AN ASSESSMENT OF FRAUD AND ITS MANAGEMENT IN TANZANIA COMMERCIAL BANKS: THE CASE OF CRDB AND NMB BANKS PLC

By
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A Dissertation Submitted in Partial Fulfillment of the Requirements for Award of the Degree of Master of Science in Accounting and Finance (Msc A&F) of Mzumbe University

2013
CERTIFICATION

We the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled An Assessment of Fraud and its Management in Tanzania Commercial Banks: The case of CRDB and NMB Banks PLC, in partial fulfillment of the requirements for the degree of Master of Science in Accounting and Finance of Mzumbe University.

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Major Supervisor

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Internal Examiner

Accepted for the Board of ………………….

DEAN/DIRECTOR, FACULTY/DIRECTORATE/SCHOOL/ BOARD
I Leonard Aloyce, a master degree student at Mzumbe University, hereby declare that the content of this report is the result of my own work and effort and to the best of my knowledge it had never been presented by anyone/person for Bachelor Degree or Master Degree or any other professional qualification in any higher learning institution.

Signature

Date

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DEDICATION

This research work is dedicated to my Lord Jesus Christ, my father Leonard Kilewo, my mother Leokadia Leonard and my lovely wife Prisca Zephania Tillya and my daughter Gabriela Aloyce for their assistance in my academic endeavors’.
ABBREVIATIONS

IIA- Institute of Internal Auditors
ISA- International Standard on Auditing
BFI- Banking and Financial Institutions
FBI- Federal Bank of India
CAG- Controller and Auditor General
TIOB- Tanzania Institute of Bankers
BOT- Bank of Tanzania
ACFE- Association of Certified Fraud Examiners
ABSTRACT

The study was conducted at the CRDB Bank and NMB Bank Public Limited Companies at headquarters and branches located in Dar es Salaam. The study was on assessment of fraud and its management in commercial banks in Tanzania. The specific objectives of the study were to analyze the nature/types of frauds in banks and establish why fraud occurs. It was also aimed to establish adequacy and effectiveness of internal controls in managing frauds in banks and was sought also to evaluate impacts of frauds in banks business and suggest measures on how to manage and reduces the impacts in banks. Following the definition of the problem, literature study was done in order to get insights of the problem.

The research methodology used was the survey study, which took six months. The design used enabled the researcher to collect data to the targeted organization and questionnaires, interviews and documentary sources were used as tools of data collection.

Data collected were analyzed careful by using both quantitative and qualitative techniques, in quantitative technique percentages were used for analysis of data and the results showed that Cheque Fraud, computer frauds, card frauds, theft of assets, misappropriation of customers money from their account, cheque kitting, financial statement fraud, fund diversion frauds, frauds related to accounts fraudulently opened, and frauds resulted by delaying clearing instruments are types of frauds occurring in Tanzania commercial banks.

Other classes of frauds in Tanzania commercial banks revealed were frauds related to overstatement of collateral value when customers applied for bank loans. Frauds related to manipulation of foreign exchanges and ghost loans- loans issued against forged collaterals.

Internal controls were found adequate in some areas/processes, however were not effective. In some areas/processes were controls were adequate were not effective as sometimes management tends to override them to commit fraud. In some instances,
the areas highlighted by independent reviewers such as auditors for improvement, management of banks did not implement some of the recommendations provided by independent reviewers.

On impact, it was revealed that banks suffered both financial and non financial impacts. For financial, it was established that trend and magnitude of fraud is increasing yearly and mostly committed by staff non management level, sometimes by colluding with external parties. For the past three years the two big banks suffered losses approximately to TZS 5,002.85 million (2010), TZS 5,474.95 million (2011) and TZS 8,893.25 (2012) respectively due to frauds.

Based on the results of the study, the researcher concluded that fraud still occurs in banks due to weakness in internal controls, management overriding the established controls, low remunerations to employees and lack of fraud threshold for management accountability despite who caused the loss. These factors amount to opportunity, pressure and rationale which are fraud triangles. To address the weakness noted, the researcher recommended that bank management to ensure controls are adhered to, survey on salary should be done in order to commensurate with job responsibilities and fraud threshold to be established by both bank management and regulator. It was also recommended that, bank regulator to initiate formation of special courts for recovery of money fraudulently obtained from banks in order to relieve commercial banks from losses.
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CHAPTER ONE
INTRODUCTION

1.1 An Overview

The chapter describes the introduction which contains the background of the problem; it describes the research problem, research objectives, research questions, limitations to the researchers work and how they were managed.

1.2 Background of the Research Problem

Fraud can be seen as the intentional misrepresentation, concealment, or omission of the truth for the purpose of deception/manipulation to the financial detriment of an individual or an organization (such as a bank) which also includes embezzlement, theft or any attempt to steal or unlawfully obtain, misuse or harm the asset of the bank, Adisai (2011)

Fraud is of different forms which ranges from misappropriation of assets to accounting frauds. Millchamp (2002) explained accounting fraud as hiding serious financial problems, using fraudulent bookkeeping to overstate income, inflate the worth of the company assets or state a profit when the company is operating at a loss.

Fraud and management have been the precipitating factor in the distress of banks, and as much as various measures have been taken to minimize the incidence of fraud, including forming special organization to combat it and Interpol (International Police) tries to deal with it at international level (Nwankwo, 1991), still rises day by day because fraudsters always device tactical ways of committing fraud.
Fraud together with its sister white-collar crimes which came into being later in the 19th and 20th century inter alia corruption, money laundering, tax evasion, externalization of foreign currency to itemize just a few have stood as potent weapons capable of hemorrhaging the entire world economies, particularly the banking sector because of its high risk factor (Njanike, Dube and Mashayanye, 2009).

This has become a point of great attention in the banking sector as well as every other organization in Tanzania. Although this phenomenon is not unique to the banking industry or peculiar to Tanzania alone, the high incidence of fraud within the banking industry has become a problem to which solution must be provided in view of the large sums of money involved and its adverse implications on the economy. Fraud in its effects reduces the assets and increases the liability of any company. In the case of banks, this may result in the loss of potential customers or crisis of confidence of banking public and in the long run end up in another failed bank situation.

The report from Association of Certified Fraud Examiners (ACFE) (2012) indicated that among all other industries banks and financial institutions were leading in frauds. Their findings are shown in the figure below;
1.3 Statement of the Problem

Several research and investigation had been conducted by various scholars regarding collapsing of banks such as that of Zimbabwean banking sector financial scandals (Mashayanye, 2009) and the reckoned 2003-2004 financial turmoil that saw the collapse of several banks due to deep-rooted mismanagement and poor corporate governance practices (Reserve Bank of Zimbabwe Report, 2006). Among possible causes of the collapse of Zimbabwean financial institutions were the shocking inadequacy of risk management systems and diversion of the core business to speculative activities contrary to the dictates of Sections 32 to 35 of the Banking Act (Chapter 24:20). High levels of non-performing insider loans, overstatement of capital adequacy (window dressing).
In striving to prevent and protecting banks from collapse resulted by various factors including frauds, regulators (central banks) have imposed strong controls in banking sector among the controls includes banks having Internal Audit Functions and Risk Management functions to assist the banks monitoring adequacy and effectiveness of internal controls (Banking and Financial Institution (BFI) ACT, 2006, S.23 (3)) and BFI Regulation, 2006 S.7, Basel Committee on Banking supervision, 2001).

The management of various banks has also employed different measures, such as establishment of internal control unit, fraud alerts, security measures etc. Yet fraud has continued in an upward trend (Okubena, 1998) despite the presence of the controls.

Again, despite significant advances in fraud detection technologies, fraud losses continue to pose a significant problem to many industries, including banking and finance, government and public administration units, manufacturing, education, insurance, health care, Internet merchants, brokerage and securities, and many others (Wilhelm 2004 and ACFE report (2012)).

Tanzania is not exceptional to the problem as several commercial banks such as NMB, NBC, CRDB, Akiba commercial banks and others have been reporting occurrence of frauds in different occasions. The researcher intended to uncover why frauds still occurring in banks despite the available controls and how those frauds being managed?
1.4 Research Objectives

1.4.1 General Objective

The general objective of the research was to assess and evaluating the nature of frauds and it is management in Tanzania commercial banks.

1.4.2 Specific Objectives

- To analyze the nature/types of frauds in banks and establish why does fraud occur
- To establish adequacy and effectiveness of internal controls in managing frauds in banks
- To evaluate impacts of frauds in banks business and suggest measures on how to manage and reduces the impacts in banks.

1.5 Research Questions

- What are the types of frauds and why do they occur in commercial banks?
- Are internal controls adequate and effective in managing frauds emanating in banks?
- What are the impacts of frauds in commercial banks?

1.6 The Significance of the Study

There have been questions on frauds to banks in Tanzania, on assisting all members of management of the bank, regulator, shareholders and other stakeholders, this study aimed to assess the impact of frauds and its management in banks, in which it has been useful as follows;
• The study provides knowledge to bank employees, management and other stakeholders about types of frauds banks are facing, the impact of frauds, the ways frauds in banks can be mitigated.

• The study contributes to the current available literature on the issues relating to frauds in banks.

• The findings of the study can also be used by the financial institutions to improve their internal control processes.

• It was part of partial fulfillment of master degree award in accounting and finance

• The findings of the study will be used as the secondary source data for making decision to organizations concerned with matters related items prone to fraud (example finance).

1.7 Scope of the Study

The research was conducted at CRDB BANK PLC and NMB Bank PLC at head office and some few branches of the same banks located in Dar-es-salaam. The researcher visited the departments at head offices and Dar es Salaam based branches to study and collect reliable information but much time was devoted to the department of internal audits, finance/ accounting and legal/ corporate affairs departments for access of detailed information and data relating to frauds and its management

1.8 Limitations of the Study

• Time was the limiting factor. The researcher was unable to study the whole commercial banks in Tanzania, as time constraining factor. So the researcher planned his work in advance and selected the sample of banks which provided valid and reliable data which were used to facilitate drawing conclusion and making recommendations to the management of the organizations.
In organizations dealing with financial matters specifically banks some data and information was very sensitive to be delivered to the public due to security purpose as they were treated confidential.

For that case, the confidentiality of some data and information was an obstacle for the researcher to exhaust extraction of useful information and data. But the researcher analyzed carefully the one which was obtained to fill the gap and alternative way of obtaining data using standards were employed in the research. Some audiences were also alerted in advance that, the information gathered would be treated anonymously.

Some people were reluctant on providing required data and information for unknown reasons, and on the other case some people according to their position (top management) and their responsibility failed to spare much time on discussions; this led to delay on the availability of some information and others was not obtained at all. The researcher applied humanity techniques of compromising to make sure high response was obtained.

Despite the limitations faced, the researcher tried to keep promise with some top management in order to get at least some data and information which was useful to this study though others not obtained at all, hence conclusion drawn based on what was obtained and observed.

1.9 Organization of the Study

The study is organized in five chapters. Chapter one covers introduction of the study, statement of the problem and research objectives. Chapter two covers Literature review, chapter three research methodology, chapter four results of research findings and last chapter five covers conclusion and recommendations.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter includes the review of theories that are related to fraud and its management. The review covered literature from theories and that from previous researchers. It also covered the literature gap from empirical studies which is the basis for this research to bridge the gap.

2.2 Theoretical Literature Review

2.2.1 Meaning of Fraud

Millichamp (2002) defines fraud as the use of deception to obtain an unjust or illegal financial advantage. The term fraud is also defined as intentional misrepresentation of financial information by one or more individuals among management, those charged with governance, employees or third parties (International Standard on Auditing (ISA) 240) (Adisai 2011).

Singleton (2006) explained that fraud has many definitions but notable ones are fraud as a crime and as a tort. Fraud as a crime, he termed it as a generic term embraces all the multifarious means which human ingenuity can devise, which are reported to by one individual to get and advantage over another by false representations. Fraud as a tort, it was explained by U.S supreme Court in 1887 by providing a definition of fraud in the civil sense as making representation in regard to material facts and such representation is false.

IIA Practice Advisory standard 1210.A-1 defined fraud as an array of irregularities and illegal acts characterized by intentional deception. It can be
perpetrated for the benefit of or to the detriment of the organization and by persons outside as well as inside the organization.

