



**FACTORS AFFECTING COMMITTING OF ACCOUNTING
FRAUD IN PUBLIC AND PRIVATE BANKS IN WOLKITE
TOWN OF GURAGE ZONE, ETHIOPIA**

M.Sc Thesis

**BY
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**FACTORS AFFECTING COMMITTING OF ACCOUNTING
FRAUD IN PUBLIC AND PRIVATE BANKS IN WOLKITE
TOWN OF GURAGE ZONE, ETHIOPIA**

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Degree in Accounting and Finance**

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Final approval and acceptance of the thesis is contingent upon the submission of the final copy of the thesis to the School of Graduate Studies (SGS) through the Department/School Graduate Committee (DGC/SGC) of the candidate's department.

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DEDICATION

This Thesis work is dedicated to my beloved father, Kibru Shirga, and to my beloved mother, Genet Ebido who dedicated their lives for successful accomplishment of this work in particular and the betterment and success of my academic life in general.

STATEMENT OF THE AUTHOR

By my signature below, I declare and affirm that this Thesis is my own work. I have followed all ethical and technical principles of scholarship in the preparation, data collection, data analysis and compilation of this Thesis. Any scholarly matter that is included in the Thesis has given recognition through citation.

This Thesis is submitted in partial fulfillment of the requirements for MSc degree at the Wolkite University. The Thesis is deposited in the Wolkite University Library and is made available to borrowers under the rules of the library. I solemnly declare that this Thesis has not been submitted to any other institution anywhere for the award of any academic degree, diploma or certificate.

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BIOGRAPHICAL SKETCH

Yalew Kibru Shirga, the author, was born on June 18, 1990 in Cheha district, Gurage Zone of SNNPR region of Ethiopia from his father Kibru Shirga and his mother Genet Ebido. He attended his Primary Education at Jatu Primary School from 1997-2005 (grade 1-8) in Cheha district. Then after, he attended his Secondary education at Aba Ferwansa Secondary School, 2005-2007, Cheha district; and his Preparatory education in Yabaerus Secondary and Preparatory school (the then Goro Secondary School) from 2007-2009.

After successful completion of preparatory education, he joined Dilla University, Ethiopia in September 2009 and received Bachelor of Art (BA) degree in Accounting and Finance in July 05/2012. After graduation, he employed as junior accountant at Wolkite University, Ethiopia in September 2012 and served the institution up to now in different positions. In the meanwhile, he joined Wolkite University, Postgraduate program for the Degree of Master of science in 2017 academic year.

DECLARATION

I, Yalew Kibru, declare that this thesis entitled: **‘Factors Affecting Committing of Accounting Fraud in Public and Private Banks in Wolkite Town of Gurage Zone, Ethiopia’** is outcome of my own effort and study and that all sources of materials used for the study have been duly acknowledged.

This study has not been submitted for any degree in this University or any other University. The thesis is submitted to the School of Graduate Studies of Wolkite University in partial fulfillment of the M. Sc. degree in Accounting and Finance.

By: Yalew Kibru

Signature: _____

Date: _____

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ABSTRACT

A study entitled factors affecting committing of accounting fraud in public and private banks in Wolkite town of Gurage zone, Ethiopia was conducted with the aim of identifying the types of accounting frauds committed and identifying major motivating factors for employees responsible for committing accounting frauds. Data for this study were collected using a semi-structured questionnaire. Both descriptive and econometric methods of data analysis were used for analysing data. Multiple linear regression model as part of the econometric analysis was used to analyse and identify factors affecting committing of accounting fraud in bank. The result of descriptive analysis showed that employees in bank are forced to commit frauds because of the motivation, the opportunity they accessed and rationalization. The result of econometric analysis also revealed that variables namely adherence to accounting rules, internal control effectiveness management morality, information asymmetry, and suitability of the motivational rewarding system were found to significantly determine the commitment of accounting fraud in private and public banks in the study area. The study finally recommended that limiting employees' access to only the assets, systems, and information necessary for them, keeping in the morality of management, providing different incentive and compensation mechanisms, strengthening the internal bank controlling systems, communicating the employees in a bank with uniform information, and improving awareness of the employees to obey for the accounting rules for minimizing the accounting fraud in private and public banks.

