BINDURA UNIVERSTY OF SCIENCE EDUCATION

FACULTY OF COMMERCE DEPARTMENT OF INTELLIGENCE AND SECURITY STUDIES

EXAMINING THE EFFECTIVENESS OF FRAUD DETECTION AND PREVENTION IN MICROFINANCE INSTITUTIONS

{*CASE STUDY OF FINANCIAL CHARTER MICROFINANCE***}**

BY

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THIS DISSERTATION IS SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF BACHELOR OF COMMERCE (HONOURS) DEGREE IN FINANCIAL INTELLIGENCE OF BINDURA UNIVERSITY OF SCIENCE EDUCATION

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APPROVAL FORM

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DEDICATION

My special dedication goes to my lovely family for their unwavering support, love and encouragement.

ABSTRACT

The main objective of this study was to examine the effectiveness of fraud detection and prevention in microfinance institutions using a case of Financial Charter Microfinance. The study employed a qualitative research design to study using a population of 54 respondents from Financial Charter Microfinance. The researcher chose purposively a small sample size of 38 respondents from which the answers to the research objective were drawn. The study utilized the questionnaire and interviews as the research instruments in addressing questions seeking to answer the research problem. The data in the study was collected through administering questionnaires from 30 respondents and interviews from 8 respondents. The study data was analyzed using thematic analysis. The tables, graphs and charts were produced by SPSS. The findings of the research revealed that the types of fraudulent activities in Financial Charter Microfinance include manipulation of accounting systems, forgery, dual payments, fuel embezzlement, failure to account for receipted funds as well as failure to receipt used funds. This was due to weak internal controls, incompetent staff and poor accounting systems at the institution. Fraud detection and prevention was found to be effective in ensuring reliability, accuracy, security, timeless and compatibility. The study recommended training and development, close audits, use of automated accounting systems, and use of computers to store crucial information as strategies that can be initiated to improve fraud detection and prevention in Financial Charter Microfinance. Overall, fraud detection and prevention was found to be effective in Microfinance institutions.

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INTRODUCTION

1.0 Introduction

In light of the cost and characteristics of offenders, it is important to develop strategies to prevent or detect accounting fraud. Globally, most companies have become bankrupt as a result of the unscrupulous activities of their employees, not only has it caused bankruptcy, fraud has resulted in the demise of some of the world's largest and strongest firms, for example the Enron, WorldCom, Lehman brother and Tyco scandals. To add more, that is why the Sarbanes-Oxley Act was instituted in 2002 due to the fraud scandals throughout the United States.

Several businesses have made efforts to keep track of financial information that relates to its business activities. And as the business grows, acquires new customers, enters new markets and keeps pace with constant changes in information technology, firms should maintain exceedingly accurate and up-to-date accounting, inventory and statutory records. The substantial increase in the volume of transactions have acted as gateway for criminals to misuse company assets, stealing funds and resources of organizations. This has necessitated the investigation into fraud, that is, its detection and prevention among microfinance firms.

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

1.1 Background to the Study

All over the world, fraud and scandalous activities in financial institutions have been on the rise. As a result, organizations are continuously facing new risks of fraudulent activities. As a matter of fact, auditing continues to gain ground particularly due to the rise of institutional scandals, collapses, and eventual failures (Sang, 2014). Consequently, these have made businesses to look for ways to investigate and unveil, various practices of fraud, suggest and instil measures to prevent continuous occurrence of such practices thereof (Power, 2013). According to Ogutu and Ngahu (2016), accounting auditing has proved to be a very important in detecting and preventing fraud through investigations.

Regionally, new technologies have opened gate way for fraudsters in Central African banks and financial institutions. On the other hand, involvement of computerized accounting information systems improved the service delivery, bank employee performance and profitability, also it has developed more advanced tools to detect fraudsters and controlling accounting fraud, (Ige, 2015).

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

In recent years many local financial institutions have tried to employ functioning internal audit sections and committees which audit their financial accounts monthly. Despite those efforts, many fraud cases are still occurring. It is therefore the fundamental aim of this research to investigate whether the inclusion of fraud detection and practice by microfinance institutions is an effective measure worth adopting in business operations in order to eradicate losses emanating from fraud. Therefore, since Financial Charter Microfinance is also another firm which encounters huge losses because of fraud, it is imperative to evaluate the effectiveness of fraud detection and prevention practice in microfinance institutions.

1.3 Statement of the Problem

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

1.4 Purpose of the Study

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

1.5 Research objectives

1.5.1 Main Research Objective

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

1.5.2 Specific Objectives

- To identify types, or the nature of frauds at Financial Charter Microfinance.
- To determine the challenges associated with using fraud detection and prevention tools at Financial Charter Microfinance.
- To recommend fraud detection and prevention tools and software packages that can be used at Financial Charter Microfinance.

1.6 Research questions

1.6.1 Main Research Question

- Is fraud detection and prevention effective at Financial Charter Microfinance?

1.6.2 Specific Questions

- What are the types, or the nature of frauds at Financial Charter Microfinance?

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

1.7 Significance of study

To Financial Charter Microfinance and Other Microfinance Institutions

The research will serve as a benchmark to management in devising control systems that are aimed at increasing revenue and reducing loss emanating from fraud. Also, it will try to find and analyse the impact of auditing department in controlling fraud so as reduce fraudulent acts. The research will provide recommendations on the best audit and fraud detection systems to adopt in fraud detection and prevention.

To the researcher

The researcher will gain exposure as the type of material obtained get the researcher to interact with various stakeholders in the process of information gathering. The research will also form the literature base for the future researches at Bindura University of Science and Technology. The study will help the researcher to understand fully Accounting information systems.

To the policy makers

The research will advise policy on how information technology can improve organizational performance with less costs and greater accuracy. They will also discover loop holes in policies and strategies that did work previously.

To the Government

The research will enable the government to identify some other causes of the losses and implement effective cost reduction and control programs which allows the public sector to be successful. Assist local authorities on how to improve their revenue collection and debt recovery thus improving cash flows.

1.8 Assumptions

- The literature review gives a detailed insight into the study

- These findings can be generalized to other financial institutions.
- Respondents will positively cooperate.
- Information collected from respondents was regarded as accurate, complete, and relevant and therefore can be relied on.
- The researcher will access all current developments pertaining to Accounting Information Systems.
- Recommendations given are applicable to most microfinance institutions.

1.9 Delimitations

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

1.10 Limitations

- Some respondents declined to participate and contribute to the study, thereby compromising the accuracy of the research, whilst others give wrong information to the researcher.
- In some case, the respondents were reluctant to disclose their views and opinions in fear of breaching confidentiality in respect of company information. However, the researcher produced authorisation letter from the University to show it's meant for academic research.
- Lack of funds to meet travelling costs to all Financial Charter Microfinance Branches, communication costs, printing and stationary costs and other field work costs posed a challenge on the progress of the study. The researcher had limited financial resources. To overcome this challenge the researcher used his pocket money to cushion against financial expenses.
- The researcher being a student had limited time to work on the project. The researcher therefore worked on the project during weekends to meet the deadlines.

1.11 Definition of Terms

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

Accounting Information Systems, defines accounting information systems as a system that collect and process transaction data and communicate the financial information to interested parties, Peavler (2016).

Information Systems: information systems refer to an organized means of collecting, entering, and processing data and storing, managing, controlling, and reporting information so that an organization can achieve its objectives and goals, Romney (2009).

Computerized Accounting Systems. It refers to software programs that are stored on a company's computer, network server, or remotely accessed via the Internet. Computerized accounting systems allow you to set up income and expense accounts, such as rental or sales income, salaries, advertising expenses, and material costs, Schofield (2016).

Accounting Fraud. Accounting frauds can be categorized as being either fraudulent financial reporting, misappropriation of assets, or both (Kotsiantis et al. 2006).

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

Fraud. The Institute of Internal Auditors' *International Professional Practices Framework* (IPPF) defines fraud as, any illegal act characterized by deceit, concealment, or violation of trust. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage, Cited by global Fraud Study (2010).

1.12 Organization of the Study

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

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

Chapter 3: Research Methodology. This chapter discussed the research philosophy, approach and design, sampling procedures, data collection methods and analyses that have been used in the research.

Chapter 4: The chapter presents results in the form of tables, pie charts and bar graphs and discuss the results in relation to the research questions. The chapter also discuss presented data in relation to the literature review

Chapter 5: Conclusions Recommendations and the findings are summarized and recommendations and conclusions given based on the results.

1.13 Chapter Summary

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

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This part presents a review of literature relating to the study of fraud detection and prevention. This is an important chapter as it attempts to describe matters related to the subject matter. It covers the following; definition of key terms, a review of theoretical literature theories relating to the study and a review of empirical studies similar to the current study, study gap and conceptual framework.

2.1 Conceptual Framework

2.1.1 The Concept of Fraud

The issue of fraud is a topical subject that has attracted and received the attention of different stakeholders at a global scale (Oyejide 2008). This interest has been catalysed by the existence of several cases of fraudulent activities in several organisations both in the developed and developing countries. Debates related to fraud have also attracted the attention of the academics and has been subjected to rigorous empirical and theoretical scrutiny in literature (Efosa and Atu 2016). As illustrated by Adesola (2008) cited in Enofa et al (2013) the threat of fraud to the global economy is better illustrated by the statistics released by Criminologists at a consultancy: over two hundred thousand cases of online frauds were committed in the United Kingdom in 2006, doubled the amount of real world robberies. Therefore, fraud has become an issue of concern in the global market. It is therefore important to conceptualise fraud in this study to further strengthen the justification for forensic accounting in both public and private organisations.

