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An assessment on the impacts of institutional fraud and its prevention in Sierra Leone: Case study, Eco bank Sierra Leone

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Abstract
Financial fraud is a major threat to institutions in Sierra Leone especially the Banking institutions, and this problem is expected to grow if measures are not installed to preventing the spade of fraudulent activities in institutions. Billions of leones are lost on a yearly basis through fraudulent activities in financial institutions according to the financial intellengence units, and these acts have derailed the profitability propensity of these Banks. The consequences of frauds on an institution are so adverse and enormous, and they could derail the progress of such institutions, and fundamentally undermine the objectives, goals and targets of such institutions. A liberal, condusive and competitive market can never be achieved, if the issues around fraud are not managed or prevented either on the side of the financial institutions, or the customers or clients of those institutions. I used a unique dataset to examine the causes and consequences of financial fraud in Banking institution in Sierra leone, using Eco Bank Sierra Leone Limited as a case. First, i find that decreasing cognition is associated with higher scam susceptibility scores and is predictive of fraud victimization. Second, overconfidence in one's financial knowledge is associated with fraud victimization and so much more.

Keywords: Financial Statement, Audit, Money Laundering, Bank, Fraud

1. Introduction

The web star dictionary defines fraud as "an intentional deception to cause a person to give up property or lawful right, which could also mean deceit, trickery or cheating. According to statement of internal audit standard No 2 of the Institute of Internal Auditors, USA, fraud is defined as an array of irregularities or legal acts characterized by international deception.

The study sought to establish a causal relationship between customers and financial institutions and how important to avoid or deviate from any fraudulent acts that would tend to hinder customers or financial institutions.

Essentially, fraud is any acts committed by an individual or group that uses deceit in some way to gain value for the miscreant. Fraud is classified into two categories:

Fraud involving the manipulation of the records and accounts

Generally when the owners or managers of a company report false financial data is referred to as financial statement fraud. For the most part financial statement fraud is generally committed with goal that if there is an audit of the financial statement, then no misappropriation or material misrepresentations will be caught by the Auditor or Auditing team.

The world of financial statements fraud needs no introduction. The practice of manipulating the financial statements of financial institutions to bolster their position is act new but got to a height in Enron and world.com saga (Razace.2002).

According to the Association of Certified Fraud Examiners (ACFE), financial statement fraud is the deliberate misrepresentation of the financial condition of an enterprise accomplished through the intentional omission mount in the financial statement of organization to deceive financial statements users. It caused the accounting firm a very big embarrassment and saw the demise of the world leading accounting firm, Author Anderson (AA) (Isaac, 2008.2).

The current business environment, have pushed the top of many companies and organization with paying attention to how to make the financial statement look better in order to attract investors or paint a good picture of their companies, using aggressive accounting (Anumaka; 2007:1)

Apart from the problem of scarce resource, organization run the typical risk of fraud and errors even more problems solution to fraud is not sought far. In this project work, problems of financial statement fraud will be extensively assessed with its solution in relation to organization. When we think about fraud, we often picture financial fraud of one kind or another. You might assume that money would have to be invented before fraud became an issue. But the act of fraud is often as intelligence itself. A nesting bird feigns a broken wing to lure predators away from the nest. A dishonest merchant places a thumb on a scale when weighing out goods. In the middle ages, traders combined valuable spices with fillers like ground nutshells and seeds to increase their supply. It seems no era is free from the practices of deception for personal benefits.

Fraud usually by employees involving the theft, un-appropriation or embezzlement of companies funds in the form of cash or its other assets usually by junior staffs.

Although fraudsters have targeted individuals and big institutions since the beginning of history, we don't always hear about every modern heist in full detail. Banks and other big corporation don't like to publicize when they are successfully defrauded after all, they are supposed to be keeping our money and valuables secure. But some of the more interesting historical rip-offs have helped their perpetrators make a mark of history.

Humans naturally find stories about crimes and other unusual events exciting, so history has kept records of many of the more interesting examples of frauds. Some of the earliest examples don't even involve money. While these records have the potential to inspire the crooks of today, most modern fraudsters are working to event new ways of committing this age-old crime. Today's top-notch fraudsters risk their freedom for good reason. The potential rewards of a successful big heist are enormous, in part because digital commerce has made it possible to make off with millions at the click of a bottom.

Technology has also served to speed up the rate at which we see new type of fraud occur. Frequently consider a white-collar crime; fraud is increasingly available to the masse– either through digital platforms or simple by making it easier to research past method for committing this type of crime.

Data has also become a form of currency. Personally identifiable information [PII], account numbers, mobile phone numbers and passwords unlock the door for new account fraud, account take over and card-not-present [CNP] fraud. Large-scale data breaches continue to occur, and millions of records are stolen each year. That data can be used to open to new credit cards, hijacked bank accounts, take out loans and intercept digital payments. In Sierra Leone, fraud has become a simple tool of man survival more especially in financial institutions. There are many fraudulent acts been carried out on financial institutions in sierra Leone, although has been and still working hard to halt such unacceptable behavior thereby forming different organizational bodies, passing different laws in parliament, creating sensitization programs etc.

Sierra Leone monetary institutions have came across a lot of fraudulent acts by customers, foreigners and even executive bodies of said institutions. Sierra Leone currently has four Agencies involved with the investigation and prosecution of money laundering cases, namely:

1. Sierra Leone police (SLP)
2. National revenue authority (NRA)
3. the Anti-corruption commission(ACC)
4. Office of the director of public prosecution (DPP).

In recognition of the potential risk posed by money to the financial and economic stability of Sierra Leone, the government enacted the anti-money laundering Act criminalizing money laundering and related activities. the legal frame work for preventive measures for financial institutions can be found in the Anti-money laundering (AML) Act of 2005 which applies to all financial institutions as required by the FATF+TF 40+9 whereas the money laundering regulations (MLR) applies only to those financial institutions that are regulated by the bank of sierra Leone (BSL) under the banking Act. The key strength of the AML Act 1 include, among others things , the criminalization of money laundering and terrorism financing, extension of the power for freezing order from 72 hours to ten[10]. The MLR which came into effect in 2002 is relied on as the primary instrument for preventative measures within the financial sectors in Sierra Leone and covers nearly the entire mandatory preventative measures set out in the FATF standards. The AML Act is however deficient in some keys areas such as client profiling and procedures for high risk clients, including politically exposed persons (PEPs). Compliance with the MLR is enforced through the BSL's program of supervision and examination (Bank supervision report 2010).

The study will help name some of the common fraudulent acts carried out by fraudsters in financial institutions, namely: Loan fraud, Wire transfer fraud, Bill discount Fraud, ATM fraud, Money laundering fraud.

Role of the Banks

The role of the banks should be to establish an anti-fraud culture covering working practices and business ethics culminating in formally documented procedures. A formal fraud policy statement indicates that the fight against fraud is endorsed and supported at the most senior level within the banks. Therefore, bank managers may wish to ensure that all employees are aware of a zero-tolerance attitude to criminal breaches of business practices which may be reported to the police. The fraud policy statement should be communicated to all employees, contractors and suppliers (Samociuk, Iyer and Doddy 2010, 11).

A Comprehensive Policy In conjunction with an effective code of conduct, a comprehensive fraud control policy document should be distributed to all employees, who should be asked to sign a declaration that they have read and understood the policy requirements. The policy document should also set out other matters such as the responsibility for fraud control, employment screening, a fraud awareness programme, risk assessment programmed, and the consequences of fraudulent action and/or withholding information concerning any such action. Such policies could be:

Policies and Principles

The bank is committed to preventing fraud and corruption

from occurring and to developing an anti-fraud culture. To achieve these, banks must comply with the requirements of government criminal codes to: develop and maintain effective controls to prevent fraud; ensure that if fraud occurs a vigorous and prompt investigation takes place; take appropriate disciplinary and legal action in all cases, where justified; review systems and procedures to prevent similar frauds; investigate whether there has been a failure in supervision and take appropriate disciplinary action where supervisory failures occurred; and Record and report all discovered cases of fraud (Adam 2011).

Further, the organization's policy should state clearly the intention to investigate suspicions and prosecute fraudulent acts. It should also explain the organization's rights in relation to such things as access to workplace email and computer systems and the intention to recover any money or property lost as a result of such action. It is therefore important for the employment of quality control staff in order to strengthen the internal control systems to be able to detect and prevent fraud and fraudulent activities and to protect its assets (ADAM 2011).

In conclusion, the overall loss to the banks was primarily from low-volume and technically uncomplicated frauds. However, the banking industry does appear to be very aware of fraud and its potential for significant growth thus the need to have fraud budget.

The research will be of immense help to the policy formulators in ECO bank, in matters relating to the crime of fraud. It will equip staff and more so the senior policymakers to make the right decisions in the area of fraud detection and prevention going forward (Bank supervision 2010).

1.2 Statement of the Problem

A vast amount of resources, time and energy are used up in developing Corporate Governance Policies, implementing internal control systems, risk management strategies and training employees to adhere to these measures. Yet, some dishonest, intelligent people, commonly referred to as fraudsters, still manage to find ways to override systems or dupe honest people in to gaining access to organizations' resources and assets. The unfortunate truth is that a majority of organizations that fall victim to fraud do not take the time to fully understand the actual risks involved in fraud and therefore do not make efforts to detect and prevent fraud before it actually occurs.

Developing preventative measures against fraud, identifying the methods through which fraud is or can be committed, establishing effective control measures and putting in place fraud resolution guidelines not only helps organizations prevent the loss of revenue and assets, but also improves the quality of their business processes and their overall reputation in the business environment.

In recent times, fraud has been discovered to pose a big threat on organizations. It is a big risk which can incur a very big cost leading to a lot of problems of which one of the problems is loss of confidence of shareholders and public on the company. This research work tries to solution to financial statement fraud. Another area on which the research work tries to solution to financial statement fraud, another area on which the research work will focus on "is auditor involvement in solving fraud problems. We will also look into cooperate governance as a tool in fraud prevention cost of fraud will be discussed too.

Fraud is very big business risk if not prevented will have a very big negative impact on organizational performance.

A series of big names frauds in the past has been accompanied by lawsuits against auditors because of their suspected negligence in not detecting the financial statement fraud. As a result, auditors have risked loss of money and what is even more influential, the loss of their reputations. This situation has pushed auditors and related organizations and institutions to improve the audit process in other to be more effective in identifying risk and collecting evidence for issuing audit opinions on financial statements. In this research, the main problem is to understand the impact of financial statement fraud in financial organization and, some improvements in the audit reports.

1.3 Scope of the Study

The research will only focus on ECO Bank in makeni city, Bombali District and will involve the senior employees of the bank in the risk and operational department or any senior employee with responsibility of handling related information. The challenges foreseen are in getting sincere and informed responses from respondents as the current situation in bank fraud is sensitive, and in this respect the researcher anticipates overcoming the problem by assuring respondents that the information they give in the study would purely be for academic purposes and used in confidence.