Fraud designed to benefit the organization generally produces such benefit by exploiting an unfair or dishonest advantage that also may deceive an outside party. Perpetrators of such frauds usually accrue an indirect personal benefit. Examples of frauds designed to benefit the organization include:

i. Sale or assignment of fictitious or misrepresented assets.

ii. Improper payments such as illegal political contributions, bribes, kickbacks, and payoffs to government officials, intermediaries of government officials, customers, or suppliers.

iii. Intentional, improper representation or valuation of transactions, assets, liabilities, or income.

iv. Intentional, improper transfer pricing (e.g., valuation of goods exchanged between related organizations).

v. By purposely structuring pricing techniques improperly, management can improve the operating results of an organization involved in the transaction to the detriment of the other organization.

vi. Intentional, improper related-party transactions in which one party receives some benefit not obtainable in an arm's-length transaction.

vii. Intentional failure to record or disclose significant information to improve the financial picture of the organization to outside parties.

viii. Prohibited business activities such as those that violate government statutes, rules, regulations or contracts.

ix. Tax fraud.

Fraud perpetrated to the detriment of the organization generally is for the direct or indirect benefit of an employee, outside individual, or another organization. Some examples are: Embezzlement, as typified by the misappropriation of money or property, and falsification of financial records to cover up the act, thus making detection difficult. It also includes intentional
concealment or misrepresentation of events or data. Claims submitted for services or goods not actually provided to the organization

Financial institutions today typically develop custom fraud detection systems targeted to their own asset bases. Recently banks have come to realize that a unified, global approach is required, involving the periodic sharing with each other information about attacks. Such information sharing is the basis of building a global fraud detection infrastructure where local detection systems propagate attack information to each other, thus preventing intruders from disabling the global financial network (Stolfo, et al 1997).

2.2.2 Forms of Frauds

Adisai (2011) explained two forms of frauds which are intentional misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users. It involves Manipulation, falsification (including forgery), or alteration of accounting records or supporting documentation from which financial statements are prepared.

On misappropriation of assets it includes stealing physical assets or intellectual property, using the entities assets for personal use, causing an entity to pay for services and goods not received, embezzling receipts etc.

2.2.3 Reasons for Fraud Occurrence

IIA (2011) explained in order fraud to occur/ exist there must be three conditions which are motive, opportunity and rationalization.
Motive

Pressure or incentive represents a need that an individual attempts to satisfy by committing fraud. Often, pressure comes from a significant financial need or problem. This may include the need to keep one’s job or earn a bonus. In publicly traded companies, there may be pressure to meet or beat analysts’ estimates. For example, a large bonus or financial award can be earned based on meeting certain performance goals.

The fraudster has a desire to maintain his or her position in the organization and to retain a certain standard of living to compete with perceived peers. Low salaries to employees are also a motive to fraud, as in order to maintain their standard of living they can be driven to fraudulent activities.

Opportunity

Opportunity is the ability to commit fraud and not be detected. Since fraudsters do not want to be caught in their actions, they must believe that their activities will not be detected. Opportunity is created by weak internal controls, poor management or lack of board oversight and/or through the use of one’s position to override controls. Failure to establish adequate procedures to detect fraudulent activity also increases the opportunities for fraud to occur. A process may be designed properly for typical conditions, however, a window of opportunity may rise creating circumstances for the control to fail. Persons in positions of authority may be able to create opportunities to override existing controls because subordinates or weak controls allow them to circumvent the established controls.

Rationalization

Rationalization is the ability for a person to justify a fraud, a crucial component in the most frauds. It involves a person reconciling his/her behavior (eg stealing) with the commonly accepted notions of decency and
trust. For example, the fraudster places himself or herself as the priority (self centered) rather than the well being of the organization or society as a whole. Other times, the person simply labels the theft as borrowing and intends to pay the stolen money back at a later time. Some people will do things that are defined as unacceptable behavior by the organization yet are common or accepted by some employers. As a result, they can rationalize their behavior by thinking that the rules don’t apply to them.

Singleton (2006) explained why fraud occurred in the fraud triangle. The triangle is the composition of the insights why fraud occurred. The factors attributed in the triangle are motives of fraud which are due to pressure (incentive of fraud), opportunity and rationalization factors.

2.3 Empirical Study

Existing models of fraud and interrelated crimes have usually focused on methodologies from the organization’s perspective (WilhelM 2004), with only a few interpreting the perpetrators and their attack methods or innovations.

More recently there has been an emergence of publications on the individual e-commerce methods perpetrators use to perpetrate identity theft and identity fraud events, such as The impact on organizations with respect to the role e-commerce or identity crime facilitates this is also receiving attention from IT/IS (Stephenson 2000), and identity fraud disciplines.

2.3.1 Types of Bank Frauds

Bank frauds can be classified into three, that is: by flow, by victims and by act (Idowu 2009).
a. Flow Frauds

It is described by the frequency and the value involved in the fraud. They are of two types:

i. Smash and Grab: these are frauds not frequently committed, but are high in value over a short period of time.

ii. Drip: this is large in number, small in value and repetitive over a long period.

b. Victims Frauds

This is a classification based on the people affected by loss from fraud. This is also of two types:

i. Against the company (bank): In this case, the bank is the victim of any loss incurred through the fraud.

ii. Against outsiders: The victim of the fraud is an outsider to the company or bank, that is, bank customers.

c. Act Frauds

This is the action that takes place in cases of fraud, that is the people involved in the act and the methods or forms by which these people perpetrate fraud. The perpetrators could either be the bank’s employees, executive management of board, armed robbers, or theft by outsiders perhaps in collusion with insiders.

2.3.2 Methods by Which Fraud can be Perpetrated

There are various methods by which fraud can be perpetrated in the banks and other organizations. The list of methods is usually not exhaustive as new
methods are devised with time. The most important and common methods according to Onkagba (1993) and Singleton (2006) are:

a. **Advance Fee Fraud**

This may involve an agent approaching a bank, a company or individual with another to access large funds at below market interest rates often for long term. This purported source of funds is not specifically identified as the only way to have access to it through the agent who must receive a commission “in advance”. As soon as the agent collects the fee, he disappears and the facility never comes through. Any bank desperate for fund especially distressed banks and banks needing large funds to bid for foreign exchange can easily fall victim of this type of fraud. When the deal fails and the fees paid in advance are lost, these victims are not likely to report the losses to the police or to the authorities.

b. **Forged Cheques**

This is by far the commonest method by which the customers and the bank are defrauded. They occur mainly in company accounts and are invariably perpetrated by staffs within the company who have access to the company’s cheque book.

c. **Fund Diversion**

In this case, bank staff, for personal use, sometimes diverts customers’ deposits and loan repayment. Another case of this is the tapping of funds from interest in suspense accounts in the bank.
d. Cheque Kitting

This happens when a depositor utilizes the time required for a cheque to clear to obtain an authorized loan without interest charge. The goal of the cheque kitter may be to use these uncollected bank funds, interest fees for a short time to overcome a temporary cash shortage or to withdraw the funds permanently for personal use. Competition among banks in the era of deregulation encourages bank to make funds available before collection of customers’ cheque in order to attract special business accounts.

e. Account Opening Fraud

This involves the deposit and subsequent cashing of fraudulent cheques. It usually starts when a person not known to the bank asks to open a transaction account such as current and savings account with false identification but unknown to the bank.

f. Counterfeit Securities

Counterfeiting of commercial financial instruments is one of the oldest forms of crime. Modern Photographic and printing equipment has greatly aided criminals in reproducing good quality forged instruments. The documents may be total counterfeit or may be genuine documents that are copied, forged or altered as to amount, payout date, pay or terms of payment. A common fraud is to present the counterfeit stocks or bonds as collateral for loan. The presenter would draw out the proceeds and disappear before the financial instruments are found to be counterfeit.
g. Money Transfer Fraud

Money transfer services are means of moving to or from a bank to beneficiary account at any bank point worldwide in accordance with the instructions from the banks’ customers. Some common means of money transfer are mail, telephone, over-the-counter, electronic process and telex. Fraudulent money transfer may result from a request created solely for the purpose of committing a fraud or altered by changing the beneficiary’s name or account number or changing the amount of the transfer.

h. Letter of Credit Fraud

This generally arises out of international trade and commerce. They stimulate trade across national borders by providing a vehicle for ensuring prompt payment by financially sound institutions. Overseas suppliers continue to receive spurious letters of credit, which are usually accompanied by spurious bank drafts with fake endorsements which guarantee payments.

i. Computer Fraud

This type of fraud takes the form of corruption of the programme or application packages and even breaking into the system through remote sensors. Diskettes and flash drives can also be tampered with to gain access to unauthorized areas or even give credit to accounts for which the funds were not originally intended. This kind of fraud can remain undetected for a long time.
j. Clearing Fraud

Most clearing frauds hinge on suppression of an instrument so that at the expiration of the clearing period application to the instrument, the collecting bank will give value as though the paying bank had confirmed the instrument good for payment. Clearing cheques can also be substituted to enable the fraudster divert the fund to a wrong beneficiary. Misrouting of clearing cheques can also assist fraudsters to complete a clearing fraud. Asukwo, (1991) states that, a local clearing item can be routed to an up country branch; the delay entailed will give the collecting bank the impression that the paying bank had paid the instrument.

Causes of Fraud

According to Adewunmi (1986), causes of fraud can be categorized into two that is, institutional factors and environmental/societal factors. He further categorized societal/environmental factors into socio economic lapses/inadequacies.

a. Institutional Factors

According to Nwaze (2008), the institutional factor or causes are those that can be traced to internal environment of the organization. They are to a great extent factors within the control of the management of the bank.

A major institutional cause of fraud is poor management. This comes in form of inadequate supervision. A junior staff with fraudulent tendencies that is not adequately supervised would get the impression that the environment is safe for the perpetration of fraud. Poor management would also manifest in ineffective policies and procedures, which a fraudulent minded operator in the system will capitalize on. Even where there are
effective policies and procedures in place, fraud could still occur with sometimes deliberate skipping of these tested policies and procedures. Inexperienced operators are susceptible to committing unintentional fraud by falling for numerous tricks of fraudsters. An inexperienced operator is unlikely to notice any fraud attempts and take necessary precautionary measures to checkmate the fraudster or set the detection process in motion. Overstretching is another reflection of poor management. This can aid perpetration of fraud to a large extent. A staff that is overstretched is not likely to perform at optimum level of efficiency.

Ordinarily, the longer a man stays on the job, the more proficient he is likely to be. An operator who has spent so long on a particular job may be encouraged to think that no one else can uncover his fraud. The existence of this kind of situation in a bank is clear evidence of poor management and such situations encourage fraudulent practices. Poor salaries and poor conditions of service can also cause and encourage fraud.

Employees that are poorly paid are often tempted to fraudulently convert some of the employers’ monies to their own use in order to meet their personal and social needs. This temptation is even stronger on bank employees who on daily basis have to deal with cash and near cash instruments. In our society, it is argued that greed rather than poor working conditions or poor salaries is what lures most people into fraudulent acts. This explains why fraud would still exist in the banking sector, which is reputed to be one of the highest paying sectors. Some people have an insatiable appetite to accumulate wealth and would therefore steal irrespective of how good their earnings are. European Journal of Social Sciences – Volume 10, Number 4 (2009) 632

Frustration could also lead to fraud. Where a staff feels short-changed in terms of promotion and other financial rewards, they become frustrated and such frustration could lead to fraud as such employee would attempt to
compensate himself in his own way. Among the internal causes of fraud, the Nigerian Deposit Insurance Corporation (NDIC 1999), states that prevalence of fraud and forgeries are an indication of weakness in bank internal control system.

b. **External Factors/Environmental Factors**

Environmental factors are those that can be traced to the banks immediate and remote environment. If the whole society of which the bank is a part is morally bankrupt it will be difficult if not impossible to expect the banks to be insulated from the effects of such moral bankruptcy.

The banking industry is not immune from the going on in its external environment. Our present Society is morally bankrupt. Little or no premium is put on things like honest, integrity and good character. The society does not question the source of wealth. Any person who stumbles into wealth is instantly recognized and honoured. It is a fact of our time that fraud has its root firmly entrenched in the social setting where wealth is honoured without questions. Ours is a materialistic society which to a large extent encourages fraud.