However, as pointed out by Enofe et al (2013) defining fraud is as difficult as identifying it and no definite and invariable rule can be laid down as a general proposition in defining fraud as it includes surprise, trick, cunning and unfair ways by which another is cheated. Enofe et al (2013) view it as a legal term that refers to the intentional misrepresentation of the truth in order to manipulate or deceive a company or individual. It involves the creation or keeping misjudgements in an effort to persuade someone to make a decision. It might also entail intentional self-enriching behaviour engaged secretly by certain individuals with implications on the worth or value of an organisation's asset(s) (Okafor 2004). Consequently, such activities may severely affect the financial position of an organisation resulting in bankruptcy.

In addition, David (2005) illustrates that fraud is a probability rather than a possibility. He further explains that the best way of dealing with fraud is through collective efforts rather than individuals. However, in situations where group members have the same corrupt interests, this might not work to the benefit of the organisation and fraud may not be deterred. This is also the case in situations where such groups will be influenced by one powerful decision maker who makes final decisions (Okafor 2004).

Fraud is largely a generic term which can be utilised in different ways. As Okafor (2004) in Enofa etal, (2013) remarked fraud is a generic term and embraces all the multifarious means which human ingenuity can devise, which are resorted to by one individual to get advantage over another in false representation. Enofa et al, (2013) agree with the above remarks arguing that fraud assumes so many different degrees and forms that courts are compelled to context themselves with only few general rules for its discovery and defeat. They further explain that it is better not to define the term lest men should find ways of committing frauds which might evade such definitions.

Fraud is deliberate deceptive course of action undertaken by individuals to unlawfully or unfairly benefit at the detriment or expense of another (Anyanwu 1993). EFCC (2004:46) cited in Efosa and Atu (2016) defines fraud as, "...the non-violent criminal and illicit activity committed with objective of earning wealth illegally either individually or in a group or organized manner thereby violating existing legislation governing the economic activities of government and its administration..."

According to Efosa and Atu (2016) fraud is, "...a predetermined as well as planned tricky process or device usually undertaken by a person or group of persons with the sole aim of cheating another person or organisation to gain ill-gotten advantage which would not have accrued in the absence of such deceptive procedure."

Usually such actions are at the detriment of the organisation or business. In accounting terms, fraud is an act of knowingly falsifying accounting records, such as sales or cost records, in order to boost the net income or sales figures (Arokiasamy and Cristal 2009; Enofa et al 2013; Efosa and Atu 2016). This type of fraud is illegal and those caught must be subjected to civil lawsuits.

2.2 The Causes of Fraud

2.2.1 Poor Accounting Systems

Poor accounting systems is one of the reasons why fraud cases are on the rise in many financial institutions (Ramaswamy 2005). This is mainly because poor accounting systems such as lack of electronic accounting systems, lack of computers and excess use of manual entries in reporting create a conducive environment for individuals within microfinance institutions at branch through to head office level to engage in fraudulent activities. Enofe et al (2013) further states that the problems within the corporate reporting system as a reason because of lack of well implemented policy of corporate governance. They further explain that this can be reinforced by the fact that top level management should follow the policies of the firm which will help the company to perform better. Implied is that the mere presence of policies will not suffice. There is therefore need for commitment from the top management to make sure that employees within the organisation are following stipulated standards in the policy. This situation is exacerbated by the fact that some corporate managers lack positive attitudes pertaining organisational policies (Efosa and Atu 2016).

2.2.2 Lack of transparency, accountability and honest

According to Enofe et al (2013) it is agreeable that an auditor does not have the absolute duty to uncover fraud, but they should practice fair and true reporting to ensure that the interests of the public as well as the employees are protected. However, in the context of most African countries the auditing processes lack transparency and this has negative implications on accountability. The lines of accountability are largely affected by political interference (Efosa and Atu 2016). Implied is that individuals and groups in public organisations are capitalising the lack of transparency and accountability to engage in fraudulent activities. The adoption of forensic accounting as pointed out by Enofe et al (2013) will result in auditors acting as forensic accountants in cases of suspicious fraud or criminal activities in a company.

2.2.3 Lack of adequate internal controls

As Enofe et al (2013) remarked, ineffective, inefficient and porous internal control systems as well as weak management are leading to an increase in the number of fraud activities particularly in the public sector. Even in organisations that have tried to apply strong internal controls, poor management will still compromise the implementation of such systems (Bozkurt 2003). In modern day societies, companies should therefore consider the adoption of new approaches to curb fraud. Traditional approaches as pointed out by Efosa and Atu (2016) have failed to instil financial discipline in public organisations. Thus, priority must be given to forensic accounting as an alternative mechanism to resolve these problems. However, very few studies have been conducted to evaluate the effectiveness of forensic accounting in curbing fraudulent activities. This study therefore seeks to address this gap by adding literature on the effectiveness of forensic accounting in Zimbabwe using the case study of Financial Charter Microfinance.

2.3 Types and Or Nature of Frauds

2.3.1 Accounting or financial statement fraud

It is an intentional misrepresentation or alteration of accounting records regarding sales, revenues, expenses and other factors for a profit motive such as inflating company stock 10 values, obtaining more favourable financing or avoiding debt obligations Business Dictionary (2016). A company can falsify its financial statements by overstating its revenue and assets value, failing to record expenses and under or over recording liabilities, Investopedia (2016).

2.3.2 E-Banking Fraud

Bank Fraud is the use of deliberate misrepresentation (which usually requires some technical expertise) in order to fraudulently obtain money or other assets from a bank (wiseGeek, 2013). The types of fraud that are commonly experienced by financial institution include sales, purchase, cheque payment and debit or credit card fraud (Benjamin and Samson, 2011). Ominously, results show that internal personnel of banks had been collaborating with impostors. This presents threat since internal personnel have direct access to banking systems and access to customers' all personal information and all records. FBI, stated that majority of frauds is committed by employees who exploit breakdowns in associations, (Sidden and Simmons, 2005).

2.3.3 Pyramid scheme

In the classic pyramid scheme, participants attempt to make money solely by recruiting new members, where: The organiser promises a high expected return in a short period of time; no service or certifiable item is certainly sold; and the essential accentuation is on selecting new members. All pyramid schemes eventually collapse, and most investors lose their money.

Investor.gov, (2016). Fraudsters normally promote pyramid structures through social media, Internet advertising, company websites, group presentations and YouTube videos (Investor.gov, 2016). The fraudsters used rate payers' money to engage in pyramid schemes such as MMM, thereby risking rate payers' money.

2.3.4 Computer fraud

Business Dictionary (2016)**,** describes computer fraud as a diverse class of electronic crimes that involve some form of electronic information theft and often monetary gains for the perpetrators. Computer fraud is "any type of fraud scheme that uses one or more components of the Internet for example, talk rooms, email, message sheets, or Sites to present fraudulent transactions, or to transmit the proceeds of fraud to financial institutions or to others connected with the scheme" (Department of Justice, 2001). Examples of computer frauds are as follows, Advance Fee Fraud Schemes, Counterfeit Check Schemes, Credit/Debit Card Fraud, Identity theft, Investment Fraud, and Spoofing/Phishing.

2.4 Theoretical Review

2.4.1 Fraud Triangle Theory

The fraud triangle theory is founded upon the hypothesis by Cressy (1973) which stated that persons who are trusted could violate the trust once they believe they have a non-sharable problem that can be solved by violating the position of financial trust. Therefore, these persons can apply their position to change their conceptions and those of others on their actions. According to Cressy (1973), certain factors must be available for fraud to occur and they create an enhancing environment for the occurrence of the fraud activity. The factors stated in this theory are; pressure, opportunity, and rationalization which make up the triangle and hence the name fraud triangle.

Pressure is the financial or emotional force pushing one towards committing fraud. Persons have different reasons to commit fraud, and the organization can do little or nothing to control this factor. A person, for example, may be pushed to commit fraud by the lack of enough finances to support his family, influence from peers who are also committing fraud or poor organizational culture which will make one feel the odd one out if he/she does not commit the fraud. The organization can try and scrutinize individual's behaviour during recruitment and maintain close relationships between management and employees so as to keep tab of any elements in the worker's lives that may pressure them. However, no matter how far the organization tries to control this factor it cannot be entirely controlled, and this has led to criticism of this theory.

Opportunity is the chance and ability of an individual to commit fraud. People commit fraud where they find the opportunity to commit fraud and get away with it undetected. Opportunities arise where the organization has a weak internal control which cannot detect fraud like of sound policies against fraud, lack of procedures to detect fraud, lack of punishment to the caught fraudsters and inadequate oversight over the employees. This is the only factor that the organization can fully control. Therefore, organization managers should be keen to eliminate any opportunities where the employees may commit fraud. Control of this factor may be through the segregation of duties to avoid full control by one individual, internal auditing, and strong internal controls to minimize the loopholes of fraud. According to Cressy (1973), the threat of possible detection is the most influential factor in fraud prevention in that it eliminates the fraudster perceived opportunity.

The third factor is rationalization, and it is a fundamental component of many frauds and shows how the fraudster reconciles his/her behaviour with the common notion of decency and trust in his conscience or the one acceptable in the society. Morally upright individuals will have difficulty in this part as it will not be easy to convince themselves that their actions are right, and their morals may play a major role in preventing fraud. Morally corrupted individuals will have no problem with rationalization as they will easily convince themselves with reasons like one is simply rewarding self for the favour did for the company or an individual is making up for the bonus that I was not paid or underpaid.

The theory has received both support and criticism from scholars. Bell and Carcelle (2000) and Hogan, Rezaee, Riley, & Velury (2008) term the fraud triangle theory as an important theory in detecting, controlling and preventing fraud. LaSalle (2007) also showed that its use could lead to increased risk assessment and hence detection. Although the theory has received the support of the regulators and some scholars, it has been highly criticised by other researchers and termed it inadequate to detect and control fraud as two of its three factors, pressure, and rationalization, cannot be controlled. It has been termed as an inadequate tool for deterring, preventing, investigating and detecting frauds (Albrecgt, Howe, & Ramsey 1984; Wolfe & Hermanson 2004).

