.0	10.0	10.0
1 - 5 years	13	32.5	32.5	42.5
Valid 5 - 10 years	13	32.5	32.5	75.0
More than 10 years	10	25.0	25.0	100.0
Total	40	100.0	100.0	

SPSS Data 2023

Findings on years of service shows that 10% which is 4 of respondents have worked for less than a year, 32.5% (13 respondents) between one and five years, and 32.5% (13 respondents) between five to ten years, with 25% (10 respondents) above ten years each as presented in figure 4.2.4. This finding reveals that majority of respondent have worked for more than a year, thus were familiar with internal controls in their bank and this made their information reliable and trusted.

4.3 Reliability of Data

Reliability of data was tested using the Cronbach's Alpha values. The reliability is shown below;

Table 4.3:Reliability Statistics

Cronbach's Alpha	N of Items
.985	15

SPSS Data 2023

The 0.985 reliability from Cronbach's Alpha proves that the questionnaire was reliable for this study. The Cronbach's Alpha value is acceptable when it is above 0.7 (Taber, 2018) therefore 0.985 is acceptable.

4.4 Analysis of the Findings

4.4.1 The effectiveness of internal controls on fraud detection and prevention.

Table 4.4.1: Response on the effectiveness of internal controls on fraud detection and prevention.

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
The internal control function of CBZ is effective	40	1	5	3.80	1.137	-1.019	.374
CBZ revises its internal control when technology advances	40	1	5	3.78	1.165	-.968	.374
The internal control is convenient like those from other banks	40	1	5	3.78	1.121	-1.026	.374
Artificial intelligence is effective for fraud detection	40	1	5	3.78	1.121	-.796	.374
Administrative controls are necessary and make internal controls effective.	40	1	5	3.85	1.051	-1.080	.374
Valid N (listwise)	40						

SPSS Data 2023

Table 4.4.1 above show the responses on the effectiveness of internal controls on fraud detection and prevention. Quite a large number was agreeing to the given statements and it generally shows that the collected was in support of internal controls. Therefore, internal

controls are essential. It is clear that the internal control function of CBZ is effective to some extent. It is evidenced by a mean of 3.80 close to 4 meaning many respondents were agreeing that internal controls are effective. The standard deviation of 1.137 which is less than the mean means that the deviations in the data were very small. Quite a big number was agreeing and strongly agreeing to the assertion. The skewness of -1.019 indicates that the data is negatively skewed. This means there are a few variables smaller than the majority. Therefore, this means that many respondents agreed. Marshall and Romney (2017) states that internal control is an essential component of any organisation's governance structure, and it is the foundation for effectively managing risk (fraud) which supports this study's findings.

CBZ Bank revises its internal system when technology advances since a great number was agreeing. This is shown by a mean of 3.78 which is greater than a standard deviation of 1.165 showing that deviations were small. A mean of 3.78 is close to 4 which is an indication that many were agreeing. The employees were giving their view on whether the bank keep up with technology advancement and improve their system as a preventive measure. The skewness of -0.968 depicts that it is moderately skewed and there is no normal distribution of data. This confirms the results of Ali et al (2008) when they mentioned that systems have to be reviewed so that fraud will be avoided.

3.78 mean value depicts that on average the employees were agreeing that the internal control of CBZ is convenient like those from other banks. This means that CBZ is keeping up with effective detective, preventive, administrative and many that controls that are essential for fraud detection and prevention. There is a standard deviation of 1.121 which happens to be lower than the mean meaning that the deviations there are smaller. The skewness of -1.026 shows that data is negatively skewed. Summarily, 75% of the respondents agreed with the statement that CBZ internal control is convenient like other banks in preventing fraud. Mupfiga et al. (2013) conducted an experiment on the implementation and adoption of online banking services in Zimbabwe.

A mean value of 3.78 again means that artificial intelligence is effective for fraud detection. A standard deviation of 1.121 which is less or lower than mean shows that the deviations are

relatively small. The respondents were positive about artificial intelligence's role as a way of fraud detection. The skewness of -0.796 means that it is moderately skewed. There is growing evidence that artificial intelligence (AI) is effective for fraud detection in various industries, including banking and finance. AI can be used to analyse vast amounts of data and identify patterns and anomalies that could indicate fraudulent activity. Machine learning algorithms can be trained to recognize patterns in data and identify fraudulent transactions, which can help banks detect and prevent fraud more effectively. AI can also help banks to identify new types of fraud that might not be detected by traditional rule-based systems. However, it is important to note that AI is not a fool proof solution and must be used in combination with other fraud detection methods to ensure maximum effectiveness.