The desire to be with the high and mighty caliber of the society, extreme want that is often characterized by need, cultural demands or the cultivation of a life too expensive for the legitimate income of the individual. With reference to fraud, criminal motivation is said to be pathological when the state of mind of the criminal disposes and impels him to commit fraud even though he is not in dire need of the resources.

Also, worth mentioning is lack of a call-over system in the banks, lack of regular and unnotified rotation of clerks, doing more than one job which is incompatible and so on as major causes of fraud. A call-over system is a
system where all bank transactions are verified for accuracy authorization and reliability. It is a system where previous day’s transactions are reviewed in order to ascertain validity.

2.3.3 Fraud Indicators - Warning Signs

The list below are warning signs which managers of organization should be alerted as might indicate that fraud is taking place (HM Treasury 1997). These may be:

- Staff under stress without a high workload
- Always working late
- Reluctance to take leave
- Refusal of promotion
- Unexplained wealth
- Sudden change of lifestyle
- New staff resigning quickly
- Cozy relationships with suppliers/contractors
- Suppliers/contractors who insist on dealing with one particular member of staff

According to Tommie Singleton (2006), warning signs or red flags of frauds varies from categories of frauds such as misappropriation of assets as those mentioned above and financial statements fraud such as rapid growth, unusual profits, internal control weakness and aggressiveness of executive management.

2.3.4 Internal Controls in Banks

‘Internal Controls’ are policies and procedures established and implemented individually or with other policies or procedures, to manage and control a particular risk or business activity, or combination of risks or business activities, to which the
company is exposed or in which it is engaged (BFI, Regulations, 2005 S.4). Lack of effective internal control system is among the key factors of bank failure (Liberia, 2005).

According to BFI Regulation (2005), State bank of Pakistan (2004), states all banks and financial institutions shall implement an effective system of internal controls that is consistent with the nature, complexity, and risk inherent in their on- and off-balance sheet activities and that is designed to changes with the institution’s environment and circumstances. However, adequate internal controls within organizations must be supplemented by an effective internal audit function that independently evaluates the systems within the organization.

2.3.5 Fraud Management

In twenty-first century businesses, it’s not uncommon to find diverse teams of internal auditors, enterprise risk management specialists, compliance officers, internal control specialists, quality inspectors, fraud investigators, other risk and control professionals working together to help their organizations manage risk. Each of these specialties has a unique perspective and specific skills that can be invaluable to the organizations they serve, but because duties related to risk management and control are increasingly being split across multiple departments and divisions, duties must be coordinated carefully to insure that risk and control processes operate as intended (IIA 2013).

2.3.5.1 The Fraud Management Lifecycle

Wilhelm (2004) explained eight Fraud Management Lifecycles which are; Deterrence (first stage), prevention (second stage), detection (third stage), mitigation (fourth stage), analysis (fifth stage), policy (sixth stage), Investigation (seventh stage) and lastly the prosecution (eighth stage). Lifecycle according to
Encarta Dictionary (2008) is defined as follows: all stages of development: the complete process of change and development during somebody's lifetime or during the useful life of something such as an organization, institution, or manufactured product. For the purpose of this research the institution is mostly referred. Meaning and scope of activities for each stage

**Deterrence: Stage One**

Successful deterrence is the stopping of fraud before it happens. Deterrence or “to deter,” is defined as, “to inhibit or discourage through fear; hence to prevent from action by fear of consequences” (Webster, 1997). In the fraud arena we need to expand this definition to include the aspect of difficulty. Fraudsters tend to migrate toward the path of most anonymity and least resistance. Therefore, increasing the difficulty of committing the fraud effectively functions as an incremental increase in deterrence. Deterrence implies putting series of activities which it makes the fraudster work harder in committing fraud. For example, requesting a password and/or other details on online transactions. Thus, successful deterrence is contingent upon the performance of the other stages of the Fraud Management Lifecycle (Wilhelm 2004).

**Prevention: Second Stage**

In the fraud arena, prevention, detection, and deterrence are sometimes used synonymously (Wilhelm 2004). The focus of prevention activities creates confusion in most organization when compared to deterrence. The activities in the prevention stage, though closely associated with deterrence and detection, occur after deterrence has failed and before the suspicion or detection of fraud has been accomplished.

Webster (1997) defines prevention as “to stop or keep from doing or happening, to hinder a person from acting. Prevent is a general term meaning hindering,
checking, or stopping. Prevention stage activities are intended to prevent the fraud from occurring or to secure the enterprise and its processes against fraud. The ability of prevention to stop losses from occurring versus stopping fraudulent activity from continuing is an important distinction. The latter activities are more appropriately mitigation stage activities. Prevention, when perceived from a security perspective, can be thought of as hardening the target.

Prevention actions are frequently similar to security activities in the information technology area. Deploying protective procedures, processes, systems, and verifications, etc. that makes fraud harder to commit prevents fraud. Prevention activities are designed to make fraud more difficult to commit. For examples are For example, many security features on credit and debit cards is to make card based fraud more difficult and Know your customer (KYC) processes for opening accounts in the financial industry make it more difficult for fraudsters to open fraudulent accounts.

Detection: Third Stage

The third stage of the Fraud Management Lifecycle is detection which is characterized by actions and activities intended to identify and locate fraud prior to, during, and subsequent to the completion of the fraudulent activity. To detect, is to uncover or reveal, to discover the existence or presence of the fact of something hidden or obscure. It means the fraud attempt has been initiated but yet to be successful, thus is uncovered before become successful.

Detection encompasses three closely related activities in the fraud arena: fraud testing, fraud attempts, and fraud successes. The separation is derived from the facts that not all fraud attempts are successful and that not all perceived fraud attempts are intended to be successful. It is therefore that detection is the one in all three of these areas provides the required support for the rest of the stages in
the fraud management lifecycle. To miss any of these is to run the risk of creating a vulnerability that the fraudster will turn to his advantage.

The report from Association of Fraud Examiners (2012) has identified methods and percentages on ways frauds are detected in organizations.

**Figure 2.1:** Initial Detection of Occupational Frauds

![Initial Detection of Occupational Frauds](image)

*Source: ACFE Report (2012)*

The survey indicated that tip is the most method of detection of fraud. The ACFE report (2012) indicated that tips originates from organization employees (50.9%), customers (22.1%), anonymous (12.4%), other (11.6%), vendor (9%), shareholder (2.3%) and competitors (1.5%)

Detection has further also studied based on the scheme of frauds which are asset misappropriation, corruption or financial statement fraud. Every organization has specific fraud risks based on the industry, location, size and several other factors. For example, publicly traded organizations have special concerns with respect to financial statement fraud and multinational companies often have
increased corruption risks to consider. Management in such organizations should find it helpful to see how different scheme types are most commonly detected.

Tips represented the most common detection method for each type of scheme, but they were significantly higher in corruption cases at 54% (compared to 42% for both asset misappropriation and financial statement fraud schemes).

ACFE in their 2012 survey covered detection of frauds region wise and their findings were indicated in the table below. The findings are in line with their 2010 Report, in that tips were the most common detection method by a wide margin in each region. Management review and internal audit consistently came in either second or third in every region. Also similar to 2010 Report, Africa had the highest percentage of cases detected by tip at 53% (up from 50% in 2010). Internal audit was one of the most diverse detection methods across regions, uncovering as few as 10% of cases in Africa and as many as 23% in Europe.

Table 2.1  Fraud Detection Methods by Region

<table>
<thead>
<tr>
<th>Detection Method by Region</th>
<th>All Cases</th>
<th>United States</th>
<th>Latin America and the Caribbean</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tips</td>
<td>43.2%</td>
<td>45.1%</td>
<td>40.6%</td>
<td>47.9%</td>
</tr>
<tr>
<td>Management Review</td>
<td>14.6%</td>
<td>14.1%</td>
<td>14.3%</td>
<td>16.3%</td>
</tr>
<tr>
<td>Internal Audit</td>
<td>14.4%</td>
<td>11.2%</td>
<td>23.3%</td>
<td>14.0%</td>
</tr>
<tr>
<td>Friction</td>
<td>1.8%</td>
<td>7.1%</td>
<td>4.3%</td>
<td>10.6%</td>
</tr>
<tr>
<td>Employee Retaliation</td>
<td>1.8%</td>
<td>6.1%</td>
<td>3.1%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Duplication</td>
<td>1.1%</td>
<td>5.1%</td>
<td>1.0%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Fraudulent Audit</td>
<td>2.3%</td>
<td>3.5%</td>
<td>2.6%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Related to Via Police</td>
<td>0.6%</td>
<td>2.8%</td>
<td>3.0%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Surveillance/Screening</td>
<td>1.3%</td>
<td>2.2%</td>
<td>0.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Confession</td>
<td>1.5%</td>
<td>1.5%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other</td>
<td>1.1%</td>
<td>1.1%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>II: Conspicolors</td>
<td>1.1%</td>
<td>0.0%</td>
<td>1.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>


Mitigation: Fourth Stage

Mitigation begins once the presence or a reasonable suspicion of fraudulent activity has been detected. In short, mitigation stops fraud. Other common and relevant terms for the activities in this stage are interdiction and intervention.
The definition of mitigation in the fraud arena is to stop a fraudster from continuing or completing the fraudulent activity, to reduce their success. Mitigation activities can range from real time to delay. Clearly the faster mitigation activities can be undertaken, the better for all involved, except, of course, the fraudster. Fast mitigation actions provide the promise of speedy termination of the fraud event, reduced losses, and reduced expenses and impact.

**Analysis: Fifth Stage**

Analysis is characterized by activities to identify and understand losses that occurred despite the deterrence, detection, prevention, and mitigation stage activities. The Encarter Dictionary (2008) define analysis as the examination of something in detail in order to understand it better or draw conclusions from it. Also it defined analysis as the separation of something into its constituents in order to find out what it contains, to examine individual parts, or to study the structure as a whole.

For fraud management, the analysis stage receives data regarding performance from each of the other stages in the Fraud Management Lifecycle and provides them with feedback regarding performance. Analysis provides the performance reporting metrics that allow fraud management to make informed, calculate and relevant decisions. It includes the evaluation of the volume and causes of losses, the evaluation and reporting of analyst and investigator performance.

**Policy: Sixth Stage**

Policy activities create, evaluate, communicate, and assist in the deployment of fraud policies to reduce the incidence of fraud and the inconvenience to legitimate customers, and to allocate the resources required to successfully combat fraud. Policy must seek to balance deterrent value, loss reduction, sales volume, operational scalability, and cost effectiveness.
Investigation: Seventh Stage

Investigation in fraud perspective is the process of obtaining enough evidence and information to stop fraudulent activity, to obtain recovery of assets or restitution, and to provide information and support for the successful prosecution and conviction of the fraudster(s) (Wilhelm 2004). Investigation is defined as, “to investigate; a careful search or systematic inquiry; to follow up or make research by patient inquiry, observation, and examination of facts” (Webster 1997). In the fraud arena the definition of investigation needs to be expanded to include the important coordination activities with law enforcement entities.

Prosecution: Eight Stage

The communications in this stage are focused upon prosecutorial and judicial authorities as well as with law enforcement. Prosecution is defined as, “the act or process of prosecuting; to conduct legal action against, to pursue by legal proceedings for redress or punishment, especially because of some crime or breach of law” (Webster 1997).

2.3.5.2 Role of Information Technology in Fraud Management

Information technology plays a valuable role throughout the Fraud Management Lifecycle. There is not a stage in the Fraud Management Lifecycle that does not benefit from the effective application of information technology resources or suffer from inefficient or inflexible systems, processes, or staff. Information technology resources are frequently the key to the success or failure of the activities in the individual fraud stages and at times to the success or failure of the entire Fraud Management Department.
2.3.5.3 Role of Internal Audit in Fraud Management

In banks, internal audit is part of the monitoring and evaluation efforts. All banks required by banking and financial Institutions Act to have a written audit charter that enhances the standing and the authority of the internal audit function within the bank. Internal audit in banks seeks to provide independent and objective assurance designed to add value and improve banks’ operations (BIF, 2005). It helps the banks to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The primary responsibility of the internal auditor is to ascertain that an adequate system of internal control is established and maintained. The system must be adequate to disclose errors and defalcations. According to Millichamp (2002), auditors are primarily interested in the prevention, detection and disclosure of errors. In the cause of audit, the internal auditors may design the audit procedures which will help to detect the occurrence of fraud.