2.4.2 Fraud Scales Theory

This theory was developed from fraud triangle theory by Albretch (1984). It emphasizes on personal integrity rather than rationalization, and its main use is in financial fraud where pressure is more observable. This theory introduced ranking to the fraud triangle theory factors, and this was developed as an upgrade of fraud triangle theory in which both the pressure and rationalization could not be controlled by the organization. A fraud is likely to occur where the situational pressure and opportunity for fraud are high, and personal integrity is low and unlikely to happen where personal integrity is high, and opportunity and situational pressure are low. The theory terms situational pressure as the immediate problem of an individual' environment usually personal debts or financial conundrums. The opportunity for fraud is brought by incomplete or lack of strong internal controls. Personal integrity referred to individual's code of conduct. Unlike in fraud triangle theory, here the organization would monitor and assess the personal integrity of its employees. According Albretch et at, (1984), organisations can determine an individual's commitment to ethical decision making and use it to evaluate the individual's personal integrity. For instance, by giving an ethical test to people during recruitment you can assess the level of integrity from the answers they give and thus evaluate the risk of the person committing fraud.

Albretch, Howe, & Romney (1984) argued that unlike rationalization, personal integrity could be assessed through the individual decision and decision-making process. Those with little personal integrity were at a higher risk of committing fraud as they will be comfortable with fraudulent activities and their morals will lead them to such decisions (Rae & Subramanian, 2008). Appelbaum, Cottin, Pare, & Shapiro (2006) also stated that those with a low level of ethical development are likely to commit fraud than those with higher levels of moral development. However, it was also noted that those with elevated levels of moral development were not exempted from committing fraud, but they do engage under different conditions with those of the lower moral levels. The organization should assess these conditions and try to minimize them to exempt the ethical employees from committing frauds.

2.4.3 The Fraud Diamond Theory

The fraud diamond theory extends the fraud triangle theory, and it uses four rather than three elements: incentive, opportunity, rationalization, and capability. Opportunity refers to a weakness that an individual can exploit making fraud possible while rationalization is where a person has the conviction that committing fraud is worth the risk. Incentive means that an individual has the drive and wants to commit the fraud while capability means that an individual has the necessary abilities, traits, and skills to comfortably pull off a fraud.

Wolfe and Hermanson (2004) address the capability element, and they point out that individuals with capability have unique characteristics. First, they have a position within the organization which provides them with an opportunity to commit fraud, for instance, the chief financial officer. Secondly, the person is smart and is aware of the weaknesses in the internal control and this knowledge and senior position make it easy to carry out a fraudulent act. Thirdly, such an individual is confident that he will not be discovered and even if detected, it is possible for him to shift the blame and walk out of trouble. The final characteristic of the individual with capability is that it is possible for him to coerce others to conceal the fraud, and through threats and bullying tactics, the juniors are intimidated to conceal any further activities. A lot of frauds are perpetrated by the right individuals with the right capabilities and the element of capability must be considered of great significance in explaining fraud. (Kassem & Higson, 2012).

2.4.5 Hollinger-Clark Theory

Hollinger and Clark (1983) surveyed 10, 000 workers and they found out that the main reason for fraud in an organisation was caused by internal factors of the organization mainly job dissatisfaction. Employee deviance was mainly done in two-way, that is, acts against property like misuse of organisation's property and production violations like producing inferior products. Holling & Clark (1983) stated that there existed a strong relationship between theft and concern over the financial situation of the employee. The theory says that there is a direct correlation between age and theft in that, young employees had fewer commitments and thus less theft involvement. The authors also found out that the higher the position of an employee the higher the risk of employee being involved in fraudulent activities. In this theory opportunity was only a secondary factor to fraud. Hollinger & Clark (1983) noted that disgruntled employees were; more likely to break the rules regardless of age or position to try and compensate for the perceived inequities.

The study focused aspects of internal controls. The conclusions were that; management should work on how employees see the controls in the organizations as the likelihood of fraud will decrease once the employee thinks he will be caught, management should be sensitive to employees and pay particular attention to younger employees to prevent them from being corrupted. Hollinger & Clark (1983) proposed that social controls could be used to detect and prevent fraud. He also stated that fraudulent and dissatisfied employees also show signs of sloppy work and sick leave abuses. They also pointed out that organizations should use external pressures on employees both active and inactive as the best deterrent behaviour by the loss of respect among the peers.

2.5 Empirical Literature Review

There have been various studies that have been carried out on the impact of forensic accounting on fraud detection and prevention in organizations. The studies below discuss the objectives, methodology, and the findings of such studies.

Ahmad Abdallah, (2013) in his research to find out the impact of using Accounting Information systems on the quality of financial statements. The study focuses much on the impact of accounting information systems on the quality of financial statements submitted to the Income Tax and Sales Department. Fifty questionnaires were distributed to the accountant in the capital Amman, besides two types of data were relied on, secondary data and scientific references. The researcher found out that there is a positive impact on the use of accounting information systems on the quality of financial statements the data submitted to the income tax Department in Jordan. Furthermore, accounting information systems covers the effectiveness of the internal control systems, thus they would be timely detection of frauds and errors. The researcher suggested that using accounting information systems have a positive effect in the performance of its business.

Mulyo Agung (2015), in his research to find out the impact of internal control part of fraud prevention in accounting information systems. The main objective was to determine the internal control section of accounting information systems in monitoring and fraud prevention. The study focuses much in the internal control as part of accounting information systems, since it covers the scope of accounting transactions that cover all parts of the company The research finds out that control functions have an important role in the prevention of fraud. The researcher come up with the Antifraud Program Management and Controls, these guidelines include identifying action by organisations in fraud prevention misrepresentation anticipation key to any organization related with the development and improvement of an effective fraud control system. He further points out the main elements of the system include recruitment of staff carefully, cultural integrity and the prevention of losses in the organisation and auditing regularly against fraudulent transactions by internal audit.

Taposh Kumar Neogy (2014), conducted a research on the evaluation of efficiency of accounting information systems in Mobile Telecommunication Companies in Bangladesh. The main objective was to determine the effectiveness of internal control system cost effectiveness, existence of security measure, separation of operation and accounting. In undertaking a study, the researcher chose twenty-five Chartered Accountants, twenty-five 23 Cost and Management Accountants, twenty-five teachers in Accounting and twenty-five security consultants. The researcher finds out that accounting information systems in telecommunication companies can be effective if there are sound internal control systems in an organisation. This so because internal controls are essential to achieve some objectives like efficient and orderly conduct of accounting transactions, protecting the shareholder property in adherence to management policy, prevention of error and detection of error, detection and prevention of fraud and ensuring accuracy completeness reliability and timely preparation of accounting data. Besides that, they also point out that accounting information systems help recording and process various accounting transactions and prepare the financial statements like income statement, financial statement, owner’s equity statement and cash flow statement. In which are snap shot of the financial position of the company and the main output of accounting system.

Njanike, Dube and Mashayanye (2009) in their study examined the mandate of the forensic auditor in fraud detection using thirty forensic auditors from thirteen commercial banks, four audit firms and building societies in Zimbabwe. The study found out that forensic auditing is vital in the protection of the assets of the banks. Therefore, the provision of forensic accounting services is crucial for the detection of organisational fraud and enabling investigation and litigation of the fraud cases.

Enofe, Omagbon, and Ehigiator (2015) carried out a study to establish the relationship between forensic audit and corporate fraud in Nigeria and whether forensic accounting services can significantly detect fraud in firms. The study involved the collection of primary data from 125 respondents in various management positions in Nigeria. The authors used ordinary least square regression technique in the determination of the effect of the forensic audit on corporate fraud and in the estimation of the study parameters. The study found out that forensic audit play a significant role in the detection and prevention of fraud in businesses and therefore, these services would reduce the incidence of fraudulent practices in organisations.

Islam, Rahman, & Hossan (2011) carried out a study in Bangladesh to establish the role that forensic accounting and forensic audit services play in the detection of fraud and corruption. The study involved fifteen multinational companies, 35 chartered accountants and management accountants, and 50 local organizations. The findings showed that 65.71% of the chartered and management accountants and 47% of the multinational corporations agreed that forensic accounting and auditing is sufficient to detect fraudulent activities. Therefore, the authors concluded that forensic auditing has a critical role to play in the detecting and combating fraud in Bangladesh.

Akelola (2015) conducted a study whose aim was to establish the characteristics of fraud and the fraud management approach in the Kenyan banking sector. The study used a sample of 40 Kenyan banks and primary data was collected through the use of a questionnaire and interviews. Descriptive statistics as well as Chi-square tests were used in analysing the data and test the hypothesis. The study found out that the Kenyan banking industry has a high awareness of fraud and they consider it to be a major challenge. Most of these frauds happen through the misappropriation of cash and assets but the fraud detection techniques are inadequate and therefore, detection occurs by accident. Also, the author asserted that the fraud detection measures such as review of internal controls, training of staff, fraud prevention policies, and ethical codes of conduct do not guarantee that any fraud will be detected. Therefore, the study proposes that Kenyan banks must invest in forensic accounting services because they have been found to be highly effective in the detection of fraud.

Waigumo (2012) carried out a study that sought to examine the influence of fraud risk management practices in commercial banks and their effect on fraud risk exposure The study used a sample of all 43 commercial banks in Kenya and collected primary data using a questionnaire and interviews. Descriptive statistics was used to analyse the data and a multiple linear regression model used to establish whether fraud management practices influence fraud risk. The dependent variable was fraud risk while the independent variables were fraud detection methods and fraud prevention methods. Fraud types' occurrence was used as a proxy for fraud risk and the author found out that the use of detection and prevention methods led to a negative change in fraud types. The study also found out that the fraud risk detection methods used by commercial banks in Kenya are vulnerable to fraudsters and therefore, better education methods to safeguard against fraud should be used.