A considerable number of employees agreed that administrative controls are necessary for effective internal control, as evidenced by the mean score of 3.85. A small deviation from this mean, indicated by a standard deviation of 1.051, further supports the importance of administrative controls. The negative skewness of -1.080 suggests that the majority of responses were clustered towards higher scores, indicating a positive attitude towards administrative controls. The Institute of Internal Auditors (IIA) defines administrative controls as a set of policies, procedures, and guidelines established by management to ensure compliance with legal, regulatory, and ethical standards, manage operational risks, and promote efficient and effective organizational performance.

4.4.2 The forms of fraud in the CBZ Bank

Table 4.4.2: Response on the forms of fraud

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
Money laundering is the most common form of fraud within the bank.	40	1	5	3.93	1.095	-1.078	.374

Most forms of fraud affecting the bank are due to use of technology.	40	1	5	3.88	1.137	-.957	.374
Wire fraud is becoming common due to use of paperless money.	40	1	5	3.93	1.141	-1.046	.374
Cases of fraud that has to do with identity theft are rising.	40	1	5	3.97	1.121	-1.215	.374
Audits and statement review help detect financial statement fraud.	40	1	5	3.95	1.154	-1.164	.374
Valid N (listwise)	40						

SPSS Data 2023

For the statement "Money laundering is the most common form of fraud within the bank," the mean response was 3.93, with a standard deviation of 1.095. The skewness of -1.078 indicates that the responses were skewed towards the lower end of the scale, suggesting that some respondents may not believe that money laundering is the most common form of fraud within the bank. Money laundering is a serious concern for banks, as it involves the process of disguising the proceeds of illegal activity as legitimate funds. Banks are required to have robust anti-money laundering (AML) programs in place to prevent money laundering and comply with regulatory requirements. The mean close to 4 shows that many were agreeing that money laundering is the most common fraud form. According to Financial Action Task Force (2021), money laundering is a global issue that continues to grow in size and complexity, posing significant risks to the integrity of financial systems worldwide.

For the statement "Most forms of fraud affecting the bank are due to use of technology," the mean response was 3.88, with a standard deviation of 1.137. The skewness of -0.957 indicates that the responses were slightly skewed towards the lower end of the scale, but not as much as the previous statement. According to a report by the Federal Bureau of Investigation (FBI), Business Email Compromise (BEC) scams, which involve the use of technology to impersonate executives and trick employees into transferring funds, have resulted in over \$26 billion in losses since 2016. This supports the results of the study by Zubair (2017) where it was discovered that modern fraudsters are using new technologies to cheat fraudulent transactions.

For the statement "Wire fraud is becoming common due to use of paperless money," the mean response was 3.93, with a standard deviation of 1.141. The skewness of -1.046 indicates that the responses were skewed towards the lower end of the scale, suggesting that some respondents may not believe that wire fraud is becoming common due to use of paperless money. The use of paperless money has also increased the risk of wire fraud, as criminals can use electronic channels to transfer funds without leaving a paper trail. The use of mobile banking and wire money is causing trouble and luring people to commit fraudulent activities. This supports the results of Gombarume (2014) where he discovered high rate of wire fraud happening in Zimbabwean financial institutions.

For the statement "Cases of fraud that have to do with identity theft are rising," the mean response was 3.97, with a standard deviation of 1.121. The skewness of -1.215 indicates that the responses were skewed towards the lower end of the scale, suggesting that some respondents may not believe that cases of fraud that have to do with identity theft are rising. Cases of fraud related to identity theft are also on the rise. According to the ACFE, identity theft is the fastest-growing type of fraud, and it is often used in combination with other types of fraud, such as credit card fraud and tax fraud. Banks are particularly vulnerable to identity theft, as they hold sensitive customer information that can be used to perpetrate fraud.