Key Words: - Accounting fraud, internal control, reward, information asymmetry, accounting rule

CHAPTER ONE

1. INTRODUCTION

1.1. Background to the Study

Accounting fraud is an act of deviation that often occurs and attracts attention of media and society. Accounting fraud has occurred in many countries, including in Indonesia (Wilopo 2006). This phenomenon of fraud can actually be examined using agency theory because this theory as it is often used to explain the accounting fraud. Agency theory, according to Jensen dan Meckling (1976), is a theory which examines a contract in which one or more persons (the principal) govern other persons (the agent) to perform services on behalf of the principal and to authorize the agent to make the best decisions for the principal. Agency theory is intended to solve two problems that occur in the agency relationship.

Priantara (2013) explained that there are three causes of accounting fraud, namely opportunity, pressure, and justification. One of the pressures is taking an action that is not in accordance with the norms. This is arising from the differences of interest between the principal and the agents are called agency problems. One of the causes of agency problems is the existence of information asymmetry. Scott (2009) stated that information asymmetry is a situation where some parties involved in a transaction may have more information than others. It can make the manager able to perform manipulation to increase the profits in order to obtain greater compensation or reward from the owner. The difference of interest makes each party try to increase the benefits for themselves. To solve the agency problems, the company's management should carry out accounting rules properly. Adherence to accounting rules could also minimize the accounting fraud. The higher the adherence of the person to accounting rules is, the smaller the chances of the person to commit accounting fraud. In addition to information asymmetry and adherence to accounting rules, internal control effectiveness, compensation system suitability, and management morality also affect the tendency of accounting fraud. According to Priantara (2013 and Wilopo (2006) there are three causes of accounting fraud, namely opportunity, pressure, and justification. One of the pressures is taking an action that is not in accordance with the norms. If the manager performs his duties according to the norm, the possibility of accounting fraud was getting smaller. Accounting fraud tendency can occur if there is an opportunity to do so. In the

agency theory, the manager (agent) has a great opportunity to commit fraud because the owner (principal) has handed over all authority to the agent.

1.2. Statement of the Problem

According to Tekalegn (2011) accounting frauds may be that from their experience believed the following list of factors as the reasons for committing fraud which includes living beyond once means, personal financial loss, lack of internal control to prevent or detect frauds, failure to discipline, ignorance, apathy, and incapacity, lack of an audit trail and rationalization. Pan et al. (2012) concurred with other scholars on fraud that the use of the fraud triangle and other fraud frameworks are crucial in developing a conceptual model for the study and research on fraud. The financial markets have well as complex which has presented opportunities for fraud. According to Pan et al. (2011) trends, patterns and statistics such as personal characteristics have an impact on the levels of fraud though this is not captured in the model. Essentially, this requires additional investigation of the factors that drive fraud including personal characteristics.

Positive and good working environments enhance the compliance of employees to established rules, policies and procedures which are set for the success and sustainability of the business. A good working environment enhances communication between employees and management and guarantees positive employee recognition and great reward system. This kind of working atmosphere reduces the levels of internal fraud in the organization (Kingsley, 2012).

As conditions change, controlling procedures may become out dated and inadequate; thus, management should have the responsibility to design efficient and effective internal control structure that can reduce improper activity especially committing of fraud. Anticipate that certain procedures were become obsolete and modify the internal control structure in response to these changes.

Wilopo (2006) said that to overcome the agency problems the company's management should carry out the accounting rules properly. If the company's management does not carry out the accounting rules properly, the credibility of the information in the financial statements cannot be achieved. Adherence to accounting rules can also reduce to accounting fraud. The greater

the adherence of a person to the accounting rules is, the smaller the opportunity of the person to commit accounting fraud. This idea was supported by the results of the research by Wilopo (2006).

Accounting fraud tendency can occur if there is an opportunity to do so. In the agency theory, the manager (agent) has a great opportunity to commit fraud because the owner (principal) has handed over all authority to the agent. The opportunity can be reduced by good internal control system. Good internal controls can reduce or even diminish the opportunity to commit accounting fraud Maryanne (2014). Furthermore, researchers ought to develop into a model as how and why individual firm and industry statistics motivate and drive fraud in organizations (Pan et al., 2011). While the research and recommendations by (Pan et al., 2011) were undertaken in the European continent, very few studies have focused on fraud management and prevention in the African continent and especially the East African countries of which Ethiopia is also in this category. Existing literatures on fraud are also concentrated in the West African region (Abdul and Tinusa 2012; Adewumi, 2011; Aden, 2004) especially in Nigeria with sparse studies in other regions of Africa. This has created a shortage in empirical evidence and studies on the causes and factors motivating agents to commit fraud in the local scene for Ethiopian industries.