According to IIA (2011), internal auditor plays a critical role in detecting and deterring fraud. The key responsibilities being to assess in each engagement the adequacy and effectiveness of the controls in place to deter fraud and, at the same time to be alerted in every auditing engagement to signs that fraud may have occurred or may be occurring. Standard 1210.A2 requires internal auditors to have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of the person whose primary responsibility is detecting and investigating fraud.

Internal audit (IA) functions in the banking and financial services industry are responding to new challenges, changes and expectations in today’s business environment. They are striving to provide greater value as a key component of their organizations’ governance framework.

2.3.5.4 Role of Board of Directors in Fraud Management

In controlling fraud in the banks, the boards of directors play a major role because the leadership responsibilities must be clearly spelt out and formally
explained to them. This responsibility should include the directing of the overall policy and management of the bank, fiduciary duty to act honestly and with utmost good faith, and exercise of skill and care in discharging the statutory obligations of the bank. In particular, the board has the collective responsibility of the members to ensure that suitable security systems exist, there are adequate accounting records and internal control measures and there are adequate precautions to prevent falsification of accounting records and facilitate the discovery of any falsification (Asukwo, 1991)

2.3.6 Fraud Survey

“For the period of April 1, 1996 through September 30, 2002, the FBI (Federal Bank of India) received 207,051 Suspicious Activity Reports (SARs) for criminal activity related to check fraud, check kiting, counterfeit checks, and counterfeit negotiable instruments. These fraudulent activities accounted for 47 percent of the 436,655 SARs filed by U.S. financial institutions (excluding Bank Secrecy Act violations), and equaled approximately $7 billion in losses” (U.S. Department of Justice [DOJ], 2002). Though illustrative, it must be noted that the SAR data amounts reported were total exposure and not net losses. They are, however, indicative of the continuing problem due to historically low loss recovery and restitution rates (Wilhelm 2004).

In the Association of Certified Fraud Examiners 2008 report on occupational fraud, survey participants estimated that US organizations lose 7% of their annual revenues to fraud, which would translate into USD 994 billion in fraud losses (IIA, 2011). The recent report released 2012 indicated fraud losses range 5% of the total revenue of the organization profits. The report explained that for year 2011, the global fraud loss was approximately more than $ 3.5 trillion. The result was findings from the survey study conducted for more than 100 countries in the world by association of certified fraud examiners.
2.3.7 In Tanzania Context

In Tanzania context, on 22 October 2012 Daily News reported that, the Controller and Auditor General (CAG) revealed in the year 2010/2011 financial year that 68 local government authorities (LGAs) have not documented and approved fraud detection and there were no processes that have been put in place for identifying and responding to the risk of fraud (http://www.dailynews.co.tz, downloaded on 21/2/2013).

In efforts to review other researchers work regarding frauds in commercial banks in Tanzania could not be able to find out the publications. Different websites surfed, includes that of Tanzania Institute of Bankers (TIOB), and that of Tanzania Bankers Association (TBA). However different medias and news papers has been reporting occurrence of frauds in commercial banks. That may suggest that frauds occurring in commercial banks in Tanzania has not covered by previous researchers or if covered not published, thus this research will bridge the gap.

According to a paper by Dr Charles Kimei (2013), the impact of frauds to the banking industry and the economy in general stressed could not be ignored. For instance, a survey done by the Central Bank of Tanzania from July 2011 to June 2012 revealed that a total of 292 frauds amounting to TZS 117.16 billion have been committed in the country. The amount was equivalent to USD 73 million. TZS 117 billion is 23 times the minimum capital requirement for establishing a bank in Tanzania which is TZS 5 billion, equivalent to USD 3.12 million.

As far as East Africa is concerned, survey conducted by PWC (2011) on financial services established that, banks in Eastern Africa are worried by the increasing level of fraud in the region. Fraudsters have become more sophisticated and in certain cases operate as organised syndicates targeting bank employees. Technological advances, while necessary, have made banks’
businesses more vulnerable. As systems become more complex, the opportunities for fraud increase.

Fraud is one of the most significant risks affecting chief executives and senior management at financial services companies in eastern Africa. The survey indicated that fraud risk was ranked as a top risk in financial services. Bankers ranked fraud second and insurers ranked fraud fourth. The survey indicated that banks in Kenya lost a staggering Kshs. 1.7 billion in a period of three months from August to October 2010. For the prior first six month of the year 2010, according to the Central Bank of Kenya, commercial banks lost 761 million through fraud.

As far as Africa is concerned, research study by Njanike, Dube, Mashayanye (2009) on various types of fraud that affected the Zimbabwean financial institutions (13 commercial banks) and the cost of such fraud to the economy were assessed. Results on the bank frauds identified, the number of banks affected, and overall economic costs in Zimbabwean dollars of each type of fraud from 2006 to 2007 were reviewed. The results indicate that 5 (29%) out of 17 types of fraud affected all the financial institutions in Zimbabwe, that is cheque (Z$ 50 billion), identity (Z$ 10 billion), computer (Z$ 100 billion), accounting (Z$ 100 billion), and ATM fraud (Z$ 50 billion). Stolen payment card (Z$ 0.5 billion) fraud and credit card fraud (Z$ 0.5 billion) are occasioned in at least 5 of Zimbabwean banks, which represent 11%, whereas 3 (17.6%) of the banks each are affected by overdrawn fraud (Z$ 0.5 billion), application or skimming of information (Z$ 0.5 billion), and rogue fraud (Z$ 0.5 billion). Wire fraud, advance fee fraud, and bill discounting are not a threat to the banking sector in Zimbabwe. Some frauds such as frauds related to loans, foreign exchange, fraudulent reporting, misappropriation of customers money from their account, accounts fraudulently opened to facilitate fraud and others were not covered by Njanike, Dube and Mashayanye report, thus researcher will cover them in this study.
2.4 Conceptual Framework

This tries to explain the relationship among other factors that has been considered important to the research problem.

Fraud is a universal phenomenon which has been in existence for so long. Its magnitude cannot be known for sure, because much of it is undiscovered or undetected and not all that is detected is published. It is known facts that no area of banking system is immune to fraudsters not even the security team designed to prevent it. Its management has become a central point in banking like the management of other risks. From literatures reviewed with the existing library of knowledge, researchers were trying to explaining existence of fraud. However, they did not cover why fraud still occurred despite the existence of controls imposed by management and regulators. This study aimed to uncover why fraud still occurring despite the existence of controls in well regulated industry like banks.

In this study fraud is the dependent variable while the management techniques are independent variables. The control gaps are the ones prompt nature of frauds occurring.

Figure 2.2: Conceptual Framework for Fraud Management

Source: Drawn by Researcher, 2013
2.5 Research Hypotheses

H0: Weak controls/management in banks results to occurrence of frauds
H1: Weak controls/management in banks does not result to occurrence of frauds

H0: Low salaries to bank employees is not a factor for occurrence of frauds
H1: Low salaries to bank employees is a factor for occurrence of frauds

H0: Impacts of frauds in Tanzania commercial banks are significant
H1: Impacts of frauds in Tanzania commercial banks are not significant

Note: H0 stands for null hypothesis while H1 for alternative hypothesis
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Research Design

Bryman and Bell (2007) suggested five useful research designs which included case study, comparative, longitudinal, experimental, and cross sectional. According to Saunders, Lewis and Thornhill (2007) they suggested research designs such as survey, action research and grounded theory in addition to case study and experimental design. In their book, they explained any research design adopted will depend on the research questions and targeted objective the researcher want to archive.

The researcher adopted a survey study design. The researcher adopted this design since most of the researchers questions are of what and how model and covered more than one organization in the banking industry.

3.2 Area of the Study

The research was conducted at CRDB BANK PLC and NMB Bank PLC at head office and some few branches of the same banks located in Dar-es-salaam.

3.3 Study Population

The study population involved staff working at audit department, Finance department, legal department and Dar es Salaam based branches at both CRDB and NMB Banks PLC. The two banks have 4681 staff.
3.4 Sampling Frame

The sampling frame involved staff at management levels that are directors, managers and professionals working at CRDB and NMB.

3.5 Sample Size

The study covered sample size of 50 staff working in the two banks. The composition of the sample is as follows,

Table 3.1 Sample Size Composition

<table>
<thead>
<tr>
<th>Category</th>
<th>population</th>
<th>Sample size</th>
<th>Category in the sample</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRDB Bank PLC</td>
<td>1,898</td>
<td>25 respondents</td>
<td>Directors/Head of Departments</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Managers</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Professionals</td>
<td>15</td>
</tr>
<tr>
<td>NMB Bank PLC</td>
<td>2,783</td>
<td>25 respondents</td>
<td>Directors/Head of Departments</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Managers</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Professionals</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>4681</td>
<td>50 respondents</td>
<td>Total</td>
<td>50</td>
</tr>
</tbody>
</table>

3.6 Sampling Techniques

During the research, simple random technique was used because allows generalizations and it reduces unnecessary tasks. Simple random technique was used in selecting staff under professional level as were many and provided equal chance to respondents on providing information. The two banks have 4681 staff all over the country as of December 2012.

Again, the purposive/ judgmental sampling technique was used in selecting the sample size for staff at management level. This was applied since some information regarding frauds was sought to be obtained from specific personnel whom fraud issues are reported to them. Also the method was easy to apply and was cheap in terms of cost.
3.7 Types and Source of Data

To be able to answer the research questions and test hypotheses, both primary (raw) and secondary data were collected and used. The primary data was collected from the field by using Questionnaires and Interviews. While for secondary data, documentary sources were used. Primary data was collected from the CRDB Bank PIC staff and NMB working at head office and branches in order to get their views concern fraud and its management.

3.8 Data Collection Techniques

3.8.1 Questionnaires

The closed and opened questionnaires primarily made up of statements requiring the respondents to opt for one answer out of three was used for data collection. However respondents were encouraged to put comments alongside the statements if they fill that some of the issues raised required further explanation on their part.

Questionnaires was used as a method of data collection as time and fund was not enough to conduct interviews to many people and also depend on the nature of data that were required. Information such as nature of frauds and why they occur, adequacy and effectiveness of internal controls in managing frauds in banks data were collected through questionnaires.

3.8.2 Interviews

Data was also gathered through in-depth, face-to-face interviews. Interviews were chosen as the primary mode of data collection as it provided an appropriate vehicle for gaining an in depth understanding of the nature of frauds and its management.

Interview was specific to some people in order to get detailed control gap which facilitate occurrence of frauds despite the existing controls has been
established by the bank management and regulator. Bank staff under level of Directors/ Executives and non management staff were interviewed. The directors/executive management were purposively selected as they were able to provide information concern the impact organizations has suffered due to fraud. The bank management was found at CRDB and NMB head office and interview guide was used to lead the interview.

### 3.8.3 Documentary Sources

Some data were obtained through reviewing documents. Such documentary sources included internal auditing manual which lay down policies for auditing. Fraud Policy and Procedures which details fraud and it is management in the organizations.

Also the researcher reviewed published financial reports for three years back 2010, 2011 and 2012. Also report to the nation for ACFE 2012 was reviewed.

### 3.9 Data Analysis Techniques

Data were analyzed through qualitative method and quantitative method. The analysis of data requires a number of closely related operations such as establishment of categories, the application of these categories to show data through coding tabulation and then drawing statistical inferences. The unwieldy data were necessarily condensed into a few manageable groups and tables for further analysis.

(i) **Quantitative Method**

In this method, numerical methods such as tables and numbers were used to explain the findings.

This analysis was employed by the researcher for data that could be quantified. For example losses the banks has encountered as a result of
frauds. Tables and Charts have been used to supplement the discussion.

Therefore data obtained were validated, edited, coded, and tabulated. Validating Data obtained gave the researcher the answer to such questions as Who, Why, How, What, When and Consistency of occurrence.

(ii) Qualitative Method

In this method the findings are explained in terms of statement, and it does not show the numerical values. The method was used in making comparison between two or more events.

The method used by the researcher in examination and interpretation of data that could not be quantified. For example measures on managing frauds in banks.