For the statement "Audits and statement review help detect financial statement fraud," the mean response was 3.95, with a standard deviation of 1.154. The skewness of -1.164 indicates that the responses were skewed towards the lower end of the scale, suggesting that some respondents may not believe that audits and statement review help detect financial statement fraud. Audits and statements reviews are critical components of a bank's internal control system and can help to detect financial statement fraud. According to the Public Company Accounting Oversight Board (PCAOB), auditors are required to assess the risk of material misstatement due to fraud and design procedures to detect and respond to fraud risks. Failure to perform adequate audits and reviews can increase the risk of financial statement fraud going undetected.

Overall, the descriptive statistics provide a useful summary of the responses to each statement, and can help to identify any patterns or trends in the data. However, it is important to note that

the statistics do not provide any information about the underlying reasons for the responses or the characteristics of the respondents.

4.4.3 Methods or controls available for early detection of fraud

Table 4.4.3: Response on the methods or controls available for early detection of fraud.

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
Machine learning is an effective method of fraud detection.	40	1	5	3.88	1.090	-1.239	.374
Internal controls surpasses other ways introduced for fraud detection and prevention.	40	1	5	3.85	1.122	-.836	.374
Data analytics is very important for fraud detection.	40	1	5	3.93	1.023	-1.056	.374
Surprise audits can help identify fraudulent activities.	40	1	5	3.93	1.118	-1.119	.374
The methods being used for early fraud detection are effective.	40	1	5	4.05	1.239	-1.205	.374
Valid N (listwise)	40						

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Descriptive statistics provide a summary of the data collected for each of the four statements related to fraud detection. The statistics include the number of responses (N), the minimum and maximum values, the mean, standard deviation, and skewness. For the statement "Machine learning is an effective method of fraud detection," the mean response was 3.88, with a standard deviation of 1.09. The skewness of -1.239 indicates that the responses were skewed towards the lower end of the scale, suggesting that some respondents may not believe that machine learning is an effective method for fraud detection. Machine learning is an effective method of fraud detection. By using machine learning algorithms, it is possible to analyse large volumes of data and identify patterns that may indicate fraudulent activity. Machine learning can also

be used to continuously learn and adapt to new fraud patterns, making it a powerful tool for early detection of fraud. According to Shanthi and Priya (2020), machine learning is an effective method in identifying fraud in various fields, including finance.

For the statement "Internal controls surpasses other ways introduced for fraud detection and prevention," the mean response was 3.85, with a standard deviation of 1.12. The skewness of -0.836 indicates that the responses were slightly skewed towards the lower end of the scale, but not as much as the previous statement. According to the responses from the respondents internal controls surpass other ways of fraud detection and prevention like artificial intelligence amongst others. This is shown in the numbers of those who were agreeing. Hochberg et al. (2009) agrees with these findings as it states that internal controls are becoming more and more important due to large losses by financial institutions.

For the statement "Data analytics is very important for fraud detection," the mean response was 3.93, with a standard deviation of 1.02. The skewness of -1.056 indicates that the responses were skewed towards the lower end of the scale, suggesting that some respondents may not believe that data analytics is very important for fraud detection. Data analytics is very important for fraud detection. By using data analytics, it is possible to analyse large volumes of data and identify patterns that may indicate fraudulent activity. Data analytics can also be used to continuously monitor data and detect any unusual activity, making it a powerful tool for early detection of fraud. This is supported by Albrecht et al. (2019) stating that data analytics is the key to detecting financial statement fraud.

For the statement "Surprise audits can help identify fraudulent activities," the mean response was 3.93, with a standard deviation of 1.12. The skewness of -1.119 indicates that the responses were skewed towards the lower end of the scale, suggesting that some respondents may not believe that surprise audits can help identify fraudulent activities. Surprise audits can help identify fraudulent activities before they become widespread. Surprise audits can be used to identify any irregularities or suspicious activity that may indicate fraudulent activity. By conducting surprise audits, it is possible to detect fraudulent activity before it becomes widespread, which can help prevent significant financial losses. Albrecht et al. (2019) also

states that surprise audits can be used to determine whether employees are adhering to company policies and procedures.

For the statement "The methods being used for early fraud detection are effective," the mean responses were 4.05, with a standard deviation of 1.24. The skewness of -1.205 indicates that the responses were skewed towards the lower end of the scale, suggesting that some respondents may not believe that the methods being used for early fraud detection are effective. The methods being used for early fraud detection are effective. Machine learning, data analytics, and surprise audits are all effective methods for early detection of fraud. By using these methods, it is possible to identify patterns and anomalies in data that may indicate fraudulent activity, and take action before significant financial losses occur.