Wanga (2013) carried out a study that sought to examine the responses by the Kenyan commercial banks to the increasing fraud related risks in the sector. The sample consisted of 234 respondents who were senior managers, middle level managers, and low level managers in commercial banks whose headquarters are in Nairobi. The study used both primary and secondary data where a self-administered questionnaire was used for collecting primary data. Descriptive statistics such as the mean, mode, and median were used in analysing the data. The study found out that fraud detection strategies, fraud prevention and a corporate fraud policy are the fraud response strategies used by financial institutions. The fraud detection strategies included forensic investigations, disciplinary procedures, and fraud audit programs. Adoption of a strong ICS was the fraud prevention strategy used by most financial institutions while the group fraud policy sets out the strategic priorities and fraud control requirements of Kenyan financial institutions.

Ogutu and Ngahu (2016) conducted a study that sought to determine the impact of forensic auditing skills on fraud mitigation by accounting firms within Nakuru and Count in Kenya. The study used a sample of 25 registered practicing accounting firms within Nakuru County and a senior manager or partner from each firm used as a respondent. The study adopted the census approach in sampling and data analysis was conducted through descriptive analysis. The study found out that 97% of respondents agreed that forensic auditing skills are crucial in fraud detection and prevention. Also, the authors found out that investigative, legal, and fraud skills are necessary for every auditor to enhance the detection of fraud. The study concluded that forensic auditing skills have an influence on the fraud mitigation ability by accounting firms and as a result, these skills are crucial for effective fraud detection.

2.6 Gap analysis

There are several researches that are closely related to the one the researcher is researching on. Most of the researches were centred upon effectiveness of accounting information on performance. Little has been researched on the effectiveness of accounting information systems and fraud detection and prevention. It appears in the interest of the researcher to dig deeper on the effectiveness of accounting information systems in fraud detection and prevention.

The preview study of Abdallah, (2013), focuses much on the impact accounting information systems on the quality of financial statements and he uses only questionnaires in his study. Whilst this study concentrates on the accounting information systems in fraud detection and prevention and both the questionnaires and interviews were used to collect data. Hence this would reduce the gap from previous research.

Furthermore, Hla and Teru (2015) they researched on the on the efficiency of accounting information systems and performance measures, and they only use purposive sampling technic. However, this research is covering the gap, since judgemental sampling and simple random sampling technics are used to reduce bias information in data collection.

2.7 Chapter Summary

This chapter has examined the relevant literature to be reviewed by the researcher, including some theoretical frameworks supporting the concept and some empirical evidences in the area of study. The next chapter will then focus on the research methodology.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter discusses data collection methods, instruments and procedures. The following are covered in this chapter: research design, research population, research sample used, data collection methods, instruments used and lastly is the data presentation and analysis plan. The chapter ends by giving a summary of all methods used in the collection of the data until its presentation.

3.1 Research Philosophy

The researcher used the interpretivist research philosophy which is concerned with understanding of human action rather than the forces that act on it (Male, 2019:245). This philosophy was chosen instead of the positivist or realist research philosophies because it is a subjective philosophy which gathers data based on experiences of participants, constructs and interpret understanding from the gathered data (Yoshida, 2014:3). The interpretivist research philosophy was useful to the current study as it provided subjective reality of what is happening in the microfinance institutions by using accounting audit systems to detect and prevent fraud. This made the researcher understand better how microfinances use accounting on fraud detection and prevention.

3.2 Research Approach

The study used the inductive research approach which, as stated by Gundlapalli, Jaulent and Zhao, (2017), aims to unveil the unknown through use of theory. The researcher opted for this approach instead of the deductive research approach because the type of the current study requires use of grounded theory, which is used under inductive research approach and this assisted in providing more understanding and deep insight to the researcher on the role of forensic accounting in fraud detection and prevention. The deductive research approach made the researcher develop hypotheses and theories with a view of explaining empirical observations which exists in organisations in real world, thereby making the researcher understand the effect of forensic accounting as a tool used by organisations in detecting and preventing fraud.

3.3 Research Design and Justification

A research design is a plan that provides a researcher with a framework to collect data (Leedy 2006). According to Fathing, (2016) a research design outlines the stages of the research process in clear detail. It gives an outline of the project and arranges the activities of the project step by step (Niknejad, Hussin and Amiri, 2019). The researcher used the descriptive and explanation strategy to explore the role audit accounting plays in fraud detection and prevention in microfinance institutions. This strategy allowed interviewees to explain and describe their perspectives shedding more light on why organisations were implementing forensic accounting as a fraud detection and prevention tool. An unstructured interview guide and close ended questionnaire was used as a data collection instruments. The qualitative research design was used under this study and it was chosen because it allows the researcher to gain detailed and unique insights from Financial Charter Microfinance employees and stakeholders on the role accounting information plays in fraud detection and prevention among microfinance institutions. The following research design was used and outlined the research strategy, methodological choices, time horizon, techniques and procedures used in obtaining data.

3.3.1 Case Study Strategy

The researcher used single a case study strategy which focused on Financial Charter Microfinance, a microfinance institution in Zimbabwe. The researcher chose a case study strategy because for audit accounting, the most frequent means of engaging with organisational processes and accounting practices has been the field based case study research genre (Parker, 2012:54). The case study strategy allowed the researcher to be in direct contact with organisation settings, conducting in-depth research into actors and their contexts in their natural occurring settings. It gave the researcher a real life opportunity in which the researcher had an opportunity to put into practice her abstract thoughts by embodying them in a particular case. Through this strategy, the researcher managed to gather realistic and reliable data because the chosen strategy was highly flexible and it incorporated various perspectives, data collection tools and interpretive strategies.

3.3.2 Qualitative Research Methodological Choice

The research used a qualitative research methodology instead of the quantitative research methodology because quantitative research methodology needs a very large population unlike qualitative research (Flick, 2014). The qualitative research methodology was chosen because it is beneficial to get what the research under study and it provides real-world examples of how entities adapt to accounting information systems and auditing issues (Vandebosch & Green, 2019: 47).The main advantage of qualitative research methodology was that it yielded data that provided depth and detail to create understanding of phenomena and lived experiences. The qualitative research methodology also provided a great potential of facilitating discussions and used inductive reasoning approach which is in line with the current study. The qualitative research methodology was also good as it complemented very well with the case study strategy used in this study, which did not aim to represent the whole picture on the ground but sought to reveal or provide insights on critical issues related to a wider social context beyond the case study.

3.4 Sampling, Population, Sample Size and Sampling Methods

Respondent group	Population	Sample	Sampling technique
Managers	10	8	Purposive
Administrators	15	10	Purposive
Internal Auditors	9	10	Purposive
Loans Officers	20	10	Purposive
Total	54	38	

Table 1: Population, Sample size and Sampling methods.

Source: Primary Data (2021)

3.4.1 Target Population

Wegner (1993) defines a population as all possible observations of the random variable under study in research, population refers to all the subjects or candidates who are of interest to the researcher. The researcher selected and focused her research in Financial Charter Microfinance branches (15) around Zimbabwe. The researcher focused on obtaining data from the employees in the finance department, Information technology department, human resource department and financial managers in 15 Financial Charter Microfinance branches across Zimbabwe. These are the individuals that are in charge of accounting information systems in the organization and so they were able to provide constructive answers to the questions contained in the questionnaire and those which were interviewed. The population targeted involved in this research make up the population of fifty-four (54) people

3.4.2 Sample

A sample can be defined as a part or subset of a population. A sample can also be defined as 'a subgroup or part of a larger population' (Saunders, 2006). Simple random sampling and Judgemental sampling were used to draw respondents from the population of interest. Simple random sampling was used because it was the most appropriate in some situations for example in the organization to all educated employees provided exact data, therefore picking a few at random would still provide same information. However, judgmental sampling was used to in determining to whether employees achieve certain level of education governed by their department, for instance all data from transport or stores department would be bias because they have very little idea about accounting information systems. A sample of thirty-eight (38) people was used being drawn from Financial Charter Microfinance; management members, internal auditors, and general employees.

3.4.2 Sampling Techniques

Judgmental Sampling

The researcher opts to use judgmental sampling technique to select units to be sampled based on their knowledge and proficient judgment. Purposive sampling is used where the specialty of an authority can select a more representative sample that can bring more accurate results than by using other probability sampling techniques. The process involves purposely handpicking individuals from the population based on the authorities or the researcher's knowledge and judgment. Therefore, the researcher ensures that each member of the selected population in all the departments in the organisation had an equal opportunity of being part of the sample. The researcher purposefully chose 8 managers, 10 administrators, 10 internal auditors and 10 loans officers.

Advantages of judgmental sampling

In the study researcher discovered that Judgemental Sampling was perfect, since it less time consuming. Furthermore, there were low costs challenges, meaning there were no extra funds for printing out stationary since it is centred on human choice or eye judgement (Westfall, 2008).

This method allowed the researcher to gather the results fast as the researcher would just choose a specified respondent and ask him or giving him the questionnaire right away without organisation time and venue.

Disadvantages of judgmental sampling

It is based on personal opinion which implies that accuracy might be hard to achieve, for example the researcher sometimes loss quality of information due to misjudgement and misplacement. The two main weaknesses of authoritative sampling are with the authority and in the sampling process; both of which pertains to the reliability and the bias that accompanies the sampling technique. Unfortunately, there is usually no way to evaluate the reliability of the expert or the authority. The best way to avoid sampling error brought by the expert is to choose the best and most experienced authority in the field of interest Korathi (2004).

3.5 Data Sources and Collection Techniques

3.5.1 Sources of Data

Primary Sources

Primary data refers to data structures of variables that have been specifically collected and assembled for the current research problem. In this case, the data was collected through questionnaires and interviews.