Considering all the above discussed issues on inherent limitations and problems about the factors for committing of accounting fraud, the researcher observed that there is empirical gap in southern Ethiopia especially in the main Gurage zone town, Wolkite town found in the very trading areas. In this regard, therefore, this research aims to identify the basic factors of accounting fraud in selected public and private banks in Wolkite town of Gurage zone, Ethiopia.

1.3. Basic Research Questions

The basic research questions to be answered by this study are:

1. What are the major kinds of accounting frauds commonly committed in public and private banks?
2. What factors contributed to individual employee in banks to commit accounting fraud?
3. Do employee ethical and personal characters affect the tendency to commit accounting fraud?

4. Are skills and competency of employees affecting the tendency to commit accounting fraud?
5. Are adherence to accounting rules and procedures has an effect on committing accounting fraud?
6. Is the internal control effectiveness of the firm has significant effect on accounting fraud?
7. Is the management morality/incentives affects the tendency to commit accounting fraud?

1.4. Objective of the Study

1.4.1. General Objective

The general objective of this study is to identify the major factors affecting the committing of accounting fraud in the case of public and private banks in Wolkite town

1.4.2. Specific Objectives

The specific objectives are:

1. To identify which types of accounting frauds are committed in public and private banks of the study area
2. To identify the major motivating factors for employees responsible for committing frauds for in bank
3. To examine whether employee ethical and personal characters affect the tendency to commit accounting fraud.
4. To see whether or not the skills and competency of employees affect the tendency to commit accounting fraud.
5. To evaluate the effect of adherence to accounting rules and procedures on committing accounting fraud.
6. To examine whether the internal control effectiveness of the firm has significant effect on accounting fraud.
7. To scrutinize the effect of management morality on the tendency to commit accounting fraud

1.5. Research Hypotheses (HP)

To achieve the objective of this study, in addition to the research questions presented above the following hypotheses concerning committing of fraud are constructed as below:

H₁: There is at least some kind of accounting frauds committed in the commercial banking sector in Ethiopia

H₂: Employee ethical and personal character has a significant effect in committing of accounting frauds

H₃: Employee competency will affect the tendency to commit of accounting fraud

H₄: There is a significant relationship between adherence to accounting rules and accounting fraud tendency in banking sector in Ethiopia.

H₅: There is a significant relationship between internal control effectiveness and accounting fraud.

H₆: Management morality has a significant effect on the tendency to commit accounting fraud in banking sector in Ethiopia.

1.6. Significance of the Study

The researcher believes that the result of this research project will have the following significances. The result of this study would benefit banks to gain a deeper understanding of fraud and adopt appropriate strategies to mitigate loss resulting from fraudulent activities.

Moreover, it will provide constructive feedback about the efficiency and effectiveness of the existing internal control practice of those Banks. Auditor's security teams, hiring managers and operations managers can have a better understanding of the factors that contribute to fraud. Therefore, the banks under consideration can draw from the findings of this study on the different ways of mitigating fraud. The Policy makers can also develop appropriate policies and alternative actions based on evidence generated from this study. In addition, it presents information about how corrective action can be made during frauds practices. The researcher gained experience in research and will use the results to detect, recommend and review existing policies revolving on operations in departments that are prone to fraud. Scholars will find the study useful as a source of knowledge and insight while others may use it for future research on the banking industry and the factors that motivate fraud in the banking industry. Moreover, the research indicates various opportunities which detect

accounting fraud. Finally, the study can be used as a reference for future research on the topic.

1.7. Scope and Limitation of the Study

1.7.1. Scope of the Study

Geographically this study focused in Wolkite town of the zone, Ethiopia. Both public and private banks found in the town were considered. 14 public and private banks were drawn in Wolkite town of Gurage zone of Ethiopia was considered. Again, a total of 143 employees (from which 117 sample of employees were drawn) from the 11 sample banks were considered. Conceptually this study, among the different accounting concepts, focused on assessment of determinant factors of committing fraud by employees in banks. The data were collected during the months of October and November 2018 using the above stated sample of banks.

1.7.2. Limitation of the Study

Some of the respondents of the questionnaire were likely to be reluctant. They were not committed and available for giving information fearing that the information sought would be used to intimidate them or print a negative image about them. The study used only one time cross-sectional data which is unable to be used for inferring the result for time trend purpose. The result of the study also limited as the data obtained from the respondents were based on recall.