1.4 Aim of the Study

The major purpose of this research work is the assessment of the impact of financial statement fraud on financial institutions. Areas like causes for fraud, types of fraud, preventions and strategies towards fraud

1.5 Research Objectives

- Establish the causes of financial statement fraud at ECO Bank,
- Examine the types of frauds committed and determine the appropriate strategies for prevention and control of fraud.

1.6 Research Questions

Some research questions that have been drafted in financial statement fraud on financial institutions: its impacts on financial institutions are as follows:

- What are the effects of fraud?
- Is financial statement fraud a problem in financial institutions?
- How to prevent fraud?
- What are the causes of fraud in financial institutions

1.7 Justification of the Study

The justification of this study will be valuable towards the research topic. It will add knowledge towards improving the detection and prevention of fraud, and also the type and cause for fraud will be analyzed.

1.7 Limitation and delimitation to the study

1.7.1 Delimitation to the study

The study was conducted in Makeni City, Bombali District, therefore the findings might reflect only on prevailing situations of the study area. Additionally, the findings were related to response by the selected respondents, and might not reflect circumstances prevalent in other cities of Sierra Leone. Therefore, it's meant on impacts of financial statement fraud on financial institutions in Makeni City, Bombali

District.

1.7.2 Limitations 0f the study

a) The threat posed by current epidemic disease: Since we are observing rules and regulations of Coronavirus by NARCOVERC. Which has to do with curfew, using of facemasks, social distancing, avoid crowded places. It brought the study an abrupt halt for fear of being infected as a researcher and refusal of respondents to participate in the process of data collection.
b) Inadequate Time: There was not adequate time as a final year-student; one has to attend seminars in preparation for the comprehensive examination. Some of the numerous activities were undertaken concurrently to meet stated schedules especially with regards to the research project.
c) Money: The non - availability of enough money slowed down the process at some point. However, with the assistance of well - wishers, such as friends and family members, some of the cost of activities and resources were financed at the end although with some delays.

1.8.2 Definitions of Abbreviation

- **ACFE**-Association of Certified Fraud Examiner
- **AA**-Author Anderson
- **PII**- Personally Identifiable Information
- **CNP**- Card-Not Present
- **SLP**- Sierra Leone Police
- **NRA**-National Revenue Authority
- **ACC**- Anti- Corruption Commission
- **DPP**- Director Of Public Prosecutions
- **AML**- Anti Money Laundering
- **MLR**- Money Laundering Regulations
- **BSL**- Bank of Sierra Leone
- **PEPs**- Politically Exposed Persons
- **NASSIT**- National Social Security Insurance Trust

1.8 Summary

Chapter one was an introduction to this study, laying out the background of the study and the aims, objectives and research questions of the research at hand. This chapter also introduces the scope, rationale and significance of this study.

In Chapter Two, the literature on financial statement fraud talks about the external and internal environments that affect fraud levels. In Chapter Three, the Research Methodology chapter describes the mixed methods approach that was considered appropriate in conducting the primary research of this study. Chapter Four mainly discusses the results and findings. Finally in Chapter Five, Conclusions and Recommendations, the main issues that emerge from the study are discussed.

2. Literature Review

2.1 Introduction

As business becomes more complex and management strategists fret over slashing costs and boosting profits, employees are gaining additional opportunities to commit fraud. Recent trends towards downsizing, reengineering and corporate layoffs, and organizations have a very volatile workforce, often without much company loyalty. This environment is ripe for computer and employee fraud (Haugen, 1999). Banking fraud hurts both banks and their customers.

This chapter reviewed literature on the factors that cause fraud specifically in the banking industry. This was covered in three sections namely: the factors that cause fraud in the banking industry, the types of fraud and also preventive and control measures.

2.2 Factors that contribute to fraud in the banking industry

Fraud cannot be studied, examined or attributed to one factor only. On the contrary, a multifaceted and multifactor approach to the study of fraud must be undertaken. Looking at a fraudsters perspectives, it is necessary to take account of motivation of potential offenders, condition under which people can rationalize their prospective crimes away, opportunities to commit crimes, perceived suitability of targets for fraud , technical ability of the fraudster, the possibility and likelihood of fraud discovery and carrying out, expectations and consequences (job loss, family stigma and proceeds of crime confiscation and actual consequences of discovery (Chartered Institute of Management Accountants [CIMA] , 2009).

A research conducted by Kingsley (2012) in Nigeria revealed that institutional factors that lead to fraud may include but are not limited to weak accounting system control systems, inadequate supervision of subordinates, disregard of Know Your Customer rule, poor information technology and data base management, hapless personnel policies, poor salaries, general

frustration occasioned by management unfulfilled promises, failure to engage in regular call over, employees refusal to abide with laid down procedures without any penalty, banks reluctant to report fraud due to the perceived negative publicity, banking experience of staff and inadequate infrastructure that may include poor communication systems result to a buildup of unbalanced posting, inadequate training, poor book keeping and genetic traits like kleptomaniac who pathologically steals for fund (Kingsley, 2012) .

Social factors are those that can be traced to the immediate and remote environment which may include penchant to get rich quick, slow legal process, poverty widening gap, job insecurity, peer group pressure, societal expectations, financial burden on individuals, stiff competition in the banking industry may see banks engaging in fraud to meter up in terms of liquidity and profitability (Kingsley, 2012).

According to a survey done in 2009 by fraud examiners, the current increase in fraud cases stems from the intense pressure faced by individuals. According to the study, fraud grows and thrives fewer than three major factors: pressure on employees to commit, availability of opportunities for fraud and the ability of the employee to rationalize the act of fraud (Pan et al, 2011). However, these factors may drive fraud under differing conditions and environments. The factors may lead to proliferation of fraud during economic hardships especially when the organization and or the employees are undergoing times of economic and financial strain. Similarly, as companies seek to reduce their level of employees or reduce their expenditure especially on employee allowances and remuneration, the opportunities for fraud may increase due to a reduction in the effectiveness of internal controls. This is infract grounded in the findings of the study of the Association of Certified Fraud Examiners (ACFE) (2009) in which over 80% of the respondents indicated that economic hardships was a reason for the growth of growth in fraud. Employee layoff has the effect of establishing gaps in the

internal control systems which promote fraud. In effect the ACFE (2009) concluded that there exists an inverse relationship between fraud in the organization and its economic strength.

Trust in employees is also a driver of fraud in organizations. According to Cressey (1973) trusted employees can lead to increases in fraud especially where the guilty employees perceive to have a dilemma or financial problem which he/she deems not shareable with the management or fellow employees. If the employee genuinely believes that the violation of the trust may lead to the solution of the problem, the employee will most likely violate this trust and secretly resolve the problem (Cressey, 1973).

Insider theft has a significant negative impact on the profitability of the business. Existing statistics show that over 33% of all bankruptcies in businesses is primarily driven by employee theft. (Wang and Kleiner, 2005). However, this may not come as a surprise to the management which will have identified this through indicators such as rumors, inventory shortages, reduced earnings etc. Rationalization of the fraud act, poor internal controls, lack of implementation of laws and policies and managements indifference to the acts of fraud are major drivers of employee theft (Wang and Kleiner, 2005). In addition, employees argue that the management creates opportunities for fraud which is their primary motivator of fraud rather than their financial need. Furthermore, most employees believe that management inaction against fraud is a major driver of fraud in the organization (Wang and Kleiner, 2005). This means that if an organization/management expects a fraud free environment it must set examples through honesty, action and adherence to policies (Wang and Kleiner, 2005).

A red flag is a set of circumstances that is unusual in nature or vary from normal activity. It is a signal that something is out of the ordinary and may need to be investigated. Employee red flags include lifestyle changes (expensive cars, jewelry, homes clothes, and significant personal debt and credit problems) behavioral changes, high turnover especially in areas vulnerable to fraud, refusal to take vacations or sick leave and lack of segregation of duties in the vulnerable areas. A fraud model brings together all these aspects of fraud. According to ACFE (2009) his factors are embedded in a model grounded on three factors promoting fraud: motivation to fraud, availability of opportunities and rationalization of the act of fraud (ACFE, 2009).

2.2.1 Pressure to commit fraud

The pressure to commit fraud may emanate from different sources. Nonetheless, Wilson (2004) noted that greed in employees is the major sources of pressure. This relates to duress that is caused by an employee immediate need for assets (Cressey, 1973). Hillison et al. (1999) state that 95% of all fraud cases involve needs caused by financial difficulties or vice related activities. Pressure pushes the fraudster to take risks in order to obtain what they want. Notably, an emergency of finance is only seen from the view of the fraudster to the lead to act of fraud. The pressure may actually now even be seen by a third party observer. It is the combination of emergency and need that is common to the concept of pressure to commit fraud. Pressures are often not readily apparent from day to day activities, then fraud investigators need to gain knowledge and understanding of the employees and to consider types of pressures that prevail. Hillison et al. (1999) found that numerous employee situations are consistent with actual or perceived pressure. For example: Greed or preoccupation with successful, living beyond one's means, high personal debts, high medical bills, poor credit or inability to obtain credit, unexpected financial needs, personal financial losses, expensive habits such as the use of drugs, alcohol or gambling, illicit sexual relationships, work related pressure such as low pay, failure to receive a promotion unfair treatment, lack of respect or dissatisfaction with one's job, boredom, challenge to see if you can beat the system without getting caught and spouse or family related imposed pressures (Hillson et al., 1999).

Every fraudster faces some kind of perceived pressure most of which involve a financial need. There exist various non-financial pressures that can lead to fraud. Albrecht (2008) noted that when an employee is under pressure to perform, wants to display better than actual performance, is experiencing frustration at the work place or even has set challenges to beat the system, this are adequate motivators of fraud. Pressures perceived by one individual, such as a gambling addiction, may not be pressure to another individual. Some of the financial pressures that enhance and enable the proliferation of fraud are financial losses, falling sales,

Failure to meet earnings expectation or inability to compete with other companies (Albrecht2008).

2.2.2 Opportunity to Commit Fraud

Opportunity is the first important factor motivating fraud. . Opportunities to commit fraud represent gaps, deficiencies, weaknesses and loopholes in the internal control systems of a business that an employee can utilize to commit fraud (Wilson, 2004). Hillison et al. (1999) found that opportunities to commit fraud can arise when an employee acquires absolute trust in an organization where the internal controls are weak or nonexistent. The employee will then perceive that an opportunity exists to commit fraud, conceal it and avoid detection.