3.5.2 Research Instruments

Questionnaires

Yin (1994) simply defines a questionnaire as a set of questions to obtain information from the respondents. A standard questionnaire was designed to address the research objectives. One standard structured questionnaire was drafted for all the targeted respondents to ensure comparability of results. The researcher gave samples of the questionnaire to 30 respondents constituting 6 managers, 8 administrators, 8 internal auditors and 8 loans officers. For closed questions the respondents were requested to tick the answer they thought was the most appropriate. Suggested answers were provided to enable systematic analysis of data. However, open-ended questions were also used to seek those details, which the researcher had little knowledge about or could not provide guided multiple-choice answers. The advantage with questionnaires is that there is no any interviewer involved to bias the respondent’s answers and also respondents gave more honest answers to personal question on a written questionnaire than speaking aloud in an oral interview.

Advantages of using questionnaires/justification of using questionnaires are as follows; Cost sparing in light of the fact that no meetings are required, they require little ability to manage, that is, respondents were given questionnaires to simply state their view about the study. This reduces subjectivity and complicated responses, respondents answer inquiries at claim accommodation. The researcher was able to provide questionnaires and get them instantly. It achieves scattered populaces and empowers simple examination of data accumulated.

Disadvantage of questionnaires are as follows; there is a high possibility of inclination since respondents see all inquiries before noting them. Therefore, respondents can easily be affected their feelings by sensitive questions about there are firm, mailed polls pull in low reactions consequently questioner has no influence over the reaction rate, poorly developed inquiries may not be replied. This is so because the respondents fail to understand the questions.

Interviews

Saunders (2000) defines an interview as two-way conversation initiated by the interviewer for the specific purpose of obtaining research information. Interviews were held to get professional views on the topic and to compliment information gathered by the questionnaire. Interviews help by providing clarification on some issues, which could otherwise not be clearly addressed in questionnaires. The researcher held interviews with a total of 8 respondents composed of 2 managers, 2 administrators, 2 internal auditors and 2 loans officers to have room for probing concerning fraud issues from all levels of employees.

Advantages of interviews are as below; the use of interviews allowed the researcher to probe for clarity on certain issues and could also note non-verbal actions by the respondent, which have assist in evaluating response, personal interviews also enabled the researcher to ask additional questions not originally included the interview questions. The researcher was in a position to use non-verbal communication during interviews and read facial gestures of the respondent.

Disadvantages of interviews are as follows; they are costly in terms of time and costs when the interviewer had to schedule and reschedule interviews. The other weakness of using interviews as research instruments is that it is only appropriate for a small population**.** To mitigate this weakness the researcher makes use of a sample which was smaller but being representative of the whole population.

3.6 Data Presentation and Analysis

Data collected was organized, processed, represented and analysed thoroughly so as to check for completeness and accuracy of data responses obtained. The questionnaires were first reviewed to check whether they were answered properly. All the questions were checked to see if they had been consistently answered, with instructions properly followed. The SPSS Package was used to present the data in the form of bar graphs, tables and pie charts. All the data gathered was then analysed qualitatively through thematic analysis according to set objectives of the study.

Thematic Analysis

Data drawn from interviews will be analysed thematically through thematic analysis. According to Braun and Clarke (2006) thematic analysis is a qualitative analytic method for identifying, analysing and reporting patterns (themes) within data. An advantage of thematic analysis is that, data is grouped into themes of similar characteristics and then examined thereby providing the researcher with an in-depth understanding of the phenomenon under investigation.

3.7 Data Collection Procedure

The researcher will make prior contacts with the company and all the selected respondents for the study to seek prior authority and consent to participate in the study. Questionnaires will be numbered for easier follow up with respondents as well as determining non-responses. The questionnaires completed by the participants will be collected by the researcher. Participatory observation can be used to collect data since the researcher is part of the organisation that is being studied. Since this study is a quantitative research, SPSS will be used to process and analyse the data.

3.8 Validity and Reliability

3.8.1 Validity

Validity is the extent to which an instrument measures what it is supposed to measure (Saunders et.al 2012). In order to ensure validity, the data collection instrument will be pilot tested. Also, the size of the sample plays a critical role in ensuring validity of the research instrument. For this study a small sample of respondents will be used; the researcher is going to use a sample of 54 respondents. A small sample makes it easier to generalise findings. Internal validity can be ensured through a pilot study whereby a mini study will be carried out before the main study. This helps the researcher to get a feel of what to expect from participants as well as making amendments to the data collection instrument where necessary.

3.8.2 Reliability

On the other hand, reliability is the degree to which a measurement technique can be depended upon to secure consistent results upon repeated application (Saunders et.al 2012). To enhance reliability, the research's instrument will be pilot tested before the research is carried out. Since this research has adopted questions from previous studies, it means that the questions have already been subjected to reliability tests.

3.9 Ethical Considerations

According to Roller and Lavrakas (2015:304) ethics, are defined as the norms or standards of behaviour that guide moral choices about our behaviour and our relationship with others and take on heightened significance in qualitative research designs where researchers work closely and face to face with research participants. The researcher adhered to the following ethics during the research:

- There was privacy of possible and actual participants.
- There was no deception used during data collection and analysis.
- There was voluntary participation and the right to withdraw partially or completely from the process if interviewees felt uncomfortable.
- Data collected from interviewees was treated with confidentiality.
- Interviewees were not pressured into answering the questions.
- The researcher did not ask sensitive and intimidating questions.

3.10 Chapter Summary

This chapter discussed the research methodology that was used to answer the research questions. The research design, sampling, data collection and the presentation and analysis of data were discussed. It went further to look at data collection methods before ending by considering data presentation and analysis.

CHAPTER FOUR

FINDINGS, DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter provides presentation of study findings and discussion of results which were obtained from the interviews and questionnaires distributed and answered by the employees of Financial Charter Microfinance. The research findings were presented and analyzed using SPSS. The data is presented in a systematic manner following the study research objectives. The data presented and analyzed in this chapter shows the results on the examination of fraud detection and prevention at Financial Charter Microfinance.

4.1 Response Rate

4.1.1 Questionnaire Response Rate

The study recorded the response rate and the findings show that a total 30 of questionnaires were given to the Financial Charter Microfinance respondents. The researcher collected 24 dully filled questionnaires. This implies that, the response rate was 80%, as presented in Table 2 below.

Table 2: Questionnaire Response Rate

Department of Respondents	**Population of respondents**	**Number of Responded Questionnaires**	**Successful**	**Unsuccessful**
Managers	6	5	16.67%	3.33%
Administrators	8	8	26.67%	0%
Internal Auditors	8	6	20%	6.67%
Loans Officers	8	5	16.67%	10%
Response Rate		**24**	**80%**	**20%**

Source: Primary Data (2021)

The Table 2 above shows that the response rate of questionnaires administered was (80%). This was a satisfactory return to present the conclusion on the examination of fraud detection and prevention at Financial Charter Microfinance.

4.1.2 Interviews Response Rate

Table 3: Interviews Response Rate

Strata	**Managers**	**Administrators**	**Internal Auditors**	**Loans Officers**	**Total**
Scheduled Interviews	2	2	2	2	8
Interviews Conducted	2	1	1	2	6
Response Rate	100%	50%	50%	100%	**75%**

Source: Primary Data (2021)

From the Table 3 above, from the two interviews scheduled for managers all were conducted, with 100% the response rate. Again two interviews scheduled for loans officers were conducted and registered a 100% response rate. Also interviews on administrators and auditors were carried out and they had 50% response rate. The overall interview response rate was 75%. The other interviews with the internal auditor and administrator did not take place as scheduled because the respondents were very busy at work and not available at the time of the interviews.

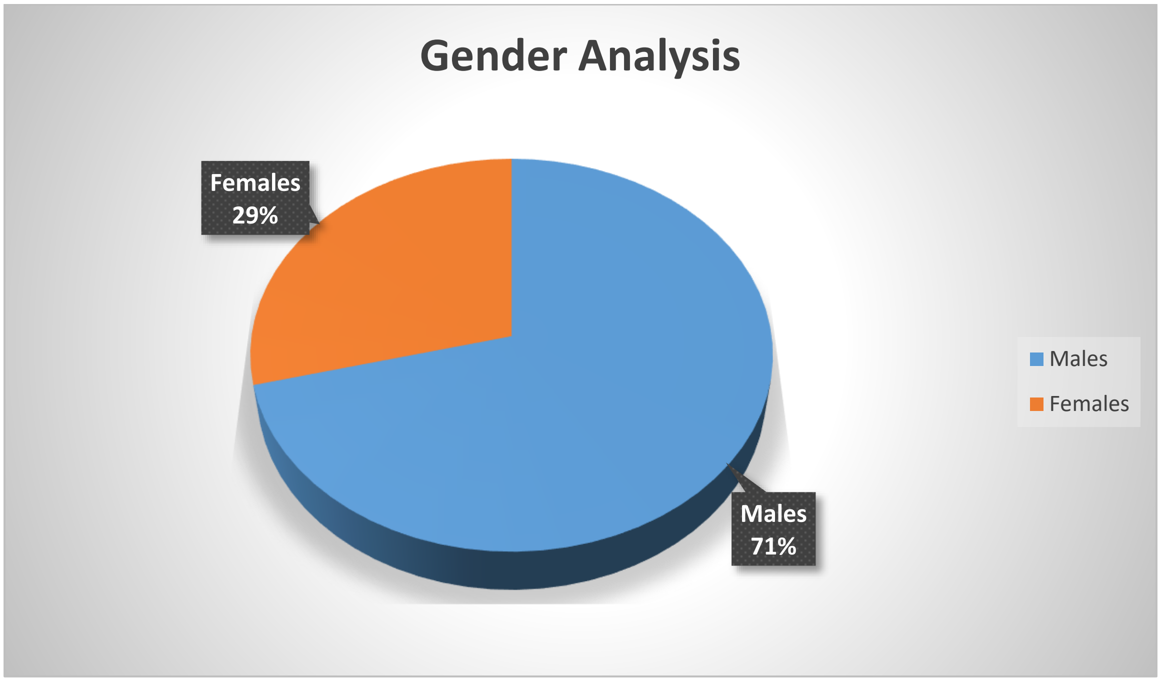
SECTION A

4.2 Demographic Findings

4.2.1 Gender

The study took note of the gender of the respondents in Financial Charter Microfinance. The study found that 27 of the respondents were male constituting 71%, while 11 were females constituting 29% of the respondents. These findings shows that more males were involved in the investigation of effectiveness of fraud detection and prevention in Financial Charter Microfinance. This is illustrated in figure 1 below.