3.10 Reliability and Validity of Data

In the process of data collection, the researcher ensures that the data obtained from questionnaires, interview and documentation is correct, valid and reliable. The reliability and validity were determined by editing, coding

3.10.1 Data Reliability

Reliability is concerned with estimates of the degree to which a measurement is free of random or unstable error. It refers to the relative level of consistency, stability, dependability and accuracy of constructs. It is a contributor to validity and is a necessary but not sufficient condition for validity. A measure is considered reliable if it would give the same results over and over again (assuming that what is being measured is not changing). For this study test-retest method was used to assess’ reliability where some respondents were visited to ensure consistency of the responses and the results indicated that the instruments used in the study were reliable.
3.10.2 Data Validity

Validity refers to the extent to which a test measures what was actually intended to be measured. In measuring the content of validity, some questionnaires were given to a group of experts (six by number) carefully selected during the pilot study to judge how well the instrument met the standards. The questionnaires were modified, which were then distributed to the respondents. This process was undertaken to ensure validity of the instruments.

3.11 Ethical Considerations

While undertaking the research, ethical issues were considered by the researcher. Among the issues considered were maintaining confidentiality and anonymity of respondents, voluntary participation, informed consent and reporting the results. The researcher hidden the identity of respondents and ensured that what was collected or observed is what communicated as findings.
CHAPTER FOUR

DATA ANALYSES AND DISCUSSIONS ON THE FINDINGS

4.1 Introduction

The chapter describes the way data from the field study were analyzed. The researcher used percentages to analyze data and tables to present the findings. Data which were collected and analyzed are the one based on the research objectives. The research objectives were as follows; to analyze the nature/types of frauds in banks and establish why does fraud occur, to establish adequacy and effectiveness of internal controls in managing frauds in banks and to evaluate impacts of frauds in banks business and suggest measures on how to manage and reduces the impacts in banks.

4.2 Demographic Characteristics

Taking into account the nature of the research and data required, the researcher respondents were Directors, Managers and professionals. Professionals in this study were auditors, bankers and lawyers. The respondents experience ranges from those working with the bank for period less than a year, one year or above but less than five years and those with five years or above. Number of the respondents with experience less than a year were 5 (10%), experience of one year or more but less than five years were 12(24%) and those with experience of five years or above were 33(66%) implying most of the findings were from experienced staff whose as well are graduates and others with postgraduate education. Demographic information in this research was useful in determining if the findings portrayed the actual situation in the banks by considering whether the respondents are knowledgeable on fraud issues.
Table 4.1: Experience of Survey of Respondents

<table>
<thead>
<tr>
<th>Respondent experience</th>
<th>Number of Respondents</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>1-5 years</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td>Greater than 5 years</td>
<td>33</td>
<td>66</td>
</tr>
</tbody>
</table>

Source: Field study results

4.3 Presentation and Analysis of Data

4.3.1 The Nature/Types of Frauds in Banks and Why do they Occur

4.3.1.1 The Nature/Types of Frauds in Banks

The researcher wanted to analyze the nature/ types of frauds in commercial banks in Tanzania. The findings from the study are summarized in the table 4.1 below;

Percentage of response (Yes/No) = Number of respondent Yes/No x100%
Total number of sample

Table 4.2: Summary of findings on the nature/ types of frauds in commercial banks

<table>
<thead>
<tr>
<th>Questions</th>
<th>Respondents said Yes</th>
<th>%</th>
<th>Respondents said No</th>
<th>%</th>
<th>Respondents said Not sure</th>
<th>%</th>
<th>Total Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are Cheque Fraud common in your bank?</td>
<td>31</td>
<td>62</td>
<td>19</td>
<td>38</td>
<td>-</td>
<td>-</td>
<td>50</td>
</tr>
<tr>
<td>Are system/computer frauds common in your bank?</td>
<td>31</td>
<td>62</td>
<td>17</td>
<td>34</td>
<td>2</td>
<td>4</td>
<td>50</td>
</tr>
<tr>
<td>Are card frauds common in your bank?</td>
<td>43</td>
<td>86</td>
<td>7</td>
<td>14</td>
<td>-</td>
<td>-</td>
<td>50</td>
</tr>
<tr>
<td>Are there theft of assets at your bank?</td>
<td>12</td>
<td>24</td>
<td>24</td>
<td>48</td>
<td>14</td>
<td>28</td>
<td>50</td>
</tr>
<tr>
<td>Is there misappropriation of customers Money from their accounts in your bank?</td>
<td>34</td>
<td>68</td>
<td>10</td>
<td>20</td>
<td>6</td>
<td>12</td>
<td>50</td>
</tr>
<tr>
<td>Are there cheque kitting frauds in your organization? (cheque kitting means customers use uncleared cheques to obtain loans in the bank)</td>
<td>10</td>
<td>20</td>
<td>26</td>
<td>52</td>
<td>14</td>
<td>28</td>
<td>50</td>
</tr>
</tbody>
</table>
Are there losses resulted from purposely delaying clearing instruments in your organization? | 5 | 10 | 31 | 62 | 14 | 28 | 50
---|---|---|---|---|---|---|---
Are there losses resulted from accounts fraudulently opened in your bank? | 26 | 52 | 17 | 34 | 7 | 14 | 50
---|---|---|---|---|---|---|---
Are there fund diversion frauds in your bank? | 31 | 62 | 10 | 20 | 9 | 18 | 50
---|---|---|---|---|---|---|---
Are there fraudulent/misstatement reporting in your bank? | 17 | 34 | 19 | 38 | 14 | 28 | 50
---|---|---|---|---|---|---|---

Source: Researchers Analysis

Theories have classified various categories of frauds in the world which has led collapse of many companies. Theories such as that of Tommie Singleton (2006) classified various forms of frauds in the bank ranging from misappropriation of assets to financial statement frauds.

As Tanzania commercial banks are not exceptional to fraud as it was reported in various media’s and new papers in various occasions as explained else in this report and no specific research was conducted to determine frauds facing commercial banks in Tanzania and how do they occur, the researcher wanted to come up with the common frauds in Tanzania commercial banks and how do they occur.

In coming up with the findings the researcher distributed a questionnaire inquiring data about types of frauds in banks where the respondents were to mark yes or no or not sure of the category of fraud structured in the data collection instrument. The researcher avoided not to be limited with the types of frauds in Tanzanian commercial banks through the structure questionnaire, he provides a room for the respondents to mention other frauds common in their organization and how do they occurred.

The structured questionnaire wanted to establish if the following categories of frauds are common in Tanzania commercial banks: Cheque Fraud, computer frauds, card frauds, theft of assets, misappropriation of customers money from their account, cheque kitting, financial statement fraud, fund diversion frauds, frauds...
related to accounts fraudulently opened and frauds resulted by delaying clearing instruments.

The research findings from 50 respondents established that the mentioned above classes of frauds are common in Tanzanian commercial banks as follows: Cheque Fraud is common by 62%, computer frauds (62%), card frauds (86%), theft of assets (24%), misappropriation of customers money from their account (68%), cheque kitting (20%), financial statement fraud (10%), fund diversion frauds (52%), frauds related to accounts fraudulently opened (62%) and frauds resulted by delaying clearing instruments (34%).

Other classes of frauds in Tanzania commercial banks revealed by respondents were frauds related to overstatement of collateral value when customers applied for bank loans. Frauds related manipulation of foreign exchanges, ghost loans which are loans issued against forged collaterals.

Figure 4.1: **Summary of types of fraud**

Source: Drawn by Researcher

Key
A- Cheque Frauds
B- Computer Frauds  
C- Card Frauds  
D- Theft of Assets  
E- Misappropriation of Customer Money  
F- Cheque Kitting Fraud  
G- Financial Statement Fraud  
H- Fund Diversion fraud  
I- Frauds related to accounts fraudulently opened  
J- Delay clearing instruments  

4.3.1.2 Why do the Frauds occur

From the research findings it was established that frauds occurred in a similar way and pattern as that established by Cressey’s research (1950). In cressey’s research established that fraud occurs because of pressure, availability of opportunity and due to rationalization factor.

In Tanzania context, the same factors were found to be causes of frauds to occur. Pressure refers to something that has happened in the fraudster’s personal life that creates a stressful need for fund, and thus motivates him to still. Rationalization refers one’s thinking about the motives of the fraud. For example on still employer’s property with the notion that she/he will repay or turn back the property/ asset. Meant he has borrowed it.

Opportunity is all about the weakness in internal controls where the fraudsters use the loopholes to commit fraud. In the world several measures were taken to address the issue of weakness in internal controls, Singleton (2006). One of the measures was the Treadway commission later known as Committee of Sponsoring Organizations (COSO) was formed to respond to the savings and loan frauds and scandals of the early 1980s.
The committee conclusion was that the best prevention was strong internal controls, and the result was the COSO model of internal controls, which was incorporated into financial auditing technical literature as SAS no. 78, consideration of internal controls in a financial statement audit.

The other measures was imposed by the Sarbanes-Oxley Act (SOX), where it focused on an annual evaluation of the internal controls by management with an independent opinion of that evaluation by the financial auditors- section 404 of the act. Additional elements for fraud to occur are due to lack of customer knowledge and collusion. Regarding customer knowledge

The researcher wanted to establish factors contribute why frauds occur in banks and the findings are summarized below;

<table>
<thead>
<tr>
<th>Question</th>
<th>Respondent said Yes</th>
<th>%</th>
<th>Respondent said No</th>
<th>%</th>
<th>Respondent said Not sure</th>
<th>%</th>
<th>Total Respondent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do frauds perpetrate because of inadequate controls?</td>
<td>31</td>
<td>6</td>
<td>2</td>
<td></td>
<td>3</td>
<td>4</td>
<td>50</td>
</tr>
<tr>
<td>Does low pay prompt staff engage in fraudulent activities?</td>
<td>29</td>
<td>5</td>
<td>8</td>
<td></td>
<td>3</td>
<td>8</td>
<td>50</td>
</tr>
<tr>
<td>Is there circumstance management overriding the established controls?</td>
<td>14</td>
<td>2</td>
<td>8</td>
<td></td>
<td>2</td>
<td>26</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: Researchers Analysis

The table above indicates that in the organization with inadequate controls provide opportunity for fraud to occur by 62%, low pay contribute fraud by 58% and where controls are adequate, management may override them and cause fraud by 28%.
Perpetrators of Frauds in Banks

The researcher wanted to find out who are the perpetrators of frauds in banks to be successful as either caused by outsiders, bank staff non management or management staff. Results of the findings are shown in the table below;

**Table 4.4: Summary of findings of Perpetrators of frauds in banks**

<table>
<thead>
<tr>
<th>Category of people commit fraud</th>
<th>Number of Respondents said yes</th>
<th>%</th>
<th>Respondents said No</th>
<th>%</th>
<th>Respondents Not sure</th>
<th>%</th>
<th>Total Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outsiders</td>
<td>17</td>
<td>34</td>
<td>2</td>
<td>4</td>
<td>31</td>
<td>62</td>
<td>50</td>
</tr>
<tr>
<td>Non Management staff of bank</td>
<td>43</td>
<td>86</td>
<td>5</td>
<td>10</td>
<td>2</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Bank Management staff</td>
<td>10</td>
<td>20</td>
<td>14</td>
<td>28</td>
<td>26</td>
<td>52</td>
<td>2</td>
</tr>
</tbody>
</table>

Findings of research study established that by 86% of frauds occurred in banks is caused by bank staff non management. The findings indicated that management staff would commit fraud by 20% compared to outsiders by 34%.

According to HM treasury report (1997) explained four basic elements are necessary for a fraud to occur: i) people to carry out the fraud. They may be within the organization, outside the organization, or a group of people working inside or outside. However, the report didn’t explain levels of frauds committed by different groups that can be compared with this study.