Companies with weak internal controls are at higher risks of recording fraud cases and opportunities for fraud. According to CIMA (2009) where a business does not have adequate security over its assets and property and exposes the assets the likelihood of fraud is higher than otherwise. On the other hand despite the levels of honesty in employees (i.e. from total honesty to total dishonesty) the availability of opportunities may sway the employee into committing fraud. Hillison et al. (1999) noted that strong internal control systems are an important means of limiting the opportunity for fraud but when controls exists, a person with unlimited access and overriding authority gained through trust may be able to override the controls to commit fraud. While auditors cannot readily regulate the pressure attribute, they can help mitigate opportunity to commit fraud. Typical failures in control related issues that increase opportunity for fraud include: lack of segregation of duties, failure to inform staff about company rules and the consequences of violating them, rapid turnover of employees, constantly operating under crisis conditions, lack of an audit trail, ineffective supervision, lack of transaction authorizations, poor accounting records, lack of physical controls, lack of access to information, breakdown of procedures. Employees attempting to commit fraud are likely to work unusual hours and do not take days off (Hillson et al., 1999).

2.2.3 Rationalization of the act of fraud

Rationalization of the act of fraud also known as the moral justification through which employees create an attitude or thought that committing fraud is proper and right. It is created when an employee justifies his actions or crime through statements such as: it will be impossible for the company to find, the company can do without it, I am stealing, the company does not recognize my efforts and therefore it's my reward for hard work (Clark and Hollinger, 1983). This justification for the act of fraud often leads to fraud in the business. Justification of the acts of fraud can also emanate from the actions of superiors who engage in fraud. Junior employees will therefore engage with the rationalization that others are doing it, the earnings of the business are adequate to cover the losses or I am angry at the company (Clark and Hollinger, 1983). In summary Clark and Hollinger (1983) argued that most individuals commit fraud due to the consistency in the justification and the personal code of ethics.

Hillison et al. (1999) stated that for most, personal integrity may be the key limiting factor in keeping a person from misusing assets. That is, many employees would not commit fraud even if a need or opportunity arose. Many individuals observe the rules and regulation because they have faith in it and or are terrified of being humiliated or rejected by people they care about if they are caught. CIMA (2009) further notes that individuals may rationalize the act of fraud since they have they believe and perception that the victim is well cushioned or protected from the impact arising from the fraud or because the victim deserves it. Rationalization is personal to the person and more difficult to combat (CIMA, 2009).

In summary it is evident that employees attitude are modeled towards committing fraud due to perceptions of low remuneration, too much work and too little compensation, being at par with others who are committing fraud, perceptions that there is prestige and privilege in fraud, low self-esteem and respect, as an act of revenge, intuitions that it's only a loan and will be repaid and other justifications such as it will be paid, no one is getting hurt, it's for a good case or it's only a temporary alternative.

2.3. Types of fraud

Fraud has been classified in various ways using various parameters: Management fraud, Insiders who are purely employees of the banks, outsiders who are customers or non-customers of the banks and insiders /outsiders, which is a partnership of the employees (insiders) and outsiders.

2.3.1 Management Fraud

This is frequently committed by management staff e.g. general managers, managing directors. The victims of this kind of fraud are investors and creditors and this is done via financial statements.

Again, management fraud can be defined as a deliberate fraud committed by a firm or company that injuries investors and creditors through misleading financial statement.

The manipulation of financial statements most often relates to an excessive or excessively exaggerated recognition of revenue, and an undervaluation of operating expenses or an overvaluation of assets.

Management fraud is driven by the need to acquire more resources from new and existing share capital holders or suppliers. Management fraud may also be driven by the need to create a good corporate image/standing of the business in the eyes of the regulator or supervisor e.g. ECO Bank

Management in most organizations is perpetrated through two major avenues: deception and deprivation. Management can overstate its assets or and revenues or understate liabilities and or expenses. ACFE (2011) believes that it is carried out through fictitious revenues, timing difference, improper asset valuation concealed liabilities and expenses and improper or inadequate discourse (Kingsley, 2012).

2.3.2 Employee Fraud

Employee fraud often referred to as non-management fraud is primarily committed by the employees of the banks (Kingsley, 2012; Tchankova, 2002). Employee fraud is mainly characterized by cash theft from bank tills, forgeries of customers signatures with the intention of withdrawing monies from the customer account, opening and operating fictitious accounts and illegal transfer of funds to other accounts (Tchankova, 2002: Akinyomi, 2012: Kingsely, 2012).

Employee fraud can also be driven through illegal transfer of funds and assets, false balance crediting, opening, use and management of fictional accounts, claiming of overtime for hours not worked, fund diversion (tapping funds from interest into a suspense account) computer fraud via compromising log in credentials of an e-banking user (Akinyomi, 2012: Kingsely, 2012).

ACFE (2009), Kingsely (2012) and Akinyomi (2012) in their respective studies on fraud in the financial and banking sector noted that staff can also collude to misappropriate organizations assets e.g. cash, inventory customer information. Therefore banks must take into consideration the location, place and security of assets and the responsible employees for the assets. Common employee fraud schemes include employees creating and paying for non-existent goods and services, payment of invoices that are inflated or made up, presentation of inflated and fake credit notes, customer list theft and unlawful acquisition of proprietary information (Kingsley, 2012).

Bank staffs that have access to tangible assets and the accounting systems that record and track the activities of an employee. However, technologically savvy employees can use the same systems to conceal their identities and theft. This is especially so when the staff establish fake vendor accounts and embed them in the master file to enhance payment processing. Furthermore employees can steal products or assets of the company and charge the same to the cost of sales which reduces the profitability of the company while asset sales and removal for asset list will reduce the asset of the company (AFCE, 2009). Given the transition to a service based, knowledge economy and more valuable assets of a bank are intangible e.g. customer lists and copy righted material. Intangible assets theft may include the unauthorized copying and use of software's and other intellectual property (AFCE, 2009).

2.3.3 Third party fraud

Frauds perpetrated by customers and non-customers of banks are outsider fraud. These may include the following:

2.3.3.1 Cheque Fraud

This is the oldest financial crime. It is the commonest method by which customers and the bank are defrauded. Counterfeit cheques not written or authorized by legitimate account holder, forged cheques where a stolen cheque not signed by account holder, or altered cheque where an item that has been

properly issued by the account holder but has been intercepted and the payee and/or the amount of the item have been altered (Onkagba,1993).

Forgeries are one entrenched mode of fraud where employees forge and copy a customer's signature with the aim of withdrawing funds from the customer's account. The major target accounts for forgeries are targeted savings account, deposit accounts, current accounts or transfer instruments. Experience has shown that most of such forgeries are perpetrated by internal staff in partnership with outsiders with the employees providing sample signatures of the customers (Akinyomi, 2012).

2.3.3.2 Kitting

Kitting involves the use of the time that normally lapses between depositing and clearing a cheque to acquire authorized loans without any interest. The primary objective of kitting is to utilize funds and interest fees to conceal short term cash deficiencies and shortages or to acquire funds for personal use. Competition among banks encourages bank to make funds available before time in order to attract special business accounts (Onkagba, 1993).

2.3.3.3 Misrepresentations and impersonation

Fraudsters make false statements and or submit falsified documents including rent rolls, lien waivers and financial statements to boost loan applications. They may also make fraudulent disbursement requests to receive loan proceeds. This fraud activity may occur across simple banks using multiple accounts by opening an account with false identification (Onkagba, 1993).

In impersonation and misrepresentation, the fraudster always assumes the identity of another individual with the goal of committing a fraud or dishonest activity. Impersonation may be done to acquire cheque books to commit fraud or acquisition of cheque leafs for fraud purposes. According to Akinyomi (2012) impersonation is particularly very successful where the outsider works in collaboration with an insider.

2.3.3.4 Counterfeit securities

This occurs when a good quality instrument is forged and used as an alternative to the stocks or assets as security for a loan. The fraudster gets the funds and disappears before the bank notes the documents are counterfeit. Counterfeits are one of the oldest forms of crime which has proliferated due to the advancement of photographic equipment and tools which has helped criminals to produce counterfeit documents that are of high quality and resemble original documents. According to Onkagba (1993) counterfeit documents may be copied, forged or simply changed in its details e.g. dates, terms of payment or holder.

2.3.3.5 Money transfer fraud

Money transfer services refer to the movement of financial assets and resources from one account to another mostly the beneficiary account. Money transfer can occur through mail, telephone or at the counter, mobile phones or through other electronic systems. Money transfer fraud occurs when the beneficiaries detailed are changed or altered to reflect those of a different individual or beneficiary (Onkagba, 1993).

2.3.3.6 Clearing Fraud

Clearing fraud can be committed by substituting cheques to enable a fraudster divert funds to a wrong beneficiary. There is also suppression of cheques such that at the end of the time required to clear a cheque the bank gives value as like authorizing bank had accepted payment of the value of the instrument (Onkagba, 1993).

2.3.3.7 Letter of Credit Fraud

Letter of credit (also documentary credit) is a well-known payment method in international trade. This instrument has two fundamental principles: the autonomy or independent principle and the doctrine of strict compliance. Such principles intending to facilitate international transactions make letter of credit easy to be abused by fraudsters. Traders from developing countries who lack sufficient experience and knowledge of letters of credit are often the targets from an economic point of view; it is true that checking credibility involved information costs. It is better to incur the cost that the potential cost that would be involved if fraud were to occur. Apart from carefully checking the credibility of the seller beforehand, the buyer must cautiously choose suitable trade terms which allocate the risk of goods, cost, liability between buyer and seller (Zhang, 2013).

The Letter of Credit fraud occurs mostly in international trade where a supplier receives a spurious letter of credit, which is usually accompanied by bank drafts with fake endorsements which guarantees payments (Onkagba, 1993).

2.3.3.8 Card fraud

This is committed at ATMS and posterminals. Fraudsters create a replica of a legitimate card or copying data contained in the cards magnetic stripe. Using this information, the criminals then use the cards (Onkagba, 1993). A fraudster can also use a giraffe method to monitor the information the customer keys into the ATM machine unknown to customers. A jammed ATM card can cause a customer to lose money. A fraudster pretending to be a genuine sympathizer will suggest that a victim reenter his or her security code. When the card holder leaves, the fraudster retrieves the card and reenters the code that he has doctored clandestinely. Fraudsters can also use data collected from tiny cameras and devices called skimmers that capture card information (Adeoti, 2011).

2.4 Prevention and control of fraud

Fraud risk is a contributor to the operational risks of a business. Operational risks refer to the errors and events in a transaction or process that put the assets of the business at risk. Some of the risks considered as operational risks include: incorrect and intentional false accounting, theft of assets or misappropriation of assets. Most banks focus on a limited number of risks mostly commonly of third party thefts but it's important to classify risks to possible type of offence and the potential perpetrators (Gates & Jacob, 2009).