4.4.4 Regression analysis

Table 4.4.1: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.757	.427		1.775	.084
The internal control function of CBZ is effective.	.989	.735	.989	1.346	.187
The internal control is convenient like those from other banks	-.474	.766	-.467	-.619	.540

Internal controls surpasses other ways introduced for fraud detection and prevention.	.298	.196	.295	1.521	.137
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a. Dependent Variable: Most forms of fraud affecting the bank are due to use of technology.

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According to Dhaka (2019), the test of significance are important in investigating if the variables need to be in a model. The internal control function of CBZ is effective, The internal control is convenient like those from other banks and internal controls surpass other ways introduced for fraud detection and prevention are the independent variables whereas most forms of fraud affecting the bank are due to use of technology is the dependent.

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	31.437	3	10.479	19.919	.000 ^b
Residual	18.938	36	.526		
Total	50.375	39			

a. Dependent Variable: Most forms of fraud affecting the bank are due to use of technology.

b. Predictors: (Constant), Internal controls surpasses other ways introduced for fraud detection and prevention., The internal control function of CBZ is effective, The internal control is convenient like those from other banks

SPSS Data 2023

The value of significant of 0.000 on ANOVA test the findings are significant in estimating the effectiveness of internal controls in fraud detection and prevention. It should not exceed 0.005

Table 4.4.3 :Summary Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.790 ^a	.624	.593	.725

Predictors: (Constant), Internal controls surpasses other ways introduced for fraud

detection and prevention., The internal control function of CBZ is effective,

and The internal control is convenient like those from other banks

SPSS Data 2023

Based on the provided summary output, the R-squared value of 0.624 indicates that approximately 62.4% of the variation in fraud prevention can be explained by the internal control components. However, the adjusted R-squared value of 0.593 indicates that the model may be a good fit for the data and that some of the independent variables may not be significant predictors of fraud prevention. The standard error of 0.725 indicates that the sample mean is expected to deviate. However, it is important to note that the analysis is based on a small sample size of only few observations, which may limit the generalizability of the results. Therefore,

further research with a larger sample size is recommended to confirm the relationship between internal controls and fraud prevention in banks.

4.5 Summary

This chapter was presenting the research findings basing on the objectives of this study and the questions on the topic of fraud detection and prevention. Graphs of frequencies and descriptive statistics were used in interpretation of the findings. The next and last chapter will give summaries, conclusions and recommendations.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

This chapter is dedicated to presenting the research findings, summarizing them, drawing conclusions, and providing recommendations on how to detect and prevent fraud in the banking sector. Additionally, suggestions for future research have been included. A key aspect of this chapter is an overview of the results and recommendations for addressing the issue of bank fraud.

5.2 Summary

The first chapter focused on the background of the research, the problems raised, the research goals, and the research questions. It also include delimitations, limitations and definition of terms. Chapter two focused on reviewing the literature on the effectiveness of internal control systems in detecting and preventing fraud in banks. Chapter three focused on research methods and how research is conducted. Chapter four focused on the presentation, analysis and discussion of the results.

The main outcomes of the study were centered on the research objectives and the first one was to examine the effectiveness of internal controls on fraud detection and prevention. . This study attempted to analyze the effectiveness of internal controls in identifying and preventing fraud in a bank, using CBZ Bank as a case study. The internal controls in place were found effective in detecting and preventing fraud in banks, and were endorsed by most respondents, including senior management. The effectiveness of internal control systems in fraud detection and prevention is well established, and the study aimed to determine their success, factors that influence their effectiveness, and the most common types of fraud in CBZ Bank.

The second objective was to determine the forms of fraud in the CBZ Bank. According to the survey, the use of technology has increased the cases of fraud including wire fraud resulting from the use of paperless money. Money laundering is common in the bank according to the

research. The study also shows that identity theft is getting more common and fraudulent activities that have to do with that are rising. Measure through the internal control functions are being put forward to prevent and detect all the forms of fraud that are happening. Other forms of fraud are loan fraud, financial statement fraud and ATM fraud.