Figure 1: Gender Analysis



Source: Primary Data (2021)

The research findings revealed that both sexes were involved in the study. The study sought to include both males and females in order to get information from different sexes concerning the research objectives. Having an average percentage for both sex means the study was well represented.

4.2.2 Age Range

The study was also interested in knowing the age of the respondents involved as this would provide some subjectivity to the researcher towards the information that is obtained. The age ranges were as illustrated in Table 4 below.

Table 4: Age Range Analysis

Age Range	Frequency	Percentage (%)
20-25 years	12	31.58
26-35 years	11	28.95
36-44 years	9	23.68

45 and above years	6	15.79
TOTAL	**38**	**100.0**

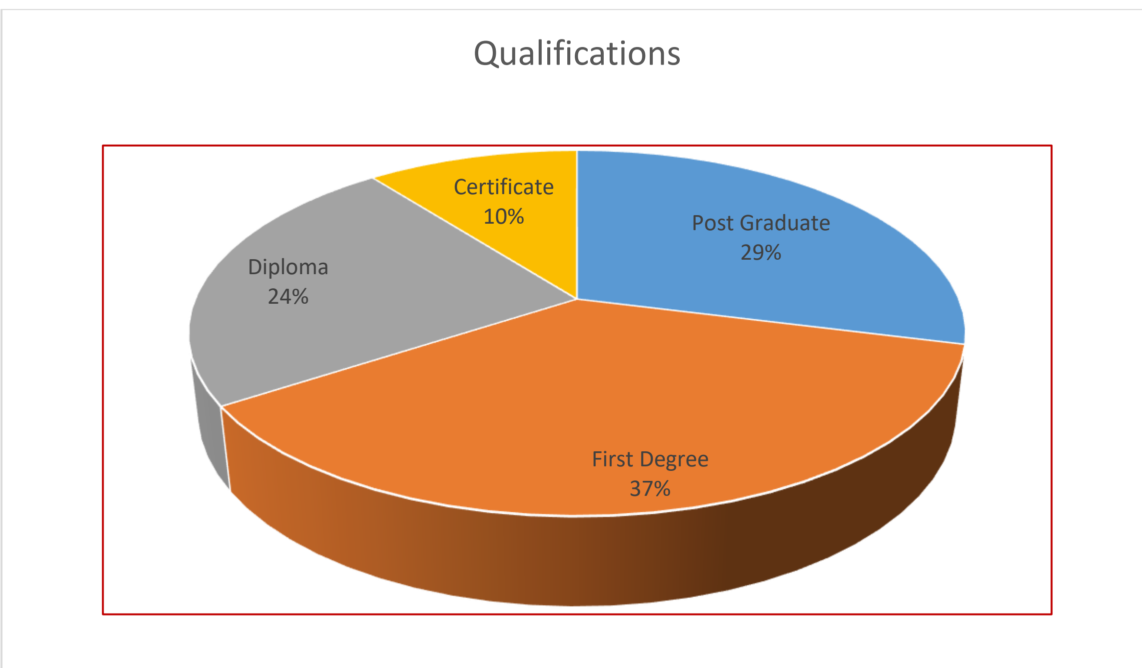
Source: Primary Data (2021)

The findings in the Table 4 above clearly shows that most of the employees (31.58%) at Financial Charter Microfinance fell in the age range of 20 to 25 years, followed by 26-35 years (28.95%). The age group 36-44 years came third with (23.68%) respondents and the age group that had the fewest was 45 years and above which contributed (15.79%) of the respondents. The inclusion of different age groups made the researcher believe that the respondents' information will be effective and dependable such that the whole study become a success with true facts.

4.2.3 Qualifications of Respondents

The research also determined the qualifications of the respondents. Respondents were obliged to reveal their qualifications. Figure 2 below gives an account of findings regarding respondents' qualifications.

Figure 2: Qualifications of Respondents



Source: Primary Data (2021)

The study findings indicated a most of the respondents had first graduate qualification constituting (37%) of the respondents. These were followed by post graduate holders (29%), diploma (24%) and certificate holders (10%) respectively. This shows that the respondents in Financial Charter Microfinance had sufficient qualifications to give valuable responses for the research.

4.2.4 Work Experience

The study also determined the work experience of the respondents as this would likely have subjective conclusions to the study from the researcher's perspective regarding the findings. Figure 3 below depicts the work experience findings.

Figure 3: Work Experience Analysis

Source: Primary Data (2021)

The study analyzed the work experience of Financial Charter Microfinance employees as illustrated in figure 3 above. A larger proportion constituting 20 employees is between 4-7 years of experience, followed by 12 employees who had 0-3 years, while 6 employees had 7-10 years of experience.

SECTION B

4.3 Research Findings

The research findings of this study were analyzed following the chronology of the research objectives. The discussion of results are given below.

4.3.1 Objective 1: To investigate the effectiveness of fraud detection and prevention in Financial Charter Microfinance.

To evaluate effectiveness of fraud detection and prevention in Financial Charter Microfinance the study look at; risk management, strong internal controls, accuracy and security, which the researcher gathered information with the use of both interviews and questionnaires and presented it as below:

Table 5. Effectiveness of fraud detection and prevention

	Strongly Agree	**Agree**	**Moderate**	**Disagree**
Risk management	15 (50%)	10 (33.33%)	5 (16.67%)	0%
Strong internal controls	18 (60%)	8 (26.67%)	2 (6.67%)	2 (6.67%)
Accuracy	8 (26.67%)	12 (40%)	3 (10%)	7(23.33%)
Security	15 (50%)	12 (40%)	1 (3.33%)	2 (6.67%)

Source: Primary data (2021)

From the table 5 above, questionnaire responses shows that high percentage of the respondents strongly agreed that fraud detection and prevention is effective in ensuring risk management, strong internal controls, accuracy and security in Financial Charter Microfinance. The above result is supported by these percentages (50%), (33.33%), (60%), (26.67%), (50%) and (40%%). While 3.33% to 16.67% shows the majority of respondents are in between (moderate), that is, they are not truly satisfied with the effectiveness of fraud detection and prevention. Lastly only 6.67% to 23% shows that some few respondents are not truly satisfied with the effectiveness of fraud detection and prevention. But however, the majority of the respondents agree that fraud detection and prevention is very effective.

From the interviews, respondents gave their insights and comments regarding the effectiveness of fraud detection and prevention. One of the interviewees lamented that:

*"Fraud detection and prevention has become an integral part in financial organisation in ensuring that risk of fraud is brought to a minimal. This involves the use of red flags in areas likely prone to the occurrence of fraud. This empowers the audit teams with crucial information to deal with such intolerable behaviour"………***M1**

Asked for comment on the similar question for a comment, another respondent corroborated that:

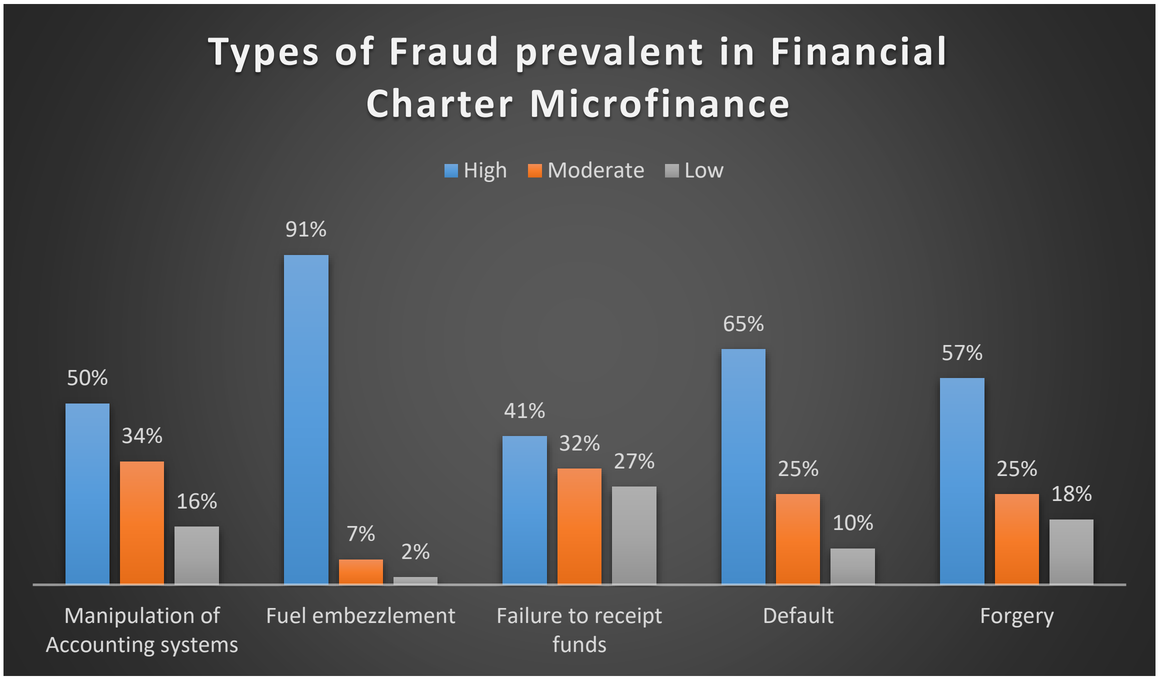
*"Fraud detection and prevention has proven to be very effective here at Financial Charter Microfinance because we have strengthened our internal control systems, ensured tight security, as well as improved on accuracy regarding our accounting figures across the organisation. This has proven fraud detection and prevention to be effective."……..***M2**

Therefore, from the above findings it can be concluded that fraud detection and prevention can definitely be very effective in financial institutions. Ahmad Abdallah, (2013) coincides with the findings in that applying fraud detection and prevention has a positive effect in the performance of the organisation. Also, Taposh Kumar Neogy (2014), strongly agrees that fraud detection and prevention can be effective if there are sound internal control systems in an organisation since internal controls are essential to achieve organisational objectives. On the other hand, Onaolapo and Odetayo (2012), also suggest that fraud detection and prevention has positive effect on organisational effectiveness, hence, any organisation improves its productivity to the desired levels.