It is important to assets fraud risk in each and every area of the business. However, special attention must be granted to high risk areas and departments such as cash and cash management, payments, sales and fixed assets. Management and acquisition of loans is also a key area of fraud risk management. As most researchers have found, fraud has a significant negative impact on the sustainability and profitability of a business. Businesses must therefore invest time and resources to the identification, management and control of fraud (BSL, 2009). Further, existing studies have shown that the most effective methods of combating fraud include: reducing the motive of employees, enhancing

internal controls thus reducing opportunities and ensuring that there is no justification of acts of fraud through proper supervision and implementation of rules and regulation plus punitive action against fraud (BSL, 2009).

Kingsley (2012) noted that to reduce cases of fraud while enhancing the fraud detection and prevention strategies, businesses must have internal control systems embedded in the operational framework. Fraud in the banking sector and indeed in all businesses can be reduced if all control devices built into the system are implemented, enhanced and respected. Banks incur substantial operating costs by refunding customers' monetary losses (Gates & Jacob, 2009), while bank customers experience considerable time and emotional losses. They have to detect the fraudulent transactions, communicate them to their bank, initiate the blocking and re-issuance or re-opening of a card or account, and dispute the reimbursement of their monetary losses (Douglass & Malthus, 2009). It is therefore in a bank's self-interest to put measures to prevent fraud or detect it as soon as it happens

An anti-fraud strategy includes elements of prevention, detection, deterrence and response. Business must develop concise and clear strategic responses towards fraud. This will include effective communication on the seriousness of fraud and the probable punitive measures taken due to fraud in the business. Identified cases must form case studies and examples of the stern action taken by the business against fraud. This is one of the most effective ways to combat fraud in the organization (BSL, 2009).

Summary

This chapter has reviewed the existing literature on fraud in the banking sector across the world. The literature is reviewed from international journals, dissertations and books. Nevertheless, most of the literature is available for review and is drawn from experiences in America, Europe and West Africa.

The major critic of reviewed literature is that is drawn from developed financial markets and institutions with well entrenched policies and systems to detect and combat fraud. On the other hand, the lack of literature on the Sierra Leone scene makes it very hard to provide evidence to the existence and prevalence of various types of fraud in the banking sector. However, this is not to dispute that banking fraud is present in Sierra Leone, since statistics from the ECO Bank indicate growing cases of bank fraud. This research seeks to address the shortage of empirical data on banking fraud in Sierra Leone.

Chapter three below presents the research methodology to be used in the study. It presents the research design, population and sampling techniques, the data collection and analysis techniques.

3. Research Methodology

3.1. Introduction

This chapter discusses the methodology and methods used in the research design of this study. A triangulated research design that combines qualitative and quantitative methods of questionnaire and interviews in other to examine the research questions is adopted. This chapter attempts to justify the methods applied in the research. It also discuss various aspects of research methodology including research design (section 3.2); population and sample selection (3.3); Data collection methods (section 3.4); research procedures (section 3.5); and data analysis methods (section 3.6). Section 3.7 concludes with the chapter summary field reflections of this study.

3.2 Research Design

The research design employed in this study was a descriptive research design in form of a survey. According to Denzin and Lincoln (2014), research design is the plan and structure used to analyze the subject matter under study and whose purpose is to answer the research questions. The major purpose of descriptive research design is to describe the state of affairs as it is as present. Survey is concern with particular characteristics of specific population of subjects either at a fixed point in time of varying time for comparative purposes (Evans&Dadzie, 2012).

A descriptive research design was justified for use dependent variables. The independent variables were: types of financial fraud, causes of financial fraud and mitigation measures in place and how this fraud in Banking industries.

3.3 Population and sampling design

3.3.1 Population

According to Denzin and Lincoln (2014), the population in a study is the collection of people or elements onto which measurement is subjected in order to make inferences. The population will be focused on 60 respondents in the bank.

3.3.2 Sampling Design

The sample design is the method by which the selection of primary elements of study and analysis are determined in order to respond to the research questions (Gaylord and Galliher, 2012).

3.3.2.1 Sampling Frame

According to Cooper and Schindler(2014), the sampling frame is the list of elements representing the population from which the sample is drawn often times, a researcher may not get direct access to the entire population of interest thus they rely on the sampling frame to represent the entire population.

3.3.2.2 Sampling Technique

A sampling technique is the process of selecting the specific methodology to use in deciding the entities in the study (Elliot & Willingham, 2010). Sample random sampling is key to obtaining a representative sample since every sample of a given size in the accessible population has an equal chance of being sampled. The technique will allow the researcher to get higher response rate as respondents are easily available in the Bank.

The study used stratified random sampling technique. A stratified random technique was justified for use in this study as it was based on scientific rules of probability of respondents' base in the study. The stratums for this study were derived from the various employee classes who had a direct involvement in identification, prevention and reporting of fraudulent acts. The strata's were: branch managers, middle level managers, auditors and risk managers and clerks.

3.3.2.3 Sample Size

The sample size of a statistical sample can be defined as a number of observations that constitute it. Taking into consideration variables such as homogeneity in the data, and the experience of other researchers (Bierstaker et al., 2006),

this study utilized a sample of size of 60. The use of 60 respondents in the study was justified as it was in line with the recommendations, and the descriptive study should be including at least 30% of the total population.

3.4 Data Collection Methods

The information required for the study was collected through a structured questionnaire which had the study research question as the basis on which the questionnaire was formed. Respondents were requested to provide specific information through the questionnaire which had both open ended and close ended questions. There was use of the likert scale, short response, yes or no and check boxes accordingly.

There was four parts in the questionnaire: the first part was for the respondents background information, the second part was based on the first research question, the third part was base on the second research question and finally the fourth part the fourth part was based on the third research question.

In order to enhance the response rate, respondents were assured of strict confidentiality of the information they share with the researcher and that the information was to be used solely for research purposes.

3.5 Research Procedures

The questionnaire was initially pre-tested to ensure the questions will be effective when data collection was being carried out. The feedback from the pre-test was to be used to analyze the quality of the questionnaire. The questionnaire was distributed through drop and pick by the researcher where he was to visit respondents at their places of work, administer the questionnaire and where possible collect them the same day.

The questionnaire was used to collect responses from respondents as accurately as possible. Short responses, check boxes and/ or likert scale were only used.

3.6 Data Analysis

Data analysis was carried out in order to inspect, clean, transform and model data with the aim of identifying and highlighting useful information that can be used to support the decision making process (Barako 2010). Data collected was edited to ensure completeness, coded and a code book developed, then entered into statistical package for the social sciences (SPSS).

Appropriate descriptive statistics such as central tendencies: Mean, mode and median as well as frequencies were used for analysis. Figures, tables, Graphs and charts were used to present the analyzed data for ease of understanding.

3.7 Chapter Summary

This chapter has summarized the research process in the study, in order to allow for critical examination of findings. This has included discussion of the materials in terms of the qualitative and quantitative process, as weak as the integration of the various finding. The questionnaire was used as the main data collection tool. Moreover, the research design focused on respondents in Makeni city, Bombali District. In addition, data was analyzed using the SPSS program. The next chapters present the findings and outcomes of the study.

4. Results and Findings and Analysis

4.1 Introduction

This chapter presents the findings of the study on fraud in the banking sector. The findings are deduced from the data collected, analyzed and presented in this chapter. In total, 60 responses were used for analysis representing an 89% response rate from the respondents.

4.2 Background Information

This section presents the background characteristics of the respondents.

4.2.1 Gender

70% of the respondents to this study were of the male gender, while 30% were of the female gender. These findings imply that the population of study was characterized by a higher proportion of the male than the female gender. This is as shown in Figure 4.1 below

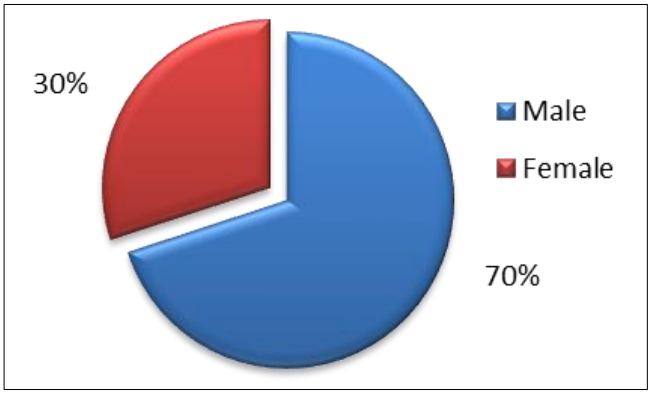

Fig 4.2.1: Gender of Respondents

4.2.2 Age

The respondents to this study were spread out across various age brackets. However, the 18 – 29 age brackets represented the biggest proportion of respondents (60%). Respondents between the ages of 30 – 49 were 33% while those of the ages between 49 and 60 were 7%. This is as shown in Figure 4.2 below:

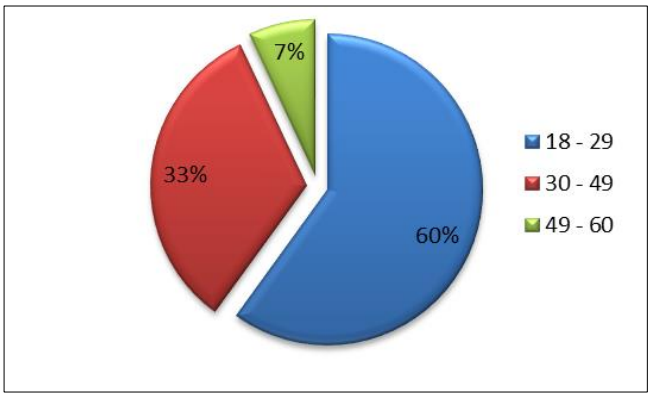

Fig 4.2.2: Age of Respondents

4.2.3 Role

Majority of the respondents to this study were risk managers/auditors (40%). Furthermore, 25% of the respondents were operational assistants/clerks, 22% were assistant managers and supervisors while 13% were senior managers. These distributions of respondents ensure validity of findings since the auditors (representing the largest proportion of respondents) are responsible for the detection and reporting of frauds.

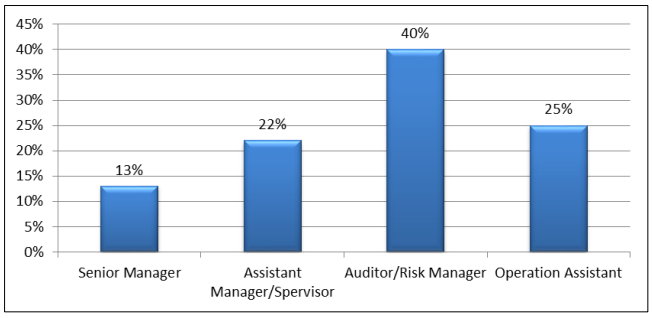

Fig 4.2.3: Role of Respondents

4.2.4 Experience

Sixty seven percent of the respondents to this study had an experience of less than 4 years, 20% had experience of between 5- 10 years while 13% had experience of over 10 years. This is as shown in Figure 4.4 below.