### 4.3.2 Adequacy and Effectiveness of Internal Controls in Managing Frauds in Banks

The researcher wanted to establish adequacy and effectiveness of internal controls in managing frauds in banks and here under were the research findings as shown in table 4.3 below;
Table 4.5: Summary of findings on adequacy and effectiveness of internal controls in banks

<table>
<thead>
<tr>
<th>S/N</th>
<th>Question</th>
<th>Respondents said Yes</th>
<th>%</th>
<th>Respondents said No</th>
<th>%</th>
<th>Respondents said Not sure</th>
<th>%</th>
<th>Total Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Is there fraud policy in your bank?</td>
<td>45</td>
<td>90</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td>2</td>
<td>Is there fraud procedure in your bank?</td>
<td>45</td>
<td>90</td>
<td>3</td>
<td>6</td>
<td>2</td>
<td>4</td>
<td>50</td>
</tr>
<tr>
<td>3</td>
<td>Are all detected frauds in your organization being investigated?</td>
<td>50</td>
<td>100</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>50</td>
</tr>
<tr>
<td>4</td>
<td>Is there operating procedure for each activity or processes in your organization?</td>
<td>43</td>
<td>86</td>
<td>5</td>
<td>10</td>
<td>2</td>
<td>4</td>
<td>50</td>
</tr>
<tr>
<td>5</td>
<td>Are the operating procedures and policies in your organization being reviewed annually to capture new changes and developments?</td>
<td>40</td>
<td>80</td>
<td>7</td>
<td>14</td>
<td>3</td>
<td>6</td>
<td>50</td>
</tr>
<tr>
<td>6</td>
<td>Do assurance providers review the adequacy and effectiveness of the bank procedures and policies?</td>
<td>40</td>
<td>80</td>
<td>7</td>
<td>14</td>
<td>3</td>
<td>6</td>
<td>50</td>
</tr>
<tr>
<td>7</td>
<td>Does the management take action or implement auditor’s recommendations fully?</td>
<td>40</td>
<td>80</td>
<td>7</td>
<td>14</td>
<td>3</td>
<td>6</td>
<td>50</td>
</tr>
<tr>
<td>8</td>
<td>Is your organization conducts fraud audits?</td>
<td>38</td>
<td>76</td>
<td>7</td>
<td>14</td>
<td>5</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td>9</td>
<td>Is the actions taken by management to fraudsters appropriate to deter the fraud schemes in the organization?</td>
<td>38</td>
<td>76</td>
<td>5</td>
<td>10</td>
<td>7</td>
<td>14</td>
<td>50</td>
</tr>
<tr>
<td>10</td>
<td>Is the board of directors responsive on fraud issues?</td>
<td>43</td>
<td>86</td>
<td>5</td>
<td>10</td>
<td>2</td>
<td>4</td>
<td>50</td>
</tr>
<tr>
<td>11</td>
<td>Are there fraud thresholds imposed by management which beyond the shreshold the top management should be accountable despite who caused the fraud?</td>
<td>7</td>
<td>14</td>
<td>19</td>
<td>38</td>
<td>24</td>
<td>48</td>
<td>50</td>
</tr>
</tbody>
</table>
Are there fraud threshold imposed by regulator beyond that the bank will be sanctioned?

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5</td>
<td>10</td>
</tr>
</tbody>
</table>

Are state organs such as police works closely with banks ensuring fraudsters are heavily punished?

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>33</td>
<td>66</td>
</tr>
</tbody>
</table>

Are state organs such as PCCB works closely with banks ensuring fraudsters are heavily punished?

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>28</td>
<td>10</td>
</tr>
</tbody>
</table>

Are state organs such as judicial officer’s works closely with banks ensuring fraudsters are heavily punished?

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>28</td>
<td>56</td>
</tr>
</tbody>
</table>

Average on adequacy and effectiveness of controls: is 84.4%, calculation 
(90+90+100+86+80+80+80+76+76+86)/10

Fraud occurrence depends on so many factors including availability of opportunities resulted from weak internal controls. As explained else in this report regulators of banks imposed strict controls including establishment of internal audit and risk management in banks. Nevertheless the presence of the controls still frauds are occurring in banks.

The researcher wanted to find out the cause of frauds in banks despite the controls imposed by the regulator. Banks as other organizations operate under agency principal relation whereby the owners of the bank vest the fiducially duties to management which is accountable to owners vide board of directors appointed by the owners. Board of directors is solely accountable for the company including actions done by the management. In order to have clear responsibility of the board and management, organization board of directors
set different policies to govern how things and decision of the organization should be done under proper reporting line.

For implementation of the policies, management converts/ translates the policies to procedures which are more detailed explaining how things should be done at the organization. Any decision made by management and actions of staff should be guided by the procedures set by the management.

It is the responsibility of the management and the board to ensure there is adequate and effective policies and procedures govern bank operations. The management through their internal audit department and risk management department assist reviewing and provide assurance on the adequacy and effectiveness of policies and procedures.

The researcher wanted to establish if banks has adequate and effective internal controls by evaluating policies and procedures, evaluate if independent reviewers review the policies and procedures to capture new developments in operations and regulations. The researcher evaluated actions taken by management against fraudster (employees), He also evaluated the board responding fraud issues, the responsiveness of state organs such as regulator, Prevention and Combating of Corruption Bureau (PCCB) and judicial system towards deterring fraud issues.

The information stated above was collected through the questionnaire administered to respondents and the findings were as follows. Availability of policies and procedures for each activity performed by the organization, the responses were positive by 90%. Implying each activity is governed by the bank procedure. Review adequacy and effectiveness of the bank procedure and policies (80%), however it was revealed that policies were annual reviewed but some bank procedures were reviewed when the need arises. It can be deduced that, if the trend continue of not reviewing procedures
annually, may provide opportunity for fraud to perpetrate as developments in operations and regulations may not captured and communicated to staff. The research findings indicated that action taken by management and board are appropriate to deter the frauds in banks. 81% of respondents commented positively on actions taken by management to be appropriate. The action taken ranges from disciplinary to legal action.

The research wanted to establish if the bank management and board has establish fraud threshold in which the top management would be account regardless of who caused the fraud. The findings established that by 86% that no threshold has been imposed for management to be accountable. The weakness may provide opportunity for management not to be so better as they will be accountable for losses caused by others.

The regulator role was also tested if it has considered and established the fraud threshold in which the bank would be sanctioned if suffer the loss equivalent to set amount or above. The findings were that 90% of the respondents were not sure if there is threshold has been imposed by the regulator for fraud which the bank will be sanctioned in case the amount reach to the set limit. The 90% translate that no threshold has been imposed by the regulator. The weakness may provide a room for the board not to act sometimes bitterly to frauds as they may consider no action would be taken against them for losses the bank suffered.

Regarding the state organs such as police, PCCB and judicial system working closely with banks deterring fraud, the 59% of the respondents commented that the state organs works closely with banks ensuring fraudsters are heavily punished.
Ways in Which Banks Detect Fraud

As part of internal controls, banks have to ensure there are mechanisms for fraud detection. Data from the research obtained by asking corresponds to explain how they get to know there is occurrence of fraud in their banks are summarized in the table below,

Table 4.6: Ways for Fraud Detection

<table>
<thead>
<tr>
<th>Method of Detection</th>
<th>Number of Responded</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal auditors may uncover fraud during routine audit</td>
<td>19</td>
<td>38</td>
</tr>
<tr>
<td>Operational managers many detect fraud and report them</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>Whistle blowing system</td>
<td>24</td>
<td>48</td>
</tr>
<tr>
<td>Customer complaints</td>
<td>22</td>
<td>44</td>
</tr>
<tr>
<td>Through investigations</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>Reviewing non performing loans</td>
<td>5</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Researchers analysis

From the research findings the listed below ways were noted being mechanisms for fraud detection.

- Internal auditors may uncover fraud during routine audit (by 38%)
- Operational managers many detect fraud and report them/ Management feedback (14%)
- Whistle blowing system (48%)
- Customer complaints (44%)
- Through investigations (14%)
- Reviewing non performing loans (10%)

From the research finding it can be established that ways, in which frauds are detected, whistle blowing system ranked number one, same as the research findings conducted by ACFE, report (2012). Customer complaints ranked number two compared to ACFE report where management review was ranked number two in fraud detection. Internal audit in both this research and that of ACFE is ranked number three in detecting frauds during audit reviews.
4.3.3 Impacts of Frauds in Banks Business

The information regarding the impact of frauds in banks business was collected through reviewing various documents related to the banks under research.

The impact of frauds to the banking industry and the economy in general cannot be ignored. For instance, a survey done by the Central Bank of Tanzania from July 2011 to June 2012 revealed that a total of 292 frauds amounting to TZS 117.16 billion have been committed in the country. This amount is equivalent to USD 73 million (source of data: Dr Kimei paper/presentation, 2013).

TZS 117 billion is 23 times the minimum capital requirement for establishing a bank in Tanzania which is TZS 5 billion, equivalent to USD 3.12 million

Cheque Frauds

Between 2008 and 2010, cheque fraud was rampant in Tanzania especially through clearance process. In one incident several cheques were returned to CRDB Bank by another local bank claiming that CRDB had returned the instruments unpaid after lapse of the clearing period and after their customers had withdrawn the funds. Upon investigation it was revealed that CRDB Bank had complied with clearing rules and as such the other bank paid the cheques against un-cleared funds. This fraud succeeded through collusion with staff in the other bank.

The amount involved in this fraud and which was a potential loss to the other bank was TZS 4.9 billion (Equiv. USD 3.06 million) and the fraudsters managed to pocket the entire amount.

On the same period 2010, CRDB bank PLC suffers loss of TZS 711 million due to cheque fraud. The funds stolen were transferred to two banks NBC
Muhimbili branch (TZS 566,862,500) and Savings and Finance (TZS 148,800,000). The transferred funds were all managed to be withdrawn by the fraudsters. Four bank staff suspected to be involved in the fraud and two business men were prosecuted at Kisutu court in Dar es Salaam. (Source of Data: Daily News and Majira, July 4, 2013).

**Computer Frauds**

In 2009, CRDB Bank was exposed to a computer fraud perpetrated through unauthorized copying and replacing of some Branch Operating System files and subsequent creation of fictitious and fraudulent term loans. The fraud succeeded due to weaknesses on the system controls and possible collusion by the system administrators.

The amount attempted in this case was about TZS 22.6 billion (Equiv. USD 14.1 million)

With a net loss of TZS 68 million (Equiv. USD 42,500) which the fraudsters managed to withdraw.

**Card Frauds**

In Tanzania, during 2010/2011 there was a large wave of Card Skimming frauds that were believed to be organized by a syndicate of Bulgarian nationals who were in the Country. They used preliminary elaborated cloned cards of the originals and withdraw sum of money from ATMs which was later sent to Bulgaria via bank transfers.

On annual basis CRDB Bank alone receives about 3500 disputes related to VISA and MasterCard with total value about TZS 950 million (Equiv. USD 600,000/) most of which relates to card skimming.
Fortunately the bank complies with EMV, a global standard for authentication of credit and debit cards; therefore refund was done through VISA/MasterCard.

On March 2013, three people were arrested by police in Mwanza, Tanzania in collaboration with NMB staff for fraud occurred in ATMs of TZS 700 million the amount fraudulent stolen from NMB and other banks through ATMs using skinned cards.(Source of data: Mwananchi March 13, 2013). The people arrested were found with 194 NMB and Diamond Trust Bank ATM cards, 36 ATM cards for KCB and others 18 bearing no logos of either of the bank. They were also found with equipment used for manufacturing fake cards (The guardian, Monday April 8, 2013).

**Misappropriation of Bank Assets**

On May 27, 2013, two people who were the CRDB bank employees were convicted to serve 5 years jail at Magistrate court of Mwanza charged with the count of stilling TZS 107,850,000 the property of CRDB bank PLC.(source of data: Court judgment).

**Other Electronic Frauds (Internet/ Mobile/ transfers)**

NMB bank on May 2011, suffered loss of TZS 7.61 million an amount fraudulently transferred from customer accounts through mobile phone and fraudulent credited to other account which later on was withdrawn. The customer involved was prosecuted and was sentenced to jail for 10 years. (Source of data: Majira April 29, 2013)

On January 22, 2010, NMB bank suffered loss of TZS 330 million, an amount fraudulently transferred from banks customer account through SWIFT. The fraud succeeded in collusion between bank staff and external parties. Three people involved in the fraud, one being the police officer, one
being the then NMB employee and the other the business man residing in Dar es Salaam on August 5, 2013 were convicted and sentenced to seven years in jail and ordered to return the money after jail (Source: Daily News Tuesday August 6, 2013).