1.8. Organization of the Thesis

This thesis work is structured into five chapters. The first chapter is introduction including background of the study, statement of the problem, basic research questions, objectives of the study, research hypothesis, significances of the study, scope and limitation of the study, and this part too. In chapter two theoretical and empirical literature reviews were presented. Chapter three is structured with the research methodology including description of study area, sample size determination and sampling techniques, the data required and methods of data collection, and data analysis. Results and discussion was detailed in chapter four. In chapter

five summary, conclusion and policy recommendations were presented on the basis of the results of the study.

CHAPTER TWO

2. LITERATURE REVIEW

2.1. Theoretical Reviews

2.1.1. Basic Concepts of Fraud

Bank fraud is the use of potentially illegal means to obtain money, assets, or other property owned or held by financial institution or to obtain money from depositors by fraudulently posing as a bank or other financial institution. In many instances, bank fraud is a criminal offence while the specific elements of particular banking fraud laws vary depending on jurisdiction; the term bank fraud applies to actions that employ a scheme or artifice, as opposed to bank robbery or theft. For this reason, bank fraud is sometimes considers a white-collar crime.

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

2.1.2. Types of employees

Cost of hiring dishonest employees cannot be calculated: A dishonest employee will destabilize any effort to build a positive work atmosphere and constantly strive to defeat any internal measures. Companies should ensure they conduct a background check that covers criminal history, education, previous employment, civil history for possible lawsuits before employing anyone. The need to hire honest staff cannot be overemphasized (Kingsley 2012). Fraud and business risk in any organization is inherent in the hired employees especially in senior positions where trust and authority are critical. Therefore it is crucial to conduct due diligence on employees and know them in order to authenticate their competence and credentials. Furthermore, this is important in knowing the integrity of the employee and how this will influence his actions in the organization. Employee due diligence can be undertaken through confirmation of education qualification, work experience and history and follow up

with the references provide. In addition, due diligence may be crucial in acquiring undisclosed information by the employee especially one that may have an impact on the integrity of the employee (ACFE, 2009). In undertaking employee due diligence, the business must take into consideration the applicable rules and regulations. This is because the rules and regulations will guide the conduct and acquisition of the information. Nevertheless, the business can acquire background information of the employee through authorized criminal record survey. Other strategies to acquire information about an employee include acquiring legal counsel on how to conduct and acquire employee information. Due diligence should also be undertaken on bank customers, suppliers and partners to identify any information with an impact on the financial health, ownership, reputation and integrity which may possess an unacceptable levels of risk (ACFE, 2009).

Bierstaker, Brody and Pacini (2006) found that it is important to note that an employee with fraud schemes may move from one organization to another. When employee records are not checked, dishonest people may be hired. An organization should not rely on telephone numbers listed on the resume for prior employers as they may be false. A company should try obtain employer telephone numbers independently. Organizations should also conduct a second reference check six months after an employee starts work. This is because for a dishonest employee, may have not been filed at the time of the initial search. This may be discovered by a second check.

2.1.3. Types of fraud

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

2.1.3.1. Employee fraud

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

assets, false balance crediting, opening, use and management of fictional accounts, claiming of overtime for hours not worked, fund diversion (tapping funds from interest into a suspense account) computer fraud via compromising log in credentials of an e-banking user (Akinyomi, 2012: Kingsely, 2012). ACFE (2009), Kingsely (2012) and Akinyomi (2012) in their respective studies on fraud in the financial and banking sector noted that staff can also collude to misappropriate organizations assets e.g. cash, inventory customer information. Therefore banks must take into consideration the location, place and security of assets and the responsible employees for the assets. Common employee fraud schemes include employees creating and paying for non-existent goods and services, payment of invoices that are inflated or made up, presentation of inflated and fake credit notes, customer list theft and unlawful acquisition of proprietary information (Kingsley, 2012). Bank staffs that have access to tangible assets and the accounting systems that record and track the activities of an employee. However, technologically savvy employees can use the same systems to conceal their identities and theft. This is especially so when the staff establish fake vendor accounts and embed them in the master file to enhance payment processing. Furthermore employees can steal products or assets of the company and charge the same to the cost of sales which reduces the profitability of the company while asset sales and removal for asset list will reduce the asset of the company (AFCE, 2009). Given the transition to a service based, knowledge economy and more valuable assets of a bank are intangible e.g. customer lists and copy righted material. Intangible assets theft may include the unauthorized copying and use of software's and other intellectual property (AFCE, 2009).