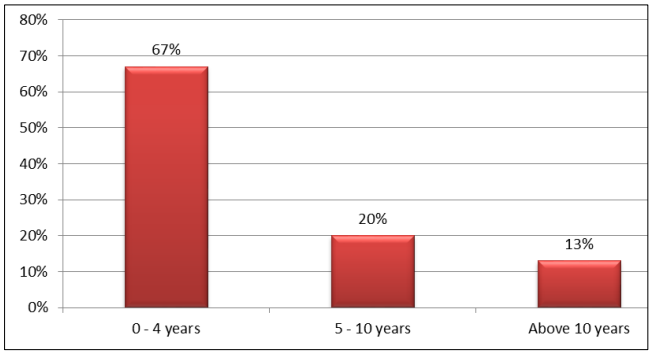

Fig 4.2.4: Experience of Respondents

4.3 Factors contributing to fraud

This section presents the findings of the study in relation to fraud in Eco Bank**.**

4.3.1 Financial statement fraud

Financial Statement Fraud is accorded very high importance by the management. According to this study, 83% of the respondents indicated that very high importance is attached to fraud when it occurs while 17% indicated it was accorded average importance. This implies that fraud is critically managed and controlled.

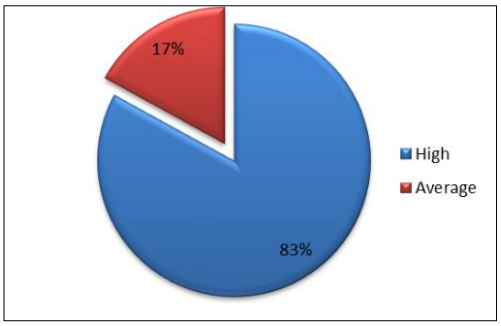

Fig 4.3.1: Financial statement Fraud

4.3.2 Responsibility for fraud

According to the 44% of the respondents, fraud analysts have the primary responsibility of detecting and controlling fraud. Thirteen percent of respondents indicated that it was the responsibility of the risk analyst while 42% indicated that it was the role of the auditor. This implies that the fraud analyst and auditors had the primary responsibility for fraud detection and control.'

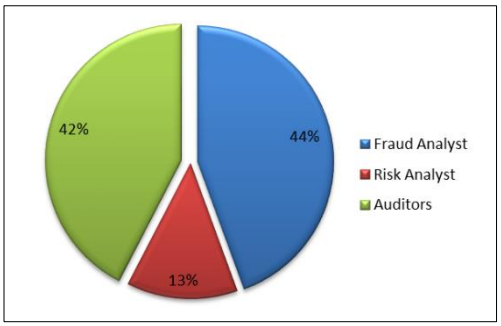

Fig 4.3.2: Responsibility for Fraud

4.3.3 General causes of fraud

The most common cause of fraud in Eco Bank is the availability of opportunities to commit fraud. Pressure to commit fraud was the least common cause with a mean rating of 2.64 while rationalization of fraud acts had a mean of 2.12 as shown in Table 4.1 below. This implies that the availability of opportunities to commit fraud motivated most employees to engaging in fraud.

Table 4.1: General Causes of Fraud

	Pressure to Commit		Rationalization of Act		Opportunities to Commit	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
High	6	10	6	10	36	60
Average	6	10	42	70	18	30
Low	48	80	12	20	6	10
Mean	2.64		2.12		1.47	
Mode	3		2		1	
Standard Dev.	0.314		0.247		0.184	

4.3.4 Weak internal controls and accounting systems

According to 40% of the respondents, weak internal controls and accounting systems had a very high contribution to fraud in the bank. Thirty percent of the respondents indicated it had an average contribution while 30% indicated that it had a low contribution. This implies that weak internal controls and accounting systems had significant motives to fraud by employees.

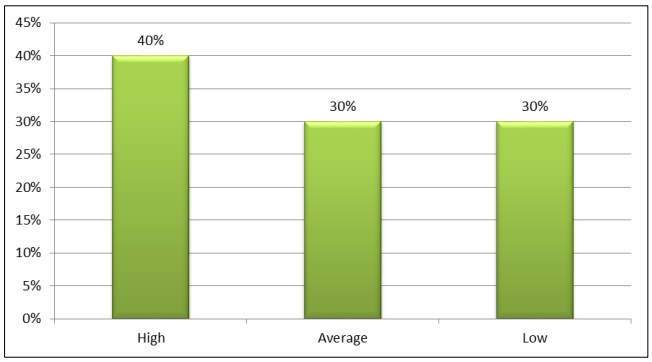

Fig 4.3.4: Weak Internal Controls

4.3.5 Inadequate supervision of subordinates

Inadequate supervision by subordinates had an intermediate contribution to fraud in Eco Bank. This is according to 50% of the respondents in the study. Further, 30% of the respondents indicated that it had a high contribution while 20% indicated that it had a low contribution. This shows that supervision was lacking and motivated most employees to engage in fraud.

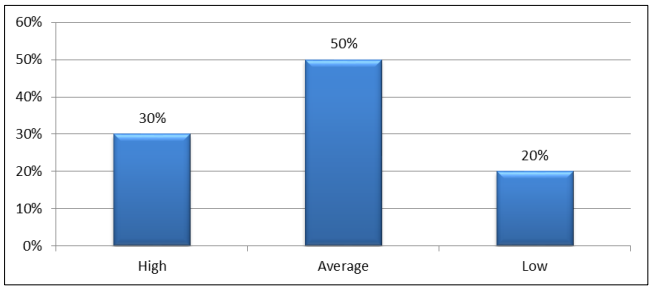

Fig 4.3.5: Inadequate Supervision of Subordinates

4.3.6 Disregard for customer knowledge rules

40% of the respondents indicated that disregard for customer knowledge rules (Customer due diligence) led to fraud to a high and average extent. Further, 20% of the respondents indicated that it contributed to fraud to a low extent. This denotes that the lack of customer knowledge in the bank led to fraud thought this was to a high extent.

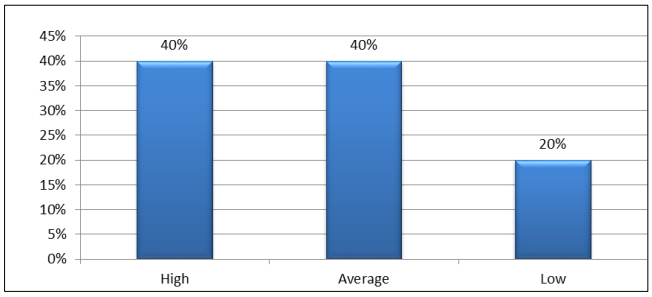

Fig 4.3.6: Disregard for Customer Knowledge Rules

4.3.7 Poor it structures

According to 40% of the respondents, poor IT structures contributed highly to fraud in Eco Bank, 33% indicated to a moderate extent while 27% indicated that it contributed to a low extent. This implies that poor IT structures led to fraud to a high extent in Eco Bank.

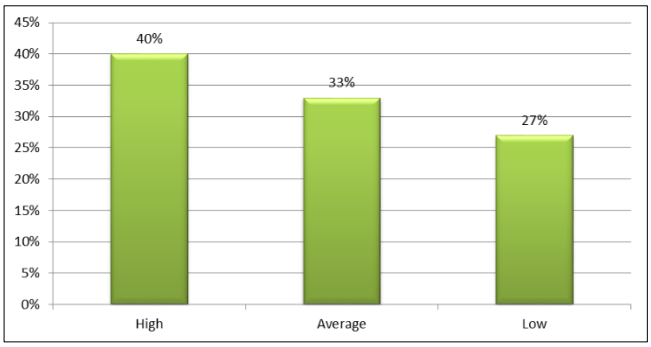

Fig 4.3.7: Poor IT Systems

4.3.8 Poor personnel policies

Poor personnel policies led to fraud to a moderate extent. This is deduced from the findings of this study. Seventeen percent of the respondents indicated that poor personnel policies led to fraud to a high extent, 50% indicated that it led to a moderate extent, 20% indicated that it led to a low extent while 13% indicated that poor personnel policies did not have an impact on fraud. These findings imply that Eco Bank had adequate personnel policies to deter fraud.

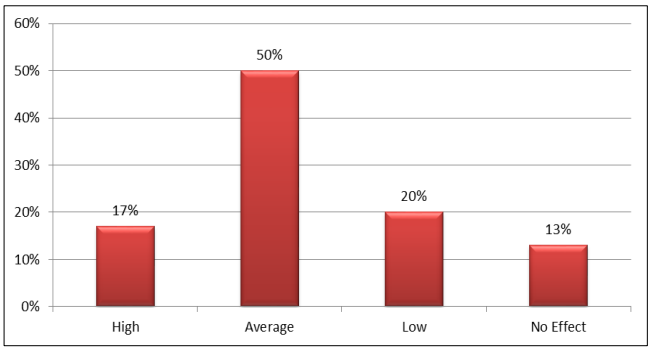

Fig 4.3.8: Poor Personnel Policies

4.3.9 Low remuneration of employees

To a moderate extent, low remuneration of employees led to fraud in Eco Bank. According to 33% of the respondents, remuneration contributed to fraud to a high extent, 52% indicated that it led to a moderate extent, 10% indicated it led to fraud to a low extent while 5% indicated that it had no impact. This implies that remuneration levels were relatively high in the bank discouraging the need for fraud.

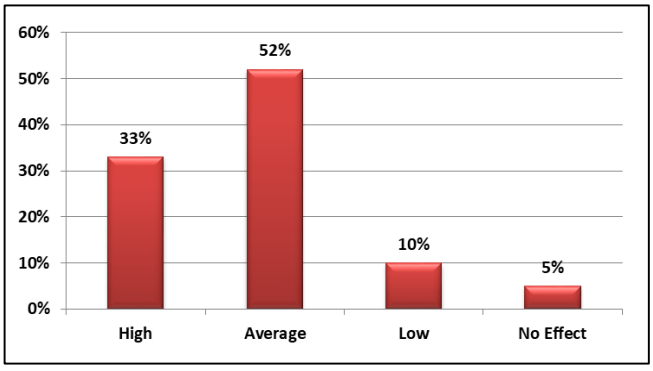

Fig 4.3.9: Poor Remuneration of Employees

4.3.10: Fraud Management

Respondents to this study agreed that Eco Bank had been successful in fighting fraud with a mean rating of 3.84 and a mode of 3. In addition, respondents disagreed that at Eco Bank fraud investigations were undertaken and completed with good time for decisive action (mean of 2.29 and a mode of 2). Respondents agreed that fraud prevention was engrained in the organization culture of Eco Bank (Mean of 4.17 and a mode of 4). Further, respondents strongly agreed that fraud incidences were accorded due importance and investigation (Mean of 4.61 and mode of 5). Respondents were neutral that the organization fraud policy was well communicated (mean of 3.45 and a mode of 4). Finally, respondents agreed that Eco Bank was up to date with emerging trends in fraud (mean of 4.12 and a mode of 4). This is as shown in Table 4.2 below.