**Losses Recorded by the two big banks for Past Three Years**

Losses Calculated on 5% of annual revenue for 3 years in Million Shillings

**Table 4.7: Losses for Three Years**

<table>
<thead>
<tr>
<th>Year</th>
<th>NMB (Revenue)</th>
<th>CRDB (Revenue)</th>
<th>Total (Revenue)</th>
<th>Loss (Shillings)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>54,000</td>
<td>46,057</td>
<td>100,057</td>
<td>5,002.85</td>
</tr>
<tr>
<td>2011</td>
<td>71,789</td>
<td>37,710</td>
<td>109,499</td>
<td>5,474.95</td>
</tr>
<tr>
<td>2012</td>
<td>97,322</td>
<td>80,543</td>
<td>177,865</td>
<td>8,893.25</td>
</tr>
</tbody>
</table>

Source: Researchers Analysis from Published Financials
Presenting Total Revenue in Million against Magnitude of Loss for three years

Figure 4.2 Revenue against Losses

![Graph showing revenue against losses for three years](image)

Using alternative procedure in data collection, the ACFE report indicated that companies suffered losses approximately 5% of their revenue, by using the standard 5% on revenue as that for ACFE, it can be established that for the past three years the two big banks the NMB and CRDB has suffered losses approximately to TZS 5,002.85 million (2010), TZS 5,474.95 million (2011) and TZS 8,893.25 (2012) respectively due to frauds.

Data for computing loses were obtained from published financial statements of 2010, 2011 and 2012.

4.4 Measures on how to manage and reduces the impacts of Frauds in banks

- Continuous review and implementing controls
- Fraud should be fully investigated and action taken for deterrence
- Security sensitivity to both staff and customer
- Fraud awareness programmes to all staff
- Conducting Management audit
- Staff rotation, a staff should not work in the same unit for long time
- Establishing an effective internal audit department
• Taking appropriate measures against perpetrators of fraud could be disciplinary or legal measures.

• Banks to establish and make reasonable pay to its employees

• Establishment of Criminal Commercial courts. The court is vital as in the presence of this court, banks and financial institutions may find themselves ensured of recovery of sum lost fund through fraud. Currently the criminal justice is more focused on sentencing conviction rather than financial reimbursement. Thus having specific legislation in place to address issues of frauds plus presence of specialized courts and setting time frame for concluding the fraud cases may minimize frauds from the current level.

4.5 Discussion and Interpretation of Data

4.5.1 The Nature/Types of Frauds in Banks and their Impacts

From the research findings it can be established that card frauds in this study was ranked the first in occurrence by 86% followed by misappropriation of customer money from their accounts by 68%, the latter the class of fraud was not covered in the Mashayanye report (2009), implying is not common in Zimbabwe. The results translate that card fraud is high due to the fact that either customer are not well knowledgeable in handling their cards or banks security are not good to protect the customer’s account from being defrauded.

It can be deduced that the category of card fraud is high due to customer having inadequate knowledge. The basis is that transactions performed by card to be successful, for those performed in ATMs require a secrete PIN (Personal Identification Number) which are issued to card holders who are responsible for keeping their PIN.

In striving to protect the magnitude of fraud from increasing, some banks such as CRDB Bank Plc has started issuing cards without PINS were the customer are responsible to create their own PINs once they have issued with
the card in order it can be enabled to work/ operate online. The cards are issued with common PINS which must be changed before being enabled.

This kind of fraud has caused Nordea Bank to suffer loss of $1.1M, 576,000 pounds, being one of the biggest online frauds through use of internet. The fraudsters siphoned money from customer accounts after obtaining login details using a malicious program that claimed to be anti-spam software.

From the research study cheque fraud, computer frauds and frauds relating to fund diversion were ranked the third in its occurrence by 62% as it can be established from the research findings. The results translate what is also happening in the global as computer frauds has caused collapse of big banks. For example Societe Generale’s in 2008, forgery and unauthorized use of bank computers caused loss summing 4.9 billion pounds. This was also revealed in the report of Mashayanye (2009) in Zimbabwe banks suffered loss due to computer fraud worth Z$ 50 billion.

Frauds resulted from accounts fraudulent opened was ranked the fourth by 52% on its occurrence. The findings meant that there is control gap in opening the accounts in banks as know your customer screening is not properly done. Should the screening process done effectively the customers with ill intention would have been identified at time of opening the accounts. This may happen by customers forging identity in opening accounts or an account is opened to fictitious company. For example Banco Ambrosiano, the Italy’s second largest private bank had suffered loss of $ 1.3 billion in caused by the bank granted loans to dummy companies in the Latin America which ended up the bank to collapse. In Zimbabwe this type of fraud is not common as was not covered in the Mashayanye report (2009).

Other classes of frauds revealed that exist in Tanzania commercial banks which was not covered by other researchers such as Mashayanye (2009) are frauds related to overstatement of collateral value when customers applied for bank
loans. Frauds related to manipulation of foreign exchanges, ghost loans which are loans issued against forged collaterals.

4.4.2 Adequacy and Effectiveness of Internal Controls in Managing Frauds in Banks

It can be established from research finding that the internal controls in banks on average scored 84.4%. This score implied controls in banks are adequate to prevent and deter frauds in banks in most areas. Improvement needed by 15.6% to ensure adequacy and effectiveness of internal controls reach 100% which in business environment may be difficult. Oversight role of board of directors was tested on its responsiveness on fraud issues, results of the study indicated that the board of directors is responsive by 86%, the score which was greater than the average score on internal controls. However, the findings indicated that management actions to deter fraud schemes in banks was not adequate as was below the average controls of 84.4% as they took deterrence action to a tune of 76% as the survey indicated.

The level of management to take action was also supported by findings on whether the banks conducts fraud audits were result indicated that fraud audits in banks are conducted to a tune of 76%. Implying 24% remained no fraud audits conducted. In business environment such as banks not conducting fraud audits by 24% may provide opportunity of some frauds to occur without being detected. According to Singleton (2006), fraud occurs due to availability of opportunity, were availability of opportunity meant weak controls. Controls being weak in general by 15.6 and in some areas by 24% chances of frauds to occur are high and there is a need for bank management to address this at least to reduce the gap to 5% or less than 5%.

Regulators imposed controls in banks including establishment of internal audit functions (unit). The Bank of Tanzania did the same to commercial banks operating in Tanzania. However, it can be deduced from the research study that management
of banks do not implement fully recommendations provided by internal auditors in their reviews. Implementation of the auditor’s recommendation is done to the tune of 80% only. This translates that 20% of the recommendations provided by auditors either internal or external auditors are not implemented. This may implying two things; either the recommendations were impracticable to be implemented or management ignored them.

From this study, it was also established that despite some areas having controls but in other cases management have been overriding the controls which has been one of the attribute for fraud to occur. 28% of the respondent accorded positive contribution that in some cases management does override the established internal controls. The researcher asked the respondents in the survey to comment whether the frauds occurs due to inadequate controls. 62% of respondents commented positive on the statement that inadequate controls are the cornerstone loophole for frauds to succeed. The result in Tanzania was in the higher side compared to that of ACFE global (2012).

**Control Weaknesses That Contributed to Fraud**

According ACFE report (2012), reported that identifying the factors that provided the opportunity for a fraud to occur is an important part of preventing similar frauds from occurring again in the future. To this end, they asked survey participants which of several common issues they considered to be the primary control weakness within the victim organization that contributed to the fraud’s occurrence. An outright lack of controls was the most frequently cited factor, noted as the primary weakness in more than 35% of cases. In their report, 19% of the cases, the perpetrator override existing controls to carry out schemes of fraud. The findings meant that implementing effective controls reduces frauds significantly with the exception of the cases controls are overridden.
4.5.3 Impacts of Frauds in Banks Business

The impacts of frauds in banks business may range from financial to non-financials. However in this study more weight, discussion is accorded in financial. Financial has major impact because if the magnitude of loss go higher may result to collapse of the banks compared to non financial such as reputation, losing either key personnel from the bank which may redress by employing new staff though is also costly to the bank in terms of both losing knowledge and cost of hiring.

The caught fraudsters were also not discharged free, some were sentenced and ordered to refund the money to the respective banks as it was judged in the case at Mwanza on May 27, 2013 which has discussed else in this report. During serving the sentence, the fraudsters or people committed the fraud will be unable to attend family matters and economic issues which is among the impacts of frauds.

Financial impact has been discussed in details in chapter three and even in the presentation of the findings in this chapter. In discussion part and interpretation of the results, the researcher will discuss the fraud trend based on the research findings.

It can be established that for the past three years the two big banks the NMB and CRDB has suffered losses approximately to TZS 5,002.85 million (2010), TZS 5,474.95 million (2011) and TZS 8,893.25 in year 2012 due to frauds. The figures translate change of 9.4% in 2011 and 77.7% in 2012. This implies trend is increasing tremendously. To slow down the trend, the bank management has to put some strategies to prevent and deter the increasing trend of frauds. Implementing the strategy increases the operating cost of a bank because of the added cost of installing the necessary machinery for its prevention, detection and protection of assets. Moreover, devoting
valuable time to safeguarding its asset from fraudulent men distracts management. Overall, this unproductive diversion of resources always reduces outputs and low profits which in turn could retard the growth of the bank.

Further, as it was established that fraud leads to loss of money, which belong to either the bank or customers. Such losses may be absorbed by the profits for the affected trading period and this consequently reduces the amount of profit, which would have been available for distribution to shareholders. Losses from fraud which are absorbed to equity capital of the bank impairs the bank’s financial health and constraints its ability to extend loans and advances for profitable operations. In extreme cases rampant and large incidents of fraud could lead to a bank’s failure.

By going global, the top banks suffered massive loses/ collapsed because of fraud are summarized below;

- Societe Generale's (4.9 billion pounds) in 2008 caused by forgery and unauthorized use of bank computers which caused the bank to collapse.
- Banco Ambrosiano ($1.3 billion) in 1982 an Italy’s second largest private bank, caused by the bank granted loans to dummy companies in the Latin America. Which caused the bank to collapse.
- Nordea Bank fraud ($1.1M, 576,000 pounds), biggest online fraud through use of internet. The fraudsters siphoned money from customer accounts after obtaining login details using a malicious program that claimed to be anti-spam software.
- Citibank Gurgaon (RS 400 crore) caused by bank executive by selling the bank investments.
- Punjab National Bank (RS 2,700), one of the largest bank scam in Indian. Amount fraudulent disbursed to Zoom Developers.
- China Construction Bank ($2.4 million) in 2004 caused using fraudulent papers by one of the bank accounting officer.
The impacts of fraud might be more than the one reported in this study if all the information was made public and obtained during the research study more results would have been reported. Most banks treat the information of impact of frauds confidential in order to maintain public confidence. The information reported in this study is the one which was made public.

However, from the research study it can also be established that trend of cheque frauds and that involved use of cards is alarming which need management attention to curb the problem to avoid eroding bank image from the public.

**Test of Hypothesis**

Three hypotheses were tested in this study which were;

H0: Weak control/management in banks results to occurrence of frauds
H1: Weak control/ management in banks does not results to occurrence of fraud

H0: Low salaries to bank employees is not a factor for occurrence of frauds
H1: Low salaries to bank employees is a factor for occurrence of frauds

H0: Impacts of frauds in Tanzania commercial banks are significant
H1: Impacts of frauds in Tanzania commercial banks are not significant

The research findings confirmed that weak control/ management in banks results to occurrence of frauds. Weak management was observed when overriding the established controls and cases were implementation of controls were inadequate. Therefore, according to the findings the null hypothesis (H0) that weak controls/ management results to occurrence of fraud was accepted and the alternative hypothesis (H1) was rejected.
It was also confirmed that low salaries to bank employees is a factor for occurrence of frauds by 58%. Hence the null hypothesis (H0) that low salaries to bank employees is not a factor for occurrence of frauds is rejected while the alternative hypothesis (H1) was accepted.

Regarding impacts of frauds in Tanzania commercial banks, it was established that is significant as discussed else in this report. Thus, the null hypothesis (H0) was accepted and alternative hypothesis (H1) was rejected.
CHAPTER FIVE
CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study was conducted at the CRDB Bank and NMB Bank Public Limited Companies at headquarters and branches located in Dar es Salaam. The study was on assessment of fraud and its management in commercial banks in Tanzania. The specific objectives of the study were to analyze the nature/types of frauds in banks and establish why fraud occurs. It was also to establish adequacy and effectiveness of internal controls in managing frauds in banks and was sought also to evaluate impacts of frauds in banks business and suggest measures on how to manage and reduces the impacts in banks. Following the definition of the problem, literature study was done and after that research questions was developed and answers obtained from the research questions after critically analyzed resulted to the following conclusion.