2.1.3.2. Third party fraud

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

Cheque Fraud: This is the oldest financial crime. It is the commonest method by which customers and the bank are defrauded. Counterfeit cheques not written or authorized by legitimate account holder, forged cheques where a stolen cheque not signed by account holder, or altered cheque where an item that has been properly issued by the account holder but has been intercepted and the payee and/or the amount of the item have been altered (Onkagba,1993). Forgeries are one entrenched mode of fraud where employees forge and copy a customer's signature with the aim of withdrawing funds from the customer's account. The major target accounts for forgeries are targeted savings account, deposit accounts,

current accounts or transfer instruments. Experience has shown that most of such forgeries are perpetrated by internal staff in partnership with outsiders with the employees providing sample signatures of the customers (Akinyomi, 2012).

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

Misrepresentations and Impersonation: Fraudsters make false statements and or submit falsified documents including rent rolls, lien waivers and financial statements to boost loan applications. They may also make fraudulent disbursement requests to receive loan proceeds. This fraud activity may occur across simple banks using multiple accounts by opening an account with false identification (Onkagba, 1993). In impersonation and misrepresentation, the fraudster always assumes the identity of another individual with the goal of committing a fraud or dishonest activity. Impersonation may be done to acquire cheque books to commit fraud or acquisition of cheque leafs for fraud purposes. According to Akinyomi (2012) impersonation is particularly very successful where the outsider works in collaboration with an insider.

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

Money Transfer Fraud: Money transfer services refer to the movement of financial assets and resources from one account to another mostly the beneficiary account. Money transfer can occur through mail, telephone or at the counter, mobile phones or through other

electronic systems. Money transfer fraud occurs when the beneficiaries detailed are changed or altered to reflect those of a different individual or beneficiary (Onkagba, 1993).

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

Letter of Credit Fraud: Letter of credit (also documentary credit) is a well-known payment method in international trade. This instrument has two fundamental principles: the autonomy or independent principle and the doctrine of strict compliance. Such principles intending to facilitate international transactions make letter of credit easy to be abused by fraudsters. Traders from developing countries who lack sufficient experience and knowledge of letters of credit are often the targets from an economic point of view; it is true that checking credibility involved information costs. It is better to incur the cost that the potential cost that would be involved if fraud were to occur. Apart from carefully checking the credibility of the seller beforehand, the buyer must cautiously choose suitable trade terms which allocate the risk of goods, cost, liability between buyer and seller (Zhang, 2013). The Letter of Credit fraud occurs mostly in international trade where a supplier receives a spurious letter of credit, which is usually accompanied by bank drafts with fake endorsements which guarantees payments (Onkagba, 1993).

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

2.1.4. Prevention and control of fraud

Fraud risk is a contributor to the operational risks of a business. An operational risk refers to the errors and events in a transaction or process that put the assets of the business at risk.

Some of the risks considered as operational risks include: incorrect and intentional false accounting, theft of assets or misappropriation of assets. Most banks focus on a limited number of risks mostly commonly of third party thefts but it's important to classify risks to possible type of offence and the potential perpetrators (Gates & Jacob, 2009). It is important to assets fraud risk in each and every area of the business. However, special attention must be granted to high risk areas and departments such as cash and cash management, payments, sales and fixed assets. Management and acquisition of loans is also a key area of fraud risk management. As most researchers have found, fraud has a significant negative impact on the sustainability and profitability of a business. Businesses must therefore invest time and resources to the identification, management and control of fraud (CIMA, 2009). Further, existing studies have shown that the most effective methods of combating fraud include: reducing the motive of employees, enhancing internal controls thus reducing opportunities and ensuring that there is no justification of acts of fraud through proper supervision and implementation of rules and regulation plus punitive action against fraud (CIMA, 2009). Kingsley (2012) noted that to reduce cases of fraud while enhancing the fraud detection and prevention strategies, businesses must have internal control systems embedded in the operational framework. Fraud in the banking sector and in deed in all businesses can be reduced if all control devices built into the system are implemented, enhanced and respected. Banks incur substantial operating costs by refunding customers' monetary losses (Gates & Jacob, 2009), while bank customers experience considerable time and emotional losses. They have to detect the fraudulent transactions, communicate them to their bank, initiate the blocking and re-issuance or re-opening of a card or account, and dispute the reimbursement of their monetary losses (Douglass & Malthus, 2009). It is therefore in a bank's self-interest to put measures to prevent fraud or detect it as soon as it happens an anti-fraud strategy includes elements of prevention, detection, deterrence and response.