Table 4.2: Management of Fraud in Eco Bank

	Frequency	Mean	Mode	Std. Deviation
Eco Bank has been successful in fighting fraud	60	3.84	3	0.241
Fraud investigations are completed in good time	60	2.29	2	0.365
Fraud prevention is engrained in Organization culture	60	4.17	4	0.187
Importance is accorded to fraud incidences	60	4.61	5	0.279
Fraud policy is well communicated	60	3.45	4	0.246
Eco Bank is up to date with fraud trends	60	4.12	4	0.381

4.4 Types of Fraud

This section presents the data collected and analyzed in terms of types of fraud in Eco Bank.

4.4.1 Management Fraud

Prevalence of management fraud was low in Eco Bank. This is deduced from the spread of respondent's responses on occurrence of management fraud in the bank. According to 5% of the respondents, management fraud prevalence was high, 10% indicated that it was average, 33% indicated that it was low and 52% indicated that it was not existent. Due to the spread of responses it can only be deduced that occurrence of management fraud was high in the bank.

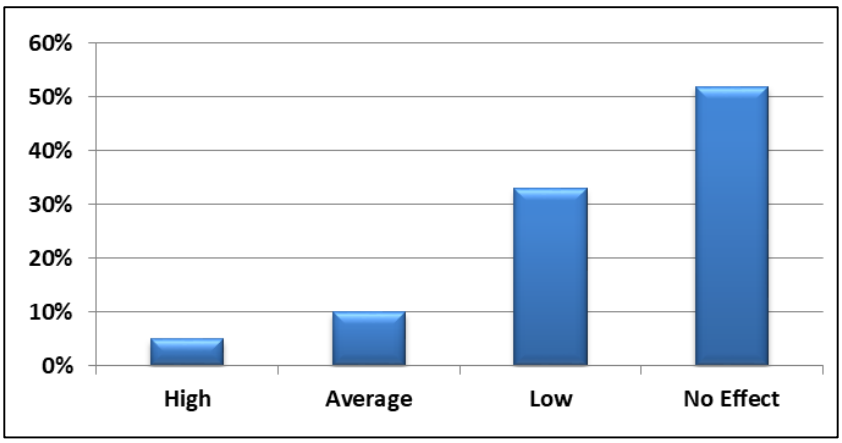

Fig 4.13: Management Fraud

Management fraud in Eco Bank was mainly manifested in the form of overstatement of revenues with a mean rating of 2.21. This was the highest observation in the ratings on a scale of 1 – 4. Other forms of management fraud in Eco Bank in their ascending order of prevalence were: understatement of expenses (2.37), understatement of liabilities (2.38) and overstatement of assets (2.58). This is as shown in Table 4.4 below:

Table 4.3: Forms of Management Fraud (financial statement fraud)

	Frequency	Mean	Mode	Std. Deviation
Overstatement of assets	60	2.58	2	0.045
Overstatement of revenues	60	2.21	2	0.081
Understatement of liabilities	60	2.38	2	0.066
Understatement of expenses	60	2.37	2	0.059

4.4.2 Employee Fraud

Generally, employee fraud in Eco Bank was high. Though 50% of the employees indicated that employee fraud was moderate, 40% indicated that it was high. This implies that to most employees fraud was on the higher rather than lower scales. In addition, 10% of the respondents indicated that employee fraud was low.

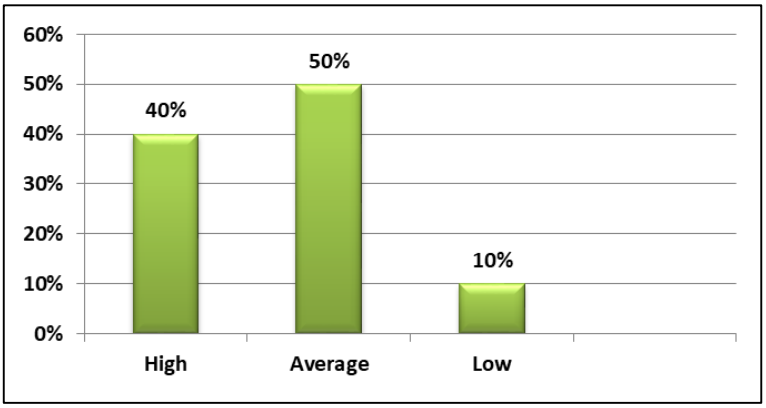

Fig 4.14: Employee Fraud

Employee fraud was mainly in the form of cash theft in the bank with a mean rating of 1.42. Other forms of employee fraud that were highly prevalent in the bank include; forgery of customers signature with a mean rating of 1.57 and computer frauds (2.15). Other forms of employee fraud present to at a lower prevalence that the above include: opening and management of fictitious accounts (2.24), use of forged cheques to withdrawal monies (2.32), diversion of funds to suspense accounts (2.41), and misappropriation of bank assets (2.57), claiming of unearned bonuses and allowances (2.74) and lending to unqualified and fictitious customers (2.89). These findings imply that the most prevalent forms of employee fraud were cash theft, forgery of customer's signature and computer frauds.

Table 4.4: Forms of Employee Fraud

	Frequency	Mean	Mode	Std. Deviation
Cash theft	60	1.42	1	0.083
Forgery of customers signature	60	1.57	1	0.047
Use of forged cheques to withdrawal monies	60	2.32	2	0.145
Opening and Operating fictitious accounts	60	2.24	2	0.067
Lending to unqualified and fictitious customers	60	2.89	3	0.145
Claiming of unearned bonuses and allowances	60	2.74	3	0.174
Diversion of funds e.g. to suspense accounts	60	2.41	3	0.274
Computer frauds	60	2.15	2	0.159
Misappropriation of banks assets	60	2.57	2	0.056

4.4.3 Employee & Outsiders

Employees and outsiders fraud was an average in Eco Bank. Thirty percent of the respondents indicated that employee and outsiders fraud was high, 57% indicated that it was average while 13% indicated that it was low. Due to the high responses by respondents indicating high prevalence, these findings imply that employee and outsider's fraud was on the average side.

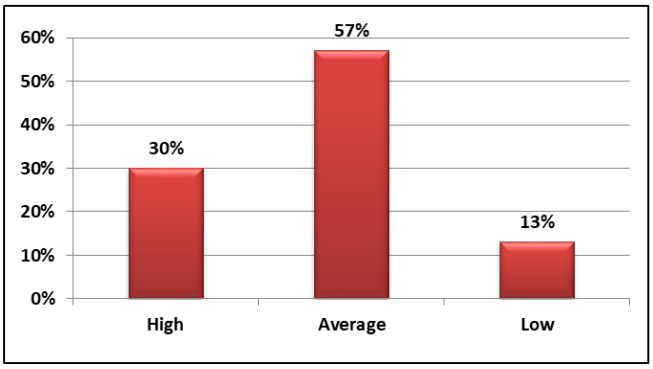

Fig 4.15: Employees and Outsiders

4.4.4 Employees & Customers

Employees and customers fraud was moderate in Eco Bank. Evidence from data collected show that the proportion of respondents indicating an average presence of fraud was 48%, those indicating a high presence were 30% while those indicating a low presence were 22%. This implies that employees and customers fraud was moderate in the organization.

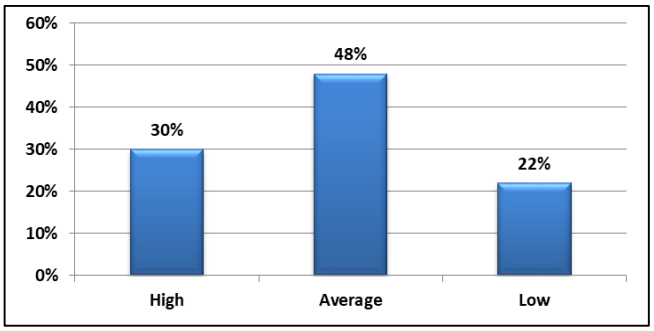

Fig 4.16: Employees and Customers

4.4.5 Employees & Management

Employees and management fraud is relatively low in Eco Bank. According to 42% of the respondents, employees and management fraud is low, 13% indicated that it is nonexistent, 20% indicated that it is average while 25% indicated that it is high. Observations of the distribution of the findings imply that generally employees and management collusion to commit fraud is low.

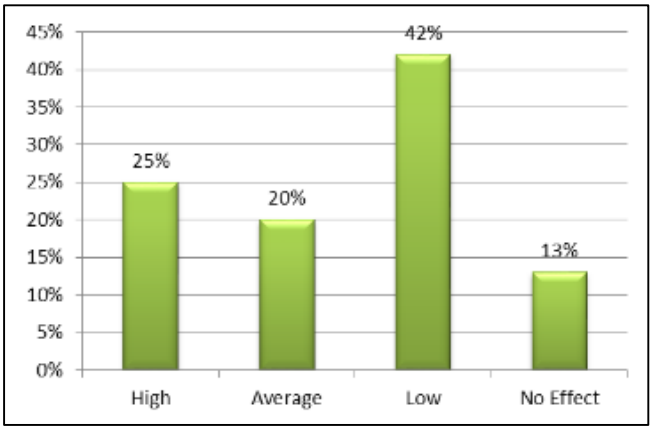

Fig 4.17: Employees & Management

4.4.6 Forms of Third Party Fraud

This study has identified the presence of employees and customers fraud, employees and management fraud and employees and third party frauds though at differing intervals and prevalence. All this can be categorized into third party frauds as they involve a third party. Forms of third party fraud identified in this study in their descending order of prevalence were: clearing frauds (transfer to wrong beneficiaries) (1.77), card fraud (2.12), misrepresentation and impersonation (2.28), letters of credit fraud (2.43), use of forged documents and counterfeits (2.45), cheque fraud (2.47) and kitting i.e. use of cheque clearing times to obtain loans (2.59). These findings are in tandem with qualitative data collected.