5.2 Conclusion

The general objective of the research was to assess and evaluating the nature of frauds and it is management in Tanzania commercial banks. The other motive of the study was also to uncover why frauds still occurring in banks despite the available controls. The research established that frauds in banks occurs because in some areas controls are inadequate and areas where controls are adequate and effective, management had been overriding them and cause frauds to occur.

Although banks in some areas have adequate controls to deter frauds, the nature and threat of fraud in banks is still high. The research study noted
different types/nature of frauds committed in Tanzania commercial banks as well as organizational approaches to prevent and detecting them, however, trends indicates that regardless of modalities of their occurrences total losses due to frauds is significant and is increasing year after year, therefore, the researcher recommend for some improvement in order banks can minimize the impact of frauds.

5.3 Recommendations

5.3.1 Recommendation to the Bank Management

- Management of banks is advised to look way forward to address issues of non management staff committing frauds by higher percentage compared to other groups outsiders and management staff by surveying and restructuring salaries/ remuneration to commensurate with responsibilities, inflation rate and profit banks are making.
- Management of banks should ensure fraud audits are conducted to ensure elements of frauds or gaps in controls are early identified before resulting to loss to the banks.
- In order to ensure fully accountability for making decision to deter frauds in banks, management of banks are advised to set fraud threshold on which either single incident of fraud or cumulative beyond the set limit the top management would be accountable irrespective of who caused the fraud. This will create proactive prevention of frauds to avoid accountability.
- Management of banks further is advised to ensure there is programme for public awareness on common frauds such of card frauds which appeared to be a result of customer knowledge on protecting their cards and password.
- Board and Management of banks should ensure the established controls are well followed and board to take stern disciplinary measures against management for overriding the controls. Further, both the board and management should assess the adequacy and effectiveness of internal controls and in case there is a gap identified, necessary correction are implemented.
5.3.2 Recommendation to the Bank Regulator

The bank regulator is advised to set threshold for losses resulted from frauds as either single incident or cumulative in a year and beyond, leads bank top management being held accountable irrespective of who cause the loss/fraud. Moreover, the bank regulator is advised to initiate measures of establishment of specific court to deal with frauds resulted from commercial banks were it will assist to recover the fraudulent funds timely rather than focusing on sentencing the convicted whereas the loss steal stands in banks.

5.3.3 Recommendation for Further Studies

Other researchers are recommended to conduct study to establish why managements do not implement full the auditor’s recommendations. This weakness if left unattended may expose the banks to financial losses which would have been prevented.
References


Banking and Financial Institution (Internal control and Internal Audit) Regulation, (2006.)

Basel Committee on Banking Supervision (2001), Internal Audit in banks and the Supervisor’s Relationship with Auditors.


IIA Standards, Practice Advisory 1210.A2-2: Auditors Responsibilities Relating to Fraud Investigation, Reporting, Resolution and Communication
Idowu A (2009), An assessment of Fraud and its Management in Nigeria Commercial Banks, journal of Social Science Volume 10, number 4


Webster’s (1997) New Collegiate Dictionary
Appendix 1: Questionnaire and Interview Guide Questions

Questionnaire

Dear respondent,

My name is Aloyce Leonard a student at Mzumbe University currently pursuing a Master of Science degree in Accounting and Finance (MSc A&F). As a partial fulfillment of the requirement for the degree, a student is required to conduct and submit a report from a research study (dissertation report). This study is being carried out to fulfill that requirement.

The study focuses on assessment of Fraud and its Management in Tanzania commercial banks. At the end of the study I hope to be able to come up with recommendations on nature of frauds, why they occur and how are managed.

This questionnaire seeks to find out the inputs on nature of frauds, how do they occur, and ways are managed. The whole questionnaire will not take more than 15 minutes of your time.

The responses are entirely anonymous and therefore please do not write your name and try to be as honest as possible. All the responses will be analyzed together and reported as a whole.

Thanks.

Aloyce Leonard

My e-mail address is aleonadi@yahoo.co.uk

Phone number is 0717-252-915.
Section A: Nature/Types of Frauds in your bank.

Please tick the appropriate answer in the following statements. Please give additional comments where necessary

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>None</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are Cheque Fraud common in your bank?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Are system/computer frauds common in your bank?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Are card frauds common in your bank?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Are there theft of assets at your bank</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Is there misappropriation of customers' money from their accounts in your bank?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Are there cheque kitting frauds in your organization? (cheque kitting means customers use uncleared cheques to obtain loans in the bank)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Are there losses resulted from purposely delaying clearing instruments in your organization?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Are there losses resulted from accounts fraudulently opened in your bank?</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Are there fund diversion frauds in your bank</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Are there fraudulent/misstatement reporting in your bank?</td>
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</tbody>
</table>

Please mention other types of frauds common at your organization?

..................................................................................................................................................
..................................................................................................................................................
..................................................................................................................................................
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72
**Section B: Ways Frauds Perpetrates in Banks**

Please tick the appropriate answer in the following statements. Please give additional comments where necessary.

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>None</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cheque frauds are commonly resulted from:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cheque alterations?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forging the account signatory signatures?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Both alterations and forged signature</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Are system/computer frauds a result of the following</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of System Controls such segregation of duties?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management overriding the controls</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of periodic system reviews</td>
<td></td>
<td></td>
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<tr>
<td>Sharing IDs and Password among bank staff</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>System weakness being disclosed to outsiders</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>3. Do frauds perpetrate because of inadequate controls?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4. Who are most perpetrators of frauds in your organization

Outsiders

Staff

Management staff

5. Fraud Perpetrated by Staff

5.1 Does low pay prompt staff engage in fraudulent activities?

5.2 Are staff trained on how to prevent, detect and report fraud?

Any additional comments?

………………………………………………………………………………………………………………

………………………………………………………………………………………………………………

………………………………………………………………………………………………………………

Section C. Adequacy and effectiveness of Internal Controls

Please tick the appropriate answer in the following statements. Please give additional comments where necessary

<table>
<thead>
<tr>
<th>S/N</th>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>Not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Is there fraud policy in your bank?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Is there fraud procedure in your bank?</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>3</td>
<td>Are all detected frauds in your organization being investigated?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Is there operating procedure for each activity or processes in your organization?</td>
<td></td>
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</tr>
<tr>
<td>5</td>
<td>Are the operating procedures and policies in your organization being reviewed annually to capture new</td>
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<tr>
<td>6</td>
<td>Do assurance providers review the adequacy and effectiveness of the bank procedures and policies?</td>
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<tr>
<td>7</td>
<td>Does the management take action or implement auditor’s recommendations fully?</td>
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<tr>
<td>8</td>
<td>Is your organization conducts fraud audits?</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>9</td>
<td>Is the actions taken by management to fraudsters appropriate to deter the fraud schemes in the organization?</td>
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<tr>
<td>10</td>
<td>Is the board of directors responsive on fraud issues?</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Are there fraud thresholds imposed by management which beyond the threshold the top management should be accountable despite who caused the fraud?</td>
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<tr>
<td>12</td>
<td>Are there fraud threshold imposed by regulator beyond that the bank will be sanctioned?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Are state organs such as police works closely with banks ensuring fraudsters are heavily punished?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Are state organs such as PCCB works closely with banks ensuring fraudsters are heavily punished?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Are state organs such as judicial officer’s works closely with banks ensuring fraudsters are heavily punished?</td>
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</table>

Any additional comments?
………………………………………………………………………………………………………….
………………………………………………………………………………………………………….
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……………………………………………………………………………………………………..

**Section D: Fraud Knowledge**

Does staff get informed of the results of fraud investigations?

Yes ( )

No ( )

75
If the answer is no, explain why………………………………………………

How do you know there is occurrence of frauds to your organization? Mention any three ways

i)…………………………………………………………

ii)…………………………………………………………

iii)………………………………………………………..

What measures should be taken by organizations particularly banks to minimize fraud occurrence?

……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………

Section E: Demographic information (For the purpose of statistical analysis only)

Please tick the appropriate box:

1. Education

<table>
<thead>
<tr>
<th>Secondary/Diploma</th>
<th>Graduate (Adv. Diploma/1st Degree)</th>
<th>Master and above</th>
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</thead>
<tbody>
<tr>
<td></td>
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<td></td>
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</tbody>
</table>

2. Position

<table>
<thead>
<tr>
<th>Director</th>
<th>Manager</th>
<th>Supervisor</th>
<th>Bank officer</th>
<th>Other (Specify)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

3. Working experience in a Banking industry.

<table>
<thead>
<tr>
<th>Less than 1yr</th>
<th>1-5yrs</th>
<th>Above 5yrs.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

xxxx Thanks for your participation. Xxxx
INTERVIEW GUIDE QUESTIONS

Questions

What are common frauds in your organization and why do they occur?

Are procedures and policies guiding each activity or process in place in your organization?

What are impacts of frauds and how can they be reduced?
Appendix 2:  Work Plan of the Dissertation

<table>
<thead>
<tr>
<th>Month</th>
<th>Week</th>
<th>Activity</th>
<th>Compliance Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2013</td>
<td>1st week</td>
<td>Activity plan Preparation, Budget and Developing research idea</td>
<td>Completed</td>
</tr>
<tr>
<td></td>
<td>2nd week</td>
<td>Organizing research idea to research topic</td>
<td>Completed</td>
</tr>
<tr>
<td></td>
<td>3rd week</td>
<td>Discussing research topic with supervisor</td>
<td>Completed</td>
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<tr>
<td></td>
<td>4th week</td>
<td>Handling chapter one of the research proposal, Introduction</td>
<td>Completed</td>
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<tr>
<td>February 2013</td>
<td>1st week</td>
<td>Conducting Literature review, Chapter Two</td>
<td>Completed</td>
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<tr>
<td></td>
<td>2nd week</td>
<td>Handling chapter three, Research Methodology</td>
<td>Completed</td>
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<tr>
<td></td>
<td>3rd week</td>
<td>Developing Data Collection Questionnaire and Submitting draft proposal to supervisor</td>
<td>Completed</td>
</tr>
<tr>
<td></td>
<td>4th week</td>
<td>Submitting Final Draft Proposal to supervisor (Dissertation supervisor)</td>
<td>Completed</td>
</tr>
<tr>
<td>March 2013</td>
<td>1st, 2nd, 3rd and 4th weeks</td>
<td>Administering the questionnaires</td>
<td>Completed</td>
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<tr>
<td>April 2013</td>
<td>1st and 2nd weeks</td>
<td>Collecting the questionnaires</td>
<td>Completed</td>
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<tr>
<td></td>
<td>3rd and 4th weeks</td>
<td>Conducting Interviews</td>
<td>Completed</td>
</tr>
<tr>
<td>May 2013</td>
<td>1st week</td>
<td>Reviewing Documentary Sources</td>
<td>Completed</td>
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<tr>
<td></td>
<td>2nd, 3rd and 4th weeks</td>
<td>Data Analysis</td>
<td>Completed</td>
</tr>
<tr>
<td>June 2013</td>
<td>1st, 2nd and 3rd weeks</td>
<td>Writing Draft report</td>
<td>Completed</td>
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<tr>
<td></td>
<td>4th week</td>
<td>Submission Draft report</td>
<td>Completed</td>
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Appendix 3: Budget

Appendix 3: Budget Estimates

<table>
<thead>
<tr>
<th>Cost Driver</th>
<th>Workings</th>
<th>Amount (TZS)</th>
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<tbody>
<tr>
<td>Typing</td>
<td>One person, @ 100,000 per day* 5 days</td>
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<td>Stationeries</td>
<td>Printing proposal, questionnaires, report and other relevant materials such as purchasing some books for reference</td>
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<tr>
<td>Hired Services</td>
<td>2 persons will be hired, administering questionnaires</td>
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<tr>
<td></td>
<td>2@100,000 per day *10 days</td>
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<td>Transport</td>
<td>Hiring taxi for distributing and collecting questionnaires, conducting interview, moving to printing centres, meeting the research supervisor</td>
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<td>Communication</td>
<td>Top up costs</td>
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<td>Meals and drinks</td>
<td>For the researcher and assistances</td>
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<tr>
<td>Total</td>
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<td>7,000,000</td>
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