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

2.1.4.1. Creating an Encouraging Work Atmosphere

A positive and good working environment enhances the compliance of employees to established rules, policies and procedures which are set for the success and sustainability of

the business. A good working environment enhances communication between employees and management and guarantees positive employee recognition and great reward system. This kind of working atmosphere reduces the levels of internal fraud in the organization (Kingsley, 2012). A workforce culture includes having adequate and sufficient policies, rules, regulations, procedures, protocols and practices human resource management of employees (recruitment, selection, orientation, development, remuneration, career advancement, motivation, training and termination) to deter fraudulent and corrupt behaviours include practices that deal swiftly with incidents and protect whistle blowers (ACFE, 2009).

2.1.4.2. Ethical Culture

An ethical culture includes defining principles and values have indicators of high levels of ethics in the organization as well as zero tolerance to corruption and fraud. It also enhances ethical climate and mental notes in the employees not to engage in fraud and corrupt activities. Ethical culture should be incorporated via ethical leadership through rewards and acknowledgement as a model of appropriate conducts in the face factors and behaviors that would promote or motivate employees to engage in fraud (ACFE, 2009). Attitudes within an organization often lay the foundation for a low or high risk fraud environment. In a high risk environment, petty issuers, expense fraud and other minor forms of fraud are overlooked or dealt with leniently. In low risk fraud environment, the business takes serious action on minor or major acts of fraud. In some cases, there may even be risk of total collapse of the organization either through a one act of fraud or very many small acts of fraud. Organizations have come to realize that high ethical standards bring long term benefits as customers and the community realizes that they are dealing with trustworthy organizations. They have also realized that improper, adverse actions, fraud and corruption often cause serious negative impacts to the people and organizations concerned when exposed (CIMA, 2009).

2.1.4.3. Perform expected and unexpected audit

Unannounced financial audits and fraud assessments should be done regularly. This can help unearth any vulnerability and appraise the effectiveness to the existing controls (Kingsley, 2012). Hillison et al. (1999) found that surprise fraud audits have potential to act as a deterrent to employee fraud. A surprise audit gives perpetrators less time to alter, destroy or hide records and other evidence. Some firms may be reluctant to use surprise, pre-emptive fraud audits because of a perception of adverse employee reactions. Honest employees should

be made to understand the importance of fighting fraud. It may be important for management to periodically communicate to employees the importance of audits and also to solicit staff input on how to conduct surprise audits. This may help in reducing suspicion and facilitate co-operation.

2.1.4.4. Enforce internal controls

This is designed to promote operational efficiency, provide dependable financial statistics, protect the assets and records and encourage adherence to prescribed policies. A sound internal control system have features that promote efficiency and effective tracking of transactions and ensuring that all activities are properly authorized, recorded, and reconciled (Kingsley, 2012). An internal control system should have all principles and procedures that support the organizations effective and effective operation. They deal with things like approval and authorization procedures, restrictions and control over transactions, reconciliation of activities and accounts and provision of security to assets.

The number of internal controls that an organization can have depends on nature and size. Internal controls minimize fraud. Examples of such controls may include requirement of multiple signatures for high value transactions, restriction belongings that can be brought into an office and conducting random searches. As part of the risk management framework, the organization must review the internal controls and ensure that any weaknesses in the internal controls are addressed. Furthermore, the organization has the responsibility of ensuring that internal controls are assessed and updated to meet global trends and best practices constantly. This will reflect good practice. Finally, these internal controls should be entrenched within the organization culture and operations (CIMA, 2009).

2.1.4.5. Compensation Programs

It is a human trait to want recognition and reward for positive performance and success. Continuous and rigorous assessment of employees performance, coupled with constant, timely and effective communication to the employee on the performance assessment has a huge bearing on the reduction of fraud. As part of the employee assessment process the organization must recognize and if possible reward any accomplishments of the employees, especially those whose performance require so.

Furthermore, employees must feel that the reward is of value to them. Failure to do so will lead to guilt feelings, low motivation and demoralization of employees which might create rationalizations for acts of fraud. Market research and surveys must also be done by the organization to identify whether the remuneration and compensation of employees is adequate, motivating and in line with industry trends. The findings of the survey will also be instrumental in striking a balance between the use of fixed and variable compensation. It is good to note that if compensation is based on compensation for short term performance, managers maybe motivated to cut corners or fabricate financial results to achieve those bonuses (ACFE, 2009).