Table 4.5: Third Party Fraud

	Frequency	Mean	Mode	Std. Deviation
Cheque fraud	60	2.47	2	0.071
Kitting (using cheque clearance times to obtain loans)	60	2.59	2	0.062
Misrepresentation and impersonation	60	2.28	2	0.024
Use of forged documents and counterfeits	60	2.45	2	0.067
Computer/money transfer frauds	60	2.58	2	0.084
Clearing frauds (Transferring to wrong beneficiaries)	60	1.77	1	0.061
Letters of credit fraud	60	2.43	2	0.048
Card fraud	60	2.12	2	0.066

4.5 Prevention and control of financial statement fraud

The section presents the findings of the study on the most effective strategies for prevention and control of financial statement fraud.

4.5.1 Internal control systems

According to 63% of the respondents to this study, strengthening of internal controls and the accounting systems is a very effective strategy towards prevention and control of fraud. In addition, 37% of the respondents indicated that strengthening of internal controls is an effective strategy towards prevention and control of fraud.

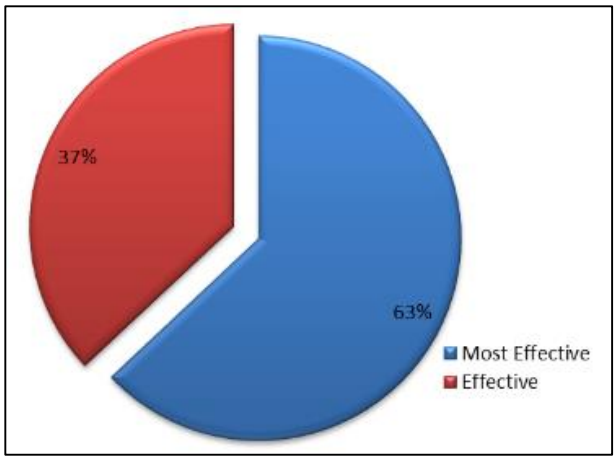

Fig 4.18: Strengthening of Internal Control Systems

4.5.2 Prosecution of Fraud Cases

45% of the respondents to this study indicated that assessment and prosecution of fraud cases is the most effective strategy towards control of fraud. 52% percent indicated that is effective while 3% indicated that it was least effective. This shows that to most respondents prosecution of fraud cases is effective in prevention and control of fraud.

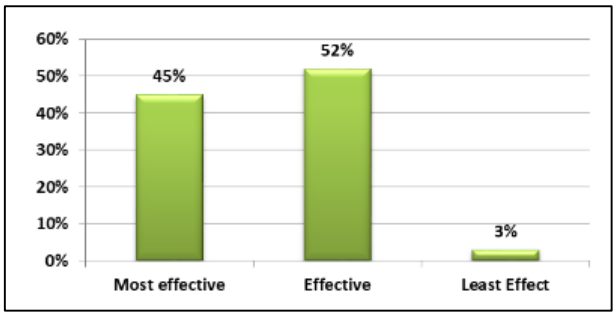

Fig 4.19: Prosecution of Fraud Cases

4.5.3 Tracking of fraud cases

Tracking of fraud cases is an effective strategy towards prevention and control of fraud. This is deduced from the 48% of the respondents indicating that it is the most effective while 43% indicated that it is effective. Eight percent of the respondents indicated that it is least effective. From the findings, tracking of fraud cases is a highly effective strategy towards prevention and control of fraud.

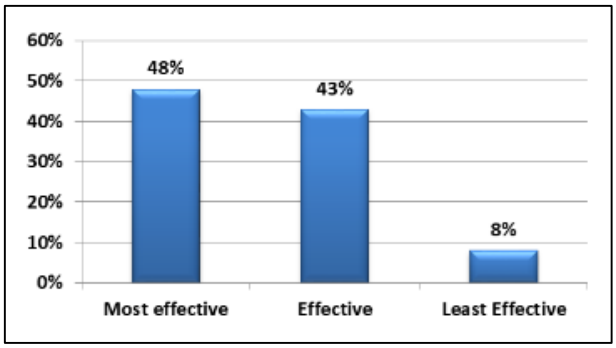

Fig 4.20: Tracking of Fraud Cases

4.5.4 Audits

The use of expected and unexpected audits is a very effective way in controlling and preventing financial statement fraud. This is deduced from 63% of the respondents who indicated that it is very effective and 37% of the respondents who indicated that it is effective.

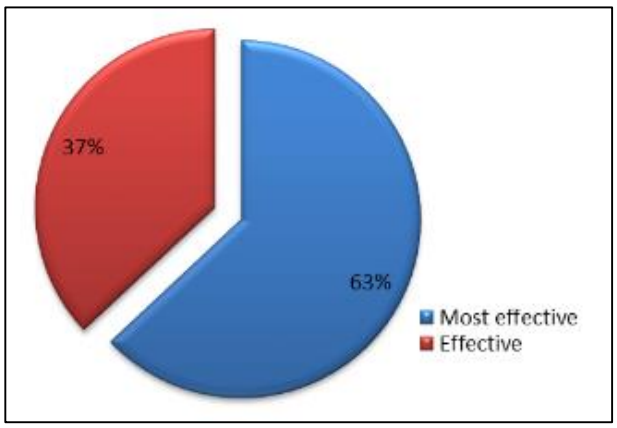

Fig 4.21: Use of Expected and Unexpected Audits

4.5.5 Other Strategies

Respondents indicated other strategies that could be used to prevent and control financial statement fraud in the Bank. Some of the strategies identified include: upgrading the ATM cards used from magnetic strips to chip and enhancing pins, educating customers on card safety, proper procurement and disposal systems, open door policies for employees, staff training and treatment of fraud cases by employees equally.

4.6 Summary

This chapter has presented the findings and results of the study. The study used majority of its respondents from fraud auditors and supervisors who had the primary responsibility of detecting and preventing fraud. This enhances the findings of the study. The study found that fraud in Eco Bank was accorded very high priority. The major causes of fraud in the bank were availability of opportunities for fraud, rationalization of fraud acts and pressure to commit fraud.

Secondly, this study found that employee fraud was the most common fraud in the bank while third party fraud was second. Management fraud in Eco Bank was very low. Some of the forms of fraud identified include: cash theft, use of forged documents, cards fraud, letters of credit fraud and impersonation.

Finally, this study found that there are very effective strategies to prevent and control fraud. However, the most effective strategies for prevention and control of fraud are: use of ICT tools such as passwords and firewalls, strengthening of internal controls and systems, encouragement, communication, rewards and recognition of employees, performance management, improvement and hiring systems and policies, use of expected and unexpected audits and use of analytical tools. The findings as presented in this chapter are discussed, summarized and concluded in Chapter five. In addition, the chapter presents recommendations for practice as well as those for further studies.

5. Discussion, conclusions & Recommendations

5.1 Introduction

Chapter five discusses the findings and results presented in Chapter four. Discussion is in view of the findings of this study and those of other scholars and researchers. In addition, this chapter presents conclusions and recommendations for the study.

5.2 Summary

This study sought to assess impact of financial statement fraud in financial institutions using Eco Bank in Makeni city as the case. The objectives of the study were:

to establish the causes of fraud at ECO Bank, examine the types of frauds committed and determine the appropriate strategies for prevention and control of fraud.

The study utilized a descriptive research design using Eco Bank as the case. The study was conducted during the months of June and July 2021 using all employees of Eco Bank in Makeni. In total 60 employees representing 33% of the populations were included in the sample size using a stratified random sampling technique. Data for the study was collected using an online questionnaire for cost and convenience to all the respondents. However, the questionnaire was pretested for errors and relevance. Data collected was analyzed using SPSS vs. 20 for means, frequency distributions, standard deviations and modes. Analyzed data was presented using figures and tables for ease of interpretation and elaboration.

The major causes of fraud in the bank were availability of opportunities for fraud, rationalization of fraud acts and pressure to commit fraud. Opportunities for fraud were present due to relaxed internal controls and accounting systems, inadequate supervision of subordinates, disregard for customer due diligence requirements and poor personnel policies.

Secondly, this study found that employee fraud was the most common fraud in the bank while third party fraud was second. Management fraud in ECO Bank is very low. Some of the forms of fraud identified include: cash theft, use of forged documents, cards fraud, letters of credit fraud and impersonation.

Further, this study found that there are very effective strategies to prevent and control fraud. However, the most effective strategies for prevention and control of fraud are: use of ICT tools such as passwords and firewalls, strengthening of internal controls and systems, encouragement, communication, rewards and recognition of employees, performance management, improvement and hiring systems and policies, use of expected and unexpected audits and use of analytical tools.

5.3 Discussion

This section discusses the findings and results of the study in light of existing evidence and literature from other researchers.

5.3.1 Factors Contributing To Fraud

Fraud is accorded high priority in ECO Bank. The management of ECO Bank takes great initiative to detect, punish and control cases of fraud in the bank due to its negative impact on credibility and performance of the bank. However, the primary responsibility of controlling and preventing fraud in ECO Bank lies with the fraud analyst and auditors.

Though very many causes of fraud exist in the ECO Bank, the availability of opportunities for fraud was the most dominant factor. This study found that the most common cause of fraud in ECO Bank was opportunity to

commit fraud. Other factors identified include: rationalization of the act of fraud and pressure to commit fraud. Wilson (2004), Hillison et al. (1999) and BSL (2009) had similar findings in their study when they noted that, opportunity is the first and important element in fraud .This is the part of the equation that an organization can effectively use to deter employee dishonesty through policies, procedures and processed.

In addition, the Bank of Sierra Leone (2009) noted that some of the factors leading to fraud in banks include: rationalizing their prospective crimes away, opportunities to commit crimes, perceived suitability of targets for fraud, technical ability of the fraudster, expected and actual risk of discovery after the fraud has been carried out, expectations and consequences (job loss, family stigma and proceeds of crime confiscation and actual consequences of discovery. However, only some of the factors identified by Bank of Sierra Leone were identified in this study. This is because; this study was based on one single Sierra Leone banking institution.

The study sought to identify the specific factors that led to fraud in ECO Bank. The specific factors with a high causative effect on fraud in Eco Bank were: weak internal control and accounting systems, inadequate supervision of subordinates, disregard for customer knowledge rules and poor IT structures. Of these factors, weak internal control and accounting systems was identified by most respondents as the most driving factor for fraud. Other factors that contributed to fraud though in a less extent were: poor personnel policies and low remuneration of employees.

These findings are similar to the findings of Kingsley (2012) in his study on banking fraud in Nigeria. In the study, Kingsley (2012), Wang and Klenier, (2005) and ACFE (2009) found that institutional factors that lead to financial statement fraud may include but are not limited to weak accounting system control systems, inadequate supervision of subordinates, disregarding for Know Your Customer rule, poor information technology and data base management, hapless personnel policies, poor salaries and general frustration occasioned by management unfulfilled promises. Other factors identified by Kingsley (2012), ACFE (2009), Cressey (1973) include, failure to engage in regular call over, employees refusal to abide with laid down procedures without any penalty, banks reluctant to report fraud due to the perceived negative publicity, banking experience of staff and inadequate infrastructure that may include poor communication systems result to a buildup of unbalanced posting, inadequate training, poor book keeping and genetic traits like kleptomaniac who pathologically steals for fund.