The last objective was to identify methods or controls that are available for early detection of fraud. It is essential for CBZ bank to detect fraud earlier and the study proves that machine learning is an effective method for detection. Majority of the respondents agreed that internal controls surpass other ways that are put forward for fraud detection. The study also supports that strategies like surprise audits and data analytics are key when the bank wants to identify fraudulent activities before they are widespread.

5.3 Conclusions

Based on the study results, the researchers have determined that CBZ Bank has an internal control system in place to prevent and detect fraud and other illegal activities. This system ensures efficient transactions and produces reliable financial reports in compliance with regulations and internal policies, while also safeguarding the bank's assets. The established internal control measures are effective. All of CBZ's internal control components which are the control environment, risk assessment, control activities, information and communication and monitoring activities are successful in managing fraud. However, the control system still needs to be restructured and clear policies implemented to reduce the negative impact of fraud on private banking sector's financial development. Risk assessments, information and communication and monitoring activities all contribute to the efficacy of internal controls based on the results. Therefore, internal control systems are effective at both preventing and detecting fraud to some level.

The researcher concludes that the employed internal control system at CBZ bank is effective primarily in preventing and detecting fraud. It articulate that the controls prevent more than detecting. The internal control system only provides a rational guarantee, and not complete assurance as a breakdown can take place, human fault, override by management, and collusion among people and yet they expected to perform individually leads to malfunction of the internal control system to accomplish the organization's goals.

There is a substantial effect of the internal control system on the detection and prevention of fraud and it was concluded that the internal control system and fraud detection and prevention have a positive significant relationship in the banking business. The bank management needs to assess and monitor the internal control systems occasionally while adhering to the code of practice and necessities of the business's core processes and measures guides because it is vital on enhancing the effectiveness and efficiency of the internal control measures for the detection and prevention of deception and mistakes.

An important finding of the research was the impact of internal control systems on the identification and prevention of fraudulent activity in the organization. Fraud is difficult to regulate because it involves a portion of management. Internal auditors find it difficult to perform their duties as it can lead to relationship breakdowns and even loss of employment. Another problem discovered was a lack of sufficient funding, resulting in disagreements and constraints on the resources needed to identify and stop fraud.

Therefore, for effective fraud management, internal audit should not be taken for granted its responsibility to establish anti-fraud controls. After examining and evaluating internal controls, it is necessary to support top management in establishing internal controls. Therefore, internal audit must have relevant anti-fraud skills and qualifications for effective fraud detection and prevention.

5.4 Recommendations

This study investigated the effectiveness of internal control systems in fraud detection and prevention. The researcher suggests doing more research on how internal controls can be improved to minimize fraud in the banking sector. Additionally, systems need to be updated to keep up with the ever-changing nature of fraud and technological advances. This protects the company's assets and the multiple interests of the organization's stakeholders.

According to the findings, the researcher suggested that corporate headquarters hold workshops for employees across all departments to educate them on the fraud triangle theory, which holds that stakeholders should avoid engaging in fraudulent behaviour when they have the opportunity, pressure, and rationale to do so. Employees must be educated and trained in the

latest internal control processes and techniques. Staff should be informed of any changes that may occur and their impact on daily life. Only when employees are involved in the bank's business activities and are properly trained can they assist management in identifying and correcting control deficiencies. Therefore, the effectiveness of the internal control system can be improved.

A whistleblowing policy is required to support internal audit activities. One approach to achieving this goal is to establish an independent Fraud Control Committee reporting directly to the audit department. With regards to the whistle-blower hotline, CBZ may also consider hiring an experienced outside organization. A risk assessment process can be conducted to identify potential threats that may have the greatest impact on the bank's operations, and develop risk mitigation strategies while ensuring compliance with the bank's code of conduct and core processes.

Favourable remuneration packages for employees so that they will not have fraudulent behaviour in their minds as they will be living above the poverty datum line, hence reducing the possibility of collusion of personnel which may lead to circumvention of an internal control system. Paying them enough will drive away the thoughts of looking for opportunities to steal and even perceived pressure will become less. Humans need to be motivated by money and once they are well paid they rarely disappoint.

Banks should use automated internal control checks and conduct internal reviews, such as reviewing data on liabilities, including asset and cash reconciliations. Checking bank statements and surprise visits are essential. All of these help protect bank assets from fraudsters and fake accounts.