2.1.4.6. Establish a fraud policy

Every bank should have an approach to deal with fraud. The approach should be clearly stated in the fraud policy. This is established to facilitate the implementation and actualization of internal controls which will aid in detection and prevention of fraud against companies. The must be applicable to any wrongdoing, or suspected misdeed, involving all stakeholders in the business (ACFE, 2009). A fraud policy should have a scope, what actions constitute a fraud, the unit responsible for investigations, confidentiality clauses, and an authorization for investigating suspected fraud, reporting procedures, and termination procedures. A bank fraud policy should be separate and distinct from a corporate code of conduct or ethics policy. It should be clearly communicated to all employees through new orientation of new hires, annual training seminars and annual performance evaluations. It is important to have a written acknowledgement by each employee that the policy has been read and understood as required as stated by (Hillison, Pacini and Sinason, 1999).

2.1.4.7. Establishing a telephone hot line

CIMA (2009) notes that a dedicated and confidential 24/7 hotline to report fraud is one of the most effective strategies to combat fraud. The hotline must be strictly confidential and will greatly aid the company's efforts to detect fraud. Indeed, studies have shown that most losses in an organization are caused by the ignorance of small signs and lack of fraud detection strategies. In addition to installation of a telephone hotline, every member of the organization must be aware that it is his/her responsibility to report any kind of fraud or irregularity in the business. Therefore, the hotline must have inbuilt facilities that ensure that the identity of the reporter is not revealed whether by choice or default (CIMA, 2009). Anonymous tips

received through hotlines are an effective strategy and channel to detecting fraud. The hotline should be utilized to create awareness, ensure ease in use and prompt actions on reports on the hotline. Education of employees on the use of the hotline is also important since they are the source of information. To enhance the efficiency of the hotline it must be manned by a qualified and experienced employee who has multilingual abilities and is available 24 hours a day, 365 days a year. Once a fraud has been reported via the hotline, it would be important to let the whistle blower know that timely action is taken. It would be important to analyze collected data against the industry norm. Hotlines may be supported in-house or provided by a third party (ACFE, 2009).

Bierstaker et al. (2006) found that some companies offer third party hotline service where a bank can subscribe. The annual subscription rate may be quite modest. The results of all calls are provided to the client within two or three days. A hotline may not be an effective detection tool but it enhances deterrence. Potential perpetrators will likely have second thoughts when considering the risks of being caught.

2.1.4.8. Enforce mandatory vacations

A mandatory vacation policy is used to insure banks. The policy requires that all officers take two consecutive weeks of vacation per year. It is important that vacations include an employee's high risk tasks. Job rotation programs should also be designed so that employee has little or no access to the documents, journals, data files, programs and other items that he has worked with on previous job. Mandatory vacations and job rotations plans deter fraud as well as allow existing frauds scheme to surface (Hillison et al, 1999).

2.1.4.9. Protect information systems

A fraud using or against an information system may be through entering false or fraudulent data into an information system or alteration of computer programs or code. One can program the computer to round off shillings and cent amounts down and accumulate fractions of cents in an account to which the fraudster has access. One can also steal data from an information system e.g. bank customer lists, merger plans etc. Computer fraud has increased because of the growth of internet which has increased the dial –in ports to computer networks. Although passwords are the oldest line of computer defence, they still constitute the most effective and efficient method of controlling access. Proper password use is necessary if control is to be maintained (Bierstake et al., 2006). Employees in the bank should always ensure they change

the default assigned passwords such as their last names to a more secure one. Employees should also be prohibited from sharing passwords with other users. Password security requires that they can be changed periodically.

An organization operating system should keep track of unsuccessful attempts to gain access and limit attempts before the user is automatically signed off according to Hillison et al. (1999). Technology has advanced to create new forms of passwords protection using biological features of the user such as voice prints, finger prints, retina patterns and digital signatures (Bierstake et al., 2006).

2.1.4.10. Increase the use of analytical view

Bierstake *et al.* (2006) found that increase the use of analytical view can assist to prevent and detect fraud. Fraud can affect financial statement trends and ratios. Accounts may therefore be manipulated to conceal a fraud. It may be important for an investigator to analyse several years of financial statement data to obtain a clear picture of the financial impact of the crime if any. Fraud analysts should check for erratic patterns in account balances. If present it means there is a fraudulent activity.