This study identified some of the factors while others were not identified due to various reasons

E.g. they were not identified by this study while some were not included in the data collection instrument.

This study sought to investigate the impact to which ECO Bank manages fraud in the organization. The study found that the ECO Bank has been very successful in fighting fraud. In addition, the study found that fraud prevention is engrained in the organization culture, importance is accorded to fraud incidences and ECO Bank is up to date with current and emerging fraud trends in the environment. However, the study found that fraud investigations were not undertaken and completed in good time.

5.3.2 Types of Fraud in ECO Bank

There are various types of frauds occurring in ECO Bank. While some of the frauds are at the managerial level, others occur due to insider collusion between employees while others occur as a result of collusion between employees and outsiders/third parties.

Nevertheless, this study found that the most common types of fraud in ECO Bank are: employee (insider frauds). Others occurring in the bank in their descending order of frequency includes: employees and outsiders, employees and management and management level fraud. Though other scholars did not rate the occurrence of the types of fraud, they had similar findings or observations to those of this study.

Employee fraud which was the most common occurred in the form of: forgery of customers signatures, computer frauds, opening and management of fictitious accounts, use of forged cheque to withdrawal monies, diversion of funds to suspense accounts, misappropriation of bank assets, claiming of unearned bonuses and allowances and lending to unqualified and fictitious customers. However, customer's signatures and computer frauds were the most common types of employee fraud.

Employee fraud also known as non-management fraud and is usually perpetrated by the employees of the banks (Kingsley, 2012). The main causes of employee fraud are as listed above and supported by the findings of Kingsley (2012), Cressey (1973), and ACFE (2009).

Management fraud which was the least common was manifested in the form of overstatement of revenues. Other managerial level frauds occurring though at a reduced frequency include: understatement of expenses, understatement of liabilities and overstatement of assets. However, these cases of management fraud were very rarely identified. These findings are in line with the findings of Kingsley (2012), who noted that management fraud is aimed at painting the bank in good light to the investors, creditors and regulatory authorities. Though management fraud manifests though overstatement of assets or revenues and understatement of liabilities and expenses, the Association of Certified Fraud Examiners believes that it is carried out through fictitious revenues, timing difference, improper asset valuation concealed liabilities and expenses and improper or inadequate discourse (Kingsley, 2012).

Third party frauds were inherent in ECO Bank though at low rates. According to this study, third party frauds occurred in the form of employees and outsiders, employees and customers and employees and management. The low observation of employees and management fraud could be attributed to the organization structure design and reporting stations which are independent. Furthermore, rigorous auditing and risk management structures and systems could reduce the occurrence of management and employees fraud.

Nevertheless, when third party fraud occurred it was mainly in the form of clearing frauds (transfer to wrong beneficiaries), card fraud, misrepresentation and impersonation, use of forged documents and counterfeits, cheque fraud, and kitting i.e. use of cheque clearing times to obtain loans. These factors are presented in their descending order of frequency. Similar findings were presented by Onkagba (1993) who identified cheque fraud, forgeries (Akinyomi, 2012), kitting, misrepresentation and impersonation, counterfeit securities, money transfer

Fraud, clearing fraud and letter of credit fraud (Onkogba, 1993: Adeoti, 2011; Akinyomi, 2012; Zhang, 2013)

5.3.3 Prevention and Control Of Fraud

There are various structures and systems embedded in Eco Bank management and organization structure to detect, prevent and control fraud. While some of the strategies are internal others are external in nature. This study however, focuses on the internal strategies employed to prevent and control fraud.

According to this study the strategies employed to control and prevent fraud include: strengthening of the internal control systems and accounting structures, identification, investigation and prosecution of fraud cases, tracking of fraud cases, introducing and cultivating an ethical working culture for employees and the use of encouragement, incentives, rewards and recognition. Other effective strategies for prevention and control of fraud include: implementing fraud management policies, use of performance management and appraisal systems, undertaking hiring systems and policies that undertake due diligence on employees, undertaking unexpected and expected audits. However, use of remuneration of employees was not an effective tool for preventing and controlling fraud.

Similarly, Gates and Jacob (2009) noted that fraud risk needs to be assessed for each are and process of the business for example cash payments, cash receipts, sales, fixed assets and loans. Given the prevalence of fraud and the negative consequences associated with it, there is compelling evidence and arguments that organizations should invest time and resources towards tracking fraud. Based on causes of financial statement fraud, we see the most effective ways to deal with fraud issue is to adopt methods that will decrease motive, restrict opportunity, and limit the ability for potential fraudsters to rationalize their actions.

Kingsely (2012); Douglass and Malthus, (2009) similarly noted that to guarantee effective strategies of financial statement fraud prevention and control, banks are to ensure that operational systems are designed with inbuilt control devices. Banks can reduce or better still eradicate frauds and forgeries if all control devices built into the system are respected. Some of the effective strategies identified include: An encouraging working atmosphere makes employees follow established policies and procedures and operate in the best interest of the organization; an ethical culture includes defining principles and values that reflect a desire for high ethical standards and a no tolerance position on fraud. Furthermore, companies should ensure they conduct a background check that covers criminal history, education, previous employment, civil history for possible lawsuits before employing anyone, unannounced financial audits and fraud assessments, sound internal control, implementing a fraud policy, a confidential 24/7 hotline, anonymous tips, mandatory vacation policy, use of risk management information system, use of analytical views and proper password use (Bierstake et al., 2006; Hillison et al, 1999; ACFE, 2009; BSL, 2009; Kingsley 2012; Douglass & Malthus, 2009; Gates & Jacob, 2009).

While all the above strategies were identified as effective, some of the factors were identified as most effective. This study identified the use of analytical tools, employee fraud schemes and policy, use of expected and unexpected audits, proper hiring systems and policies, performance management and strengthening of internal control systems as the most effective tools for prevention and control of fraud. This could be the reason for system upgrades include the core banking system and the card management systems undertaken by the bank during the course of the study.

5.4 Conclusions

Based on the findings and discussion of the findings of this study, the following conclusions were made.

5.4.1 Factors contributing to fraud

This study concludes that the most dominant factor influencing or accelerating fraud in Eco Bank was the availability of opportunities for fraud. These opportunities were presented as a result of weak internal control and accounting systems, inadequate supervision of subordinates, disregard for basic customer and employee management structures.

Secondly this study concludes that establishment of an ethical culture in within the organization structure and environment, research and knowledge of fraud trends and constant review, measurement and control of fraud and fraud systems in the bank are critical for management of fraud.

5.4.2 Types of Fraud

This study concludes that employee fraud is the most common form of fraud in ECO Bank; Employees are the primary drivers of fraud through forging of documents, opening and management of fictitious accounts, claiming unearned benefits and computer frauds.

On the other hand, this study concludes that financial reporting rules and regulations in addition to regulatory information provision rules by ECO Bank have been effective in containing management fraud. This is because management fraud in ECO Bank was very rare.

5.4.3 Prevention and control of fraud

Banks must undertake all measures to prevent and control fraud. Though various strategies are effective in preventing and controlling fraud, this study concludes that the most effective strategies are: use of audits, deployment of ICT security measures such as passwords and firewalls, use of analytical tools, strengthening of internal controls and accounting systems and use of human resource management systems.

5.5 Recommendations

The following recommendations are made:

5.5.1 Recommendations for practice

These recommendations are for policy making at the organization/ industry level. Furthermore, these recommendations can be utilized at the practice or management level.

5.5.1.1 Factors contributing to fraud

As per the findings of this study, fraud in banks is driven by the availability of opportunities. Therefore, this study recommends that banks should implement systems and structures that reduce the opportunities for fraud. In addition to strengthening internal control systems and structures, banks can use ICT tools to reduce opportunities or instill punitive measures for employees engaging in fraud and fraud related incidences.

In addition, this study recommends that banks should strictly

adhere to due diligence rules and regulations imposed by the Eco Bank on customers and employees. This will allow banks to have background knowledge on employees and customers. Where regulations on due diligence are not available, banks should develop custom made bank specific rules and regulations. In addition, these rules must be applied without exemption. This study further recommends that banks should engrain in their organizational culture: ethical practices in employees.

5.5.1.2 Types of financial statement fraud

Employee related frauds are the most common in banks. This is through the use of forged documents, card fraud, computer fraud and diversion of funds to suspense accounts, misappropriation of assets and claiming of unearned benefits. This study recommends that banks should decentralize the multiple functions of managers/employees i.e. managers/employees dealing with authentication of customers signatures do not have access to account details such as balance sheet.

Furthermore, management/employees must be rotated on regular basis to reduce cases of familiarity in one specific area.

To reduce third party frauds, banks should instill multiple authentication of transactions i.e. managers approve transactions of accounts that are dormant or high value customers. This could reduce the cases of fraud especially with the findings that management and employee frauds are very low. In fact, banks must use these findings to their advantage by requiring managerial level supervision and authentication of certain transactions i.e. acquiring of loans on postdated cheque/kitting, review or change of details in cards.

However, it is expected that with the introduction of electronic cheque clearing systems and the introduction of EMV chipped cards and Pins, some of the cases of third party fraud will dramatically reduce.

5.5.1.3 Prevention and Control of Fraud

To reduce the cases of fraud in banks, this study recommends that ICT should be utilized as it is easy to track, easy to use and useful. The use of ICT will enhance accountability and transparency of employees as access to the system is tracked and recorded. Therefore cases of fraud are easily identified and culprits prosecuted. Indeed, ICT could be the cure to fraud in the banking industry. This could inform the rush by most banks to upgrade their core banking systems and card management systems.

In addition, this study recommends the strengthening of internal controls and accounting systems, the use of analytical tools to analyze and present statistics on fraud, use of audits and employee fraud schemes to combat fraud. Specifically, every bank must have fraud management units where all fraud related incidences are investigated and reported.

5.5.2 Recommendations for future studies

To validate the findings of this study, this study recommends that future studies be replicated in different banks or financial institutions.

Furthermore, a similar study using multiple banks could also provide substantive literature for comparison. This could provide literature for comparison to the findings of this study.

Secondly, this study recommends research on the impact of fraud on bank performance. Though it is generally perceived to be negative, the magnitude or extent of the impact has not been examined and this could provide literature on how fraud affects various performance indicators of the bank.

Finally, this study recommends a research on the impact of fraud management policies on bank performance. This has led to the reduction of management fraud. Could this have a positive effect on bank performance? Furthermore, have the introduction of this policies led to the reduction of other forms of fraud? These are the questions the study should seek to answer.

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