4.3.2 Objective 2: To identify types and nature of frauds in Financial Charter Microfinance.

The study sought to establish the different types and nature of frauds that occurs in Financial Charter Microfinance and the results were as follows:

Figure 4: Analysis of Types of Fraud



Source: Primary Data (2021)

4.3.2.1 Failure to receipt funds

The study found that some employees in Financial Charter Microfinance intentionally fail to receipt payments they receive from clients. Audit reports highlighted that in 2019 a Masvingo Branch client made payments to the company but the staff could not avail payment receipts for audit purposes. From the questionnaire analysis, failure to account for received funds had 41%.

According to one interviewee:

*"Senior employees in the company are of the habit of not receipting used funds because of lack of close supervision in branches and the staff take advantage of that and use company funds for their personal interests."……***M3**

Another interviewee from the management explained that:

*"A serious issue that we have here in our organisation stems from the receipting of funds. If a branch understates the amount it has received during the day, it takes time to discover that until the audit is done. So failure to receipt funds is a chief problem haunting us."…….***M4**

Given the above, the study found that staff in Financial Charter Microfinance were engaging in fraudulent activities through intentionally failing to receipt funds they receive. This is in sync with Stulz (2008) findings that failure to account for received money is posing a serious threat to the continuity and growth of many organisations. Also, Shapiro (2014) pointed out the need to govern and safeguard organisational funds by providing a framework for internal control of fraud risk.

4.3.2.2 Fuel embezzlement

The study found that employees in Financial Charter Microfinance often fail to account for fuel they receive. Audit reports that that on several occasions the company gave each branch fuel allowances in respect of purchase of fuel. It was noted that the fuel was not used in the company duties. This is shown by questionnaire responses which showed fuel embezzlement having 91% highest occurring fraud in the company.

Also, one interviewee revealed that:

*"Top officials in Financial Charter Microfinance collect fuel coupons that they use for their personal use and in many circumstances they do not want to be held accountable for their shenanigans."….***M5**

Audit reports that were reviewed revealed that fuel coupons disappeared in the company and that identified top officials were on various occasions charged for offenses that had to do with misappropriation of fuel coupons. In addition, as shown on the figure 4 above, about 91 percent of respondents who responded to questionnaires cited fuel theft as one of the most frequent of fraudulent activities that occur in Financial Charter Microfinance. The findings above, are in tandem with Bamberger (2010) who found out that misappropriation of organisational resources was another biggest fraud affecting several organisations.

4.3.2.3 Forgery of signatures

The study revealed that the staff in Financial Charter Microfinance forge signatures of some of the organisation's files such as clients' loan papers. Whilst purporting to sign on behalf of the client, the staffs in some branches forged other clients' signatures. The questionnaire findings revealed that forgery has a high probability of occurring (57%).

Another interviewee from the administration highlighted that:

*"The chief problem that is difficult to manage is that forgery. Sometimes the client himself/herself signs their papers differently. This gives birth to the forgery by branch employees in case that they have granted the loan to the client outside the office."….***M6**

This is supported by the findings from the study in figure 4 which shows that forgery is very common in Financial Charter Microfinance as shown by 57 percent score by the respondents. On this, the study noted this form of fraud is highlighted in literature by Karwai (2002). According to Islam, Rahman and Hossan (2011), forgery is one of the common forms of fraud that is prevalent in organisations.

4.3.2.4 Manipulation of accounting systems

The study noted that fraudulent activities in the form of manipulation of accounting systems are present in Financial Charter Microfinance. Respondents in the company who were interviewed exposed that several top management in Financial Charter Microfinance were internally charged with manipulating accounting systems. Interviewees concurred that there were incidents of manipulation of accounting systems in the organisation. One interviewee articulated that:

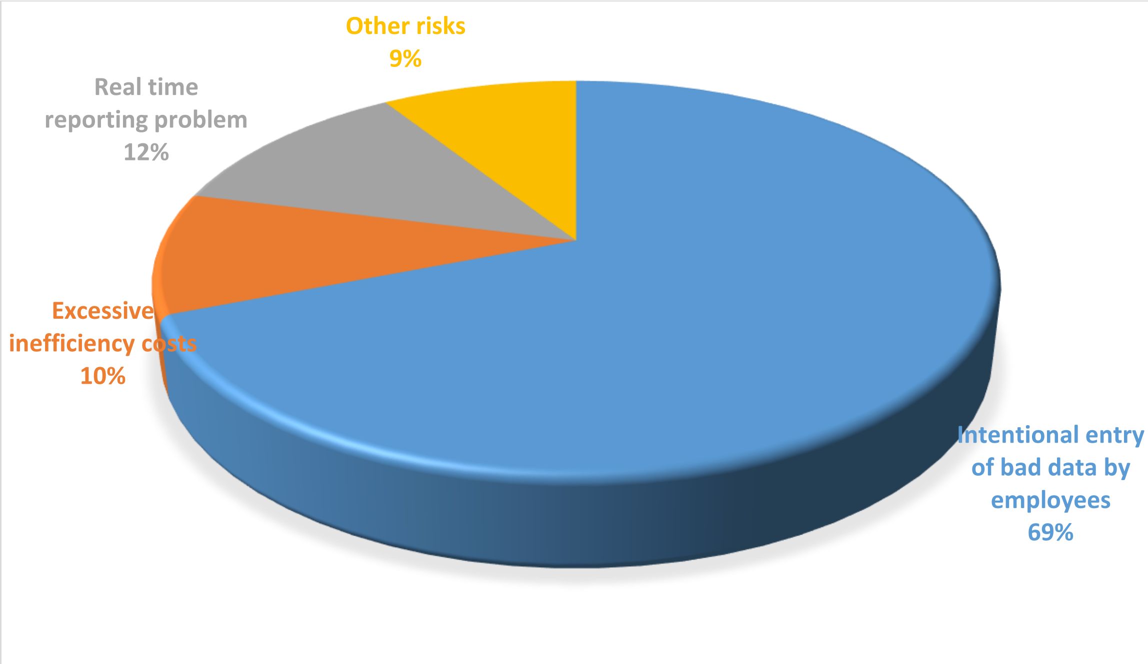
*"Here in Financial Charter Microfinance we face the challenge that some of our senior staff have access to the accounting systems whilst some are not. This leaves the room for those operating accounting systems to tamper with it in such a way that they commit fraud and get away uncaught."……***M7**

This was also supported by 50% of respondents, as shown in Figure 4 above, who exposed the manipulation of accounting systems was high. The respondents listed manipulation of accounting systems when they were asked to identify the acts of fraud that occurred in Financial Charter Microfinance. In their research, Song, Hu, Du, and Sheng (2014) also found out that manipulation of accounting systems is a serious financial risk facing many financial institutions.

4.3.3 Objective 3: To determine the challenges associated with fraud detection and prevention in Financial Charter Microfinance.

The study sought to determine challenges associated with fraud detection and prevention in Financial Charter Microfinance. The challenges were as shown below in figure 5.

Figure 5: Fraud Detection and Prevention challenges



Source: Primary Data (2021)

The study sought to investigate challenges associated with fraud detection and prevention in Financial Charter Microfinance. The figure 5 above, clearly shows the common challenges associated with fraud reduction and prevention in Financial Charter Microfinance. The findings reveals that intentional entry of bad data is the most dominating challenge being faced by Financial Charter Microfinance as shown by 69% of the respondents pointing intentional entry of bad data. The results uncovered that this was a result of lack of effective internal controls in the company. The research findings correctly converge with Ahmad Abdallah, (2013) who suggested that the major fraud detection and prevention challenge in most organisations and firms in Bangladesh is intentional entry of bad data by the employees. Also, employees manipulate the financial statements so as to steal from the company. This is in line with suggestions by Onaolapo and Odetayo (2012) where they advocated that intentional entry of bad data by employees in Nigeria is the major fraud detection and prevention challenge since internal controls were very weak.

The study findings also uncovered that excessive inefficiency costs is another fraud detection and prevention challenge prevalent in Financial Charter Microfinance. This is shown by 10% of the respondents who acknowledged excessive inefficiency costs as another challenge befalling the organisation. In line with the findings, Onaolapo and Odetayo (2012) pointed out that excessive inefficiency costs are a challenge, but again they suggested that technological advancements is also another worth noting challenge. More so, Dacosta (2012) also acknowledged that excessive inefficiency costs is another challenge because organisations lack comprehensive planning to revitalize their information systems in light of the progress that have been made in information technologies.

Moreover, the findings posit that real time reporting problem is also another fraud detection and prevention challenge facing Financial Charter Microfinance. As shown in figure 5, 12% of the respondents acknowledged real time reporting problem. This is in sync with Mulyo Agung (2015) and Dacosta (2012), who suggests that, real time reporting problem is prevalent in many organisations and is associated with using accounting information systems since it provides fraudsters with more opportunities to commit fraud.

Also, the study results showed that other risks which were not specified are also another challenge being faced by Financial Charter Microfinance. This is represented by the 9% of the respondents who cited the view that other risks are prevalent in the company. The findings suggested that there is poor management in Financial Charter Microfinance. Also, the risk management division is not operating efficiently, because they failed to respond were needed. Dacosta (2012) and Onaolapo and Odetayo (2012), affirmed the idea that numerous risks are one of the challenge affecting fraud detection and prevention in many organisations.