5.5 Recommendations for future research

The CBZ Bank case study was used as a basis for researching fraud detection and prevention in the banking sector. The study concentrated on analyzing the effectiveness of internal control

systems in preventing and detecting fraud. Future studies are encouraged to concentrate on the contribution of various techniques like artificial intelligence in fraud detection and prevention in banking, as there is a shift from manual to automated internal controls, and information technology aligns with internal control systems. To confirm the relationship between internal controls and fraud prevention in banks, further research with a larger sample size is recommended.

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APPENDIX 1: COVER LETTER

RE: REQUEST FOR ASSISTANCE ON THE RESEARCH PROJECT

I B190385B, a final-year student at Bindura University of Science Education pursuing a Bachelor of Commerce Honors Degree in Banking and Finance. I am conducting research titled: THE DETECTION AND PREVENTION OF FRAUD IN BANKS. A CASE STUDY OF CBZ BANK. This serves as partial fulfilment of the degree program's requirements. Attached is a questionnaire which I am kindly seeking for your assistance on responding to the questions in it. Your anonymity is guaranteed and the responses will be kept confidential and used solely for academic purposes.

I would be very grateful if you could participate in the study by responding to the following questions.

Thank you.

APPENDICES

APPENDIX A: QUESTIONNAIRE TO BANK WORKERS AND MANAGEMENT

INTRODUCTION

I am B190385B and I'm studying towards Honors Degree in Banking and Finance with Bindura University of Science Education (BUSE). I am doing a research on "The detection and prevention of fraud in banks. A case study of CBZ Bank in Zimbabwe". I would appreciate your honest responses and they will only be for the purpose of this study only and I assure you that they will be kept confidential. Do not write your answers anywhere or sensitive information. Thank you so much for your cooperation.

SECTION A: PERSONAL DETAILS

Please tick the appropriate response

1. What is your age group?

Below 20 years ☐

21 – 30 years ☐

31 – 40 years ☐

Above 40 years ☐

2. What is your gender?

Male ☐

Female ☐

3. From which department are you from?

Finance ☐

Risk Management ☐

Internal audit ☐

Security and Fraud ☐

Human Resources ☐

ICT ☐

4. For how long have you been working with the bank?

Less than 1 year ☐

1- 5 years ☐

5- 10 years ☐

More than 10 years ☐

SECTION B: THE EFFECTIVENESS OF INTERNAL CONTROLS ON FRAUD DETECTION AND PREVENTION.

Key: SD = Strongly Disagree; D = Disagree; N = Neutral; A = Agree; SA = Strongly Agree.

The following statements require your rating on how you consider the internal controls' effectiveness on fraud detection and prevention. Tick the appropriate box.

	SD	D	N	A	SA
The internal control function of CBZ is effective.					
CBZ revises its internal control when technology advances.					
The internal control function of CBZ is convenient like those from other banks					
Is artificial intelligence effective for fraud detection.					
Administrative controls are necessary and make the internal control function effective.					

SECTION C: THE FORMS OF FRAUD IN THE CBZ BANK.

Key: SD = Strongly Disagree; D = Disagree; N = Neutral; A = Agree; SA = Strongly Agree.

The following statements require your rating on the forms of fraud affecting the bank. Tick the appropriate box.

	SD	D	N	A	SA
Money laundering is the most common form of fraud within the bank					
Most forms of fraud affecting the bank are due to the use of technology.					

Wire fraud is becoming common due to use of paperless money.					
Cases of fraud that has to do with identity theft are rising.					
Audits and statement review help detect financial statement fraud.					

SECTION D: METHODS OR CONTROLS AVAILABLE FOR EARLY DETECTION OF FRAUD.

Key: SD = Strongly Disagree; D = Disagree; N = Neutral; A = Agree; SA = Strongly Agree.

The following statements require your rating on the methods or controls that are available for early detection of fraud. Tick the appropriate box.

	SD	D	N	A	SA
Machine learning is an effective method of fraud detection.					
Internal controls surpasses other ways that are being introduced for the detection and prevention of fraud.					
Data analytics is very important for fraud detection.					
Surprise audits can help identify fraudulent activities before they become widespread.					
The methods being used for early fraud detection are effective.					

Dissertation

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