4.3.4 Strategies that can be adopted to improve fraud detection and prevention in Financial Charter Microfinance.

The study revealed that there are specific strategies that can be adopted to improve fraud detection and prevention in Financial Charter Microfinance. These include:

4.3.4.1 Research and Development

The study findings showed that there is greater need for research and development for fraud detection and prevention to effectively happen in financial institutions. One interviewee corroborated that:

*"Since the technological world is ever-changing, new forms of fraud continue to emerge in organisations. So for our organisation to succeed there is instant need to invest in research and development towards fraud detection and prevention."……***M8**

Investments in new softwares and packages has been pointed out as crucial to the organisation.

4.3.4.2 Training of Staff

The study unveiled that training of staff is a crucial strategy to improve fraud detection and prevention in financial institutions. Respondents showed that there is little knowledge on fraud detection and prevention yet. In the same vein, senior employees in the organisation highlighted the need for training and development of company employees particularly those who are charged with accounting and auditing.

4.5 Summary

The research findings have revealed that the types of fraud occurring in financial institutions include manipulation of accounting systems, forgery of documents and signatures, fuel embezzlement and failure to account for receipted funds. Apart from that, the study advocated for investment in training and research and development as strategies that can be initiated to improve fraud detection and prevention in financial institutions. Overall, fraud detection and prevention was found to be effective to a greater extent in financial institutions.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter gives the summary, conclusions and recommendations by the researcher based on the critical analysis of the research findings. It presents major findings of the study and their implications for practice. Lastly this chapter looks at suggestions for future research.

5.1 Summary of Major findings

The research findings showed that to a greater extent fraud detection and prevention is effective in Financial Charter Microfinance. This study was guided by the following research objectives which were to:

- To investigate the effectiveness of fraud detection and prevention in Financial Charter Microfinance.
- To identify types and nature of frauds in Financial Charter Microfinance.
- To determine the challenges associated with fraud detection and prevention in Financial Charter Microfinance.
- To determine strategies that can be adopted to improve fraud detection and prevention in Financial Charter Microfinance.

5.1.1 Effectiveness of Fraud Detection and Prevention in Financial Charter Microfinance.

In evaluating effectiveness of fraud detection and prevention in Financial Charter Microfinance the study looked at Risk management, Strengthening Internal Controls, Accuracy and Security as the measures. The study found fraud detection and prevention to be definitely be very effective in Financial Charter Microfinance as majority of the respondents agreed on its effect on risk management, strengthening internal controls, accuracy and security.

5.1.2 The Nature and Types of Fraudulent Activities That are Prevalent in Financial Charter Microfinance.

The study found out that the types of fraud prevalent in Financial Charter Microfinance are fuel embezzlement, manipulation of accounting systems, default, failure to receipt funds and forgery of documents. The highest rated fraud was found to be fuel embezzlement (91%), followed by forgery (57%), manipulation of accounting systems (50%), dual payments and failure to receipt funds (41%) and failure to account for receipted funds (39%) respectively.

5.1.3 Challenges associated with fraud detection and prevention in Financial Charter Microfinance.

The study found that intentional entry of bad data by employees, excessive inefficiency costs, real time reporting problem and other risks as challenges associated with fraud detection and prevention in Financial Charter Microfinance. Of all the challenges, intentional entry of bad data by employees had the highest frequency (69%), followed by real time reporting problem (12%), excessive inefficiency costs (10%) and other unspecified risks (9%) respectively.

5.1.4 Strategies that Can Be Adopted to Improve Fraud Detection and Prevention in Financial Charter Microfinance.

The study revealed that training of staff as well as research and development were the specific strategies that can be adopted to improve fraud detection and prevention in Financial Charter Microfinance. Training and research and development involves taking short courses by employees on aspects of fraud detection and prevention, whereas research and development refers to the investment in researching about the upcoming wave of frauds before they occur to have awareness.

5.2 Conclusions

- It can be concluded that the types of frauds in Financial Charter Microfinance include manipulation of accounting systems, forgery of documents and signatures, default, fuel embezzlement, failure to account for receipted funds.
- Furthermore, it can be concluded that officials in Financial Charter Microfinance intentionally fail to receipt payments they receive from clients. As a result of lack of transparency in most senior officials take advantage and use company funds for their personal interests.
- In addition, it can be concluded that fraudulent activities in the form of manipulation of accounting systems are present in Financial Charter Microfinance.
- Training of staff and research and development were found to be the strategies that should be adopted to improve fraud detection and prevention in Financial Charter Microfinance.

5.3 Recommendations

In the light of the above conclusions, the following recommendations are given to Financial Charter Microfinance.

- Financial Charter Microfinance should hold continuous training courses to the old and new employees to show the importance of their commitment to fraud detection and prevention.
- The Financial Charter Microfinance management should make use of Automated Accounting information systems. More so they can use Financial and Project Accounting package in their finance departments. This software will generate financial data to be analysed by the accountants, both internal and external auditors, and subsequently used by top level management for strategic objectives and decision making.
- Financial Charter Microfinance should keep up with the continuous technological development and the maintenance of the security and safety of the information. Also, technological advancement can provide preventive tools and procedures that can reduce risks associated in using accounting information systems like fraud.
- There should be segregation of duties within the organisation’s departments (finance, human resources, marketing and accounting) as it reduces the risk of mistakes, errors and fraud. Segregation of duties separates roles and responsibilities among staff members and it is part of internal controls.
- Financial Charter Microfinance should not rely fully on accounting information systems only as a way of fraud detection and prevention but should ensure that every employee is well motivated with his or her work considering the salaries and allowances offered to the employees. Also, proper authorization and segregation of duties to ensure an effective internal control system, thus this reduce errors and fraud.
- Financial Charter Microfinance should reassess the issue of billing in which an updated customer database should be kept, making sure that every customer's details are clearly given and that all the defaulters are taken to the courts as early as possible so as to ensure that all revenue intended for the organization is received within the most convenient time period and that the organisation is able to deal with the challenges imposed by loss of revenue.

- Financial Charter Microfinance should use computerized accounting systems. Since computerized accounting systems reduces errors, mistakes and frauds since they keep an audit trail, transaction records and history log files. More so computerized accounting systems collect, gather and present accounting information in the form of financial statements, cash flows statements, which would be easy for the stakeholders to interpret. This also can help the management to make informed decisions because they would be using variety of company information and reliable data.
- Financial Charter's accounting records should be audited frequently. They should not only rely with the internal auditor, but they should also employ external auditors. This ensures safeguarding company assets and protection of shareholders' interests, hence reduces fraud, mistakes and errors.
- Lastly, access to key computers which are stored crucial company information, both physical and through network connections should be restricted to only the most vital users. Hence physical computers should be placed in controlled access facilities. Employees can also be screened through background checks before receiving access to critical data.

5.4 Areas of Further Study

From the findings of this study it is further recommended that further study be conducted to determine or ascertain the following:

- Costs and effects that are likely encountered by using accounting information systems in fraud detection and prevention in financial institutions.
- Impact of forensic accounting systems towards security in financial institutions.

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APPENDICES

Appendix 1: Questionnaire

Dear Valued Respondent

Congratulations for being chosen to contribute towards my research project which is meant to gather data towards my research study entitled **"Examining the Detection and Prevention Of Fraud in Financial Institutions: The case of Financial Charter Microfinance''**. I am a fourth-year student at Bindura University of Science Education. The research is being done in partial fulfilment of the Bachelor in Financial Intelligence (Honours) Degree. Please kindly fill in this questionnaire which is intended to gather data for my research project. The research is purely for academic purpose and therefore the information you will provide will be treated confidentially and professionally.

Yours Faithfully

Petty Dube

INSTRUCTIONS

i. Tick where applicable.
ii. May you please respond and provide answers on the spaces provided below.
iii. Names on this questionnaire are not allowed to promote confidentiality.

SECTION A: PERSONAL DETAILS

1. Indicate your

a) **Gender:** Male ☐ Female ☐

b) **Age:** 20-25 ☐ 26-35 ☐ 36-44 ☐ 45 and above ☐

c) **Academic Qualifications**

Post graduate ☐ First degree ☐ Diploma ☐ Certificate ☐

2. **Work Experience**

0-3 years ☐ 4-7 years ☐ 7-10 years ☐

B: SUBJECT ASSESSMENT (GENERAL)

1. Are the auditors responsible for fraud detection?

Agree ☐ Disagree ☐

2. Do you agree that internal audits may positively affect the problem of fraud?

Agree ☐ Neutral ☐ Disagree ☐

3. What do you think is the most common type of fraud?

Default ☐ Failure to receipt funds ☐ Forgery ☐ Fuel embezzlement ☐

Failure to account for receipted funds ☐ Manipulation of accounting systems ☐

C. SUBJECT ASSESSMENT (SPECIFIC)

1. What are the challenges faced in fraud detection and prevention in Financial Institutions?

Real time reporting problem ☐ Excessive inefficiency costs ☐

Intentional entry of bad data by employees ☐ Other risks ☐

2. Is fraud detection and prevention effective in Financial Institutions?

	Strongly Agree	**Agree**	**Moderate**	**Diasgree**
i. Risk management				
ii. Internal controls				
iii. Accuracy				

iv. Security				

3. What are the strategies that can be adopted to improve fraud detection and prevention in Financial Institutions?

…………………………………………………

………………………………………………….

………………………………………………….

…………………………………………………..

Appendix 2: Interview Guide

Interviews

1. Can you explain what fraud is and major types of fraud in financial institutions?

2. What do you think are common challenges associated with fraud detection and prevention in financial institutions?

3. In your view do you think fraud detection and prevention is effective in financial institutions?

5. Do you think fraud detection and prevention can detect, reduce fraud and increase the performance in financial institutions?

The End. Thank you!