2.2. Empirical Reviews on Factors of Fraud

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

According to the study, fraud grows and thrives because of mainly three major factors: pressure on employees to commit fraud, availability of opportunities for fraud and the ability of the employee to rationalize the act of fraud (Pan et al, 2011). However, these factors may drive fraud under differing conditions and environments. The factors may lead to proliferation of fraud during economic hardships especially when the organization and or the

employees are undergoing times of economic and financial strain. Similarly, as companies seek to reduce their level of employees or reduce their expenditure especially on employee allowances and remuneration, the opportunities for fraud may increase due to a reduction in the effectiveness of internal controls. This is in fact grounded in the findings of the study of the Association of Certified Fraud Examiners (ACFE) (2009) in which over 80% of the respondents indicated that economic hardships was a reason for the growth of fraud.

Employee layoff (dismissal and/or turnover) has the effect of establishing gaps in the internal control systems which promote fraud. In effect the ACFE (2009) concluded that there exists an inverse relationship between fraud in the organization and its economic strength. Trust in employees is also a driver of fraud in organizations. Trusted employees can lead to increases in fraud especially where the guilty employee perceives to have a dilemma or financial problem which he/she deems not shareable with the management or fellow employees. If the employee genuinely believes that the violation of the trust may lead to the solution of the problem, the employee will most likely violate this trust and secretly resolve the problem (Cressey, 1973).

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

A red flag is a set of circumstances that is unusual in nature or vary from normal activity. It is a signal that something is out of the ordinary and may need to be investigated. Employee red flags include lifestyle changes (expensive cars, jewellery, homes clothes, and significant personal debt and credit problems) behavioural changes, high turnover especially in areas

vulnerable to fraud, refusal to take vacations or sick leave and lack of segregation of duties in the vulnerable areas. A fraud model brings together all these aspects of fraud. According to ACFE (2009) these factors are embedded in a model grounded on three factors promoting fraud: motivation to fraud, availability of opportunities and rationalization of the act of fraud (ACFE, 2009).

2.2.1. Pressure to commit fraud

The pressure to commit fraud may emanate from different sources. Nonetheless, Wilson (2004) noted that greed in employees is the major source of pressure. This relates to duress that is caused by an employee's immediate need for assets (Cressey, 1973). Hillison et al. (1999) stated that 95% of all fraud cases involve needs caused by financial difficulties or vice-related activities. Pressure pushes the fraudster to take risks in order to obtain what they want. Notably, an emergency of finance is only seen from the view of the fraudster to lead to an act of fraud. The pressure may actually now even be seen by a third party observer. It is the combination of emergency and need that is common to the concept of pressure to commit fraud. Pressures are often not readily apparent from day to day activities, then fraud investigators need to gain knowledge and understanding of the employees and to consider types of pressures that prevail.

Hillison et al. (1999) found that numerous employee situations are consistent with actual or perceived pressure. For example: Greed or preoccupation with success, living beyond one's means, high personal debts, high medical bills, poor credit or inability to obtain credit, unexpected financial needs, personal financial losses, expensive habits such as the use of drugs, alcohol or gambling, illicit sexual relationships, work-related pressure such as low pay, failure to receive a promotion, unfair treatment, lack of respect or dissatisfaction with one's job, boredom, challenge to see if you can beat the system without getting caught and spouse or family-related imposed pressures.

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

pressures that enhance and enable the proliferation of fraud are financial losses, falling sales, failure to meet earnings expectation or inability to compete with other companies (Albrecht, 2008).

2.2.2. Opportunity to Commit

Fraud Opportunity is the first important factor motivating fraud. Opportunities to commit fraud represent gaps, deficiencies, weaknesses and loopholes in the internal control systems of a business that an employee can utilize to commit fraud (Wilson, 2004). Hillison et al. (1999) found that opportunities to commit fraud can arise when an employee acquires absolute trust in an organization where the internal controls are weak or non-existent. The employee will then perceive that an opportunity exists to commit fraud, conceal it and avoid detection. Companies with weak internal controls are at higher risks of recording fraud cases and opportunities for fraud. According to CIMA (2009) where a business does not have adequate security over its assets and property and exposes the assets the likelihood of fraud is higher than otherwise. On the other hand despite the levels of honesty in employees (i.e. from total honesty to total dishonesty) the availability of opportunities may sway the employee into committing fraud.

Hillison et al. (1999) noted that strong internal control systems are an important means of limiting the opportunity for fraud, but a person with unlimited access and overriding authority gained through trust may be able to override the controls to commit fraud. While auditors can readily regulate the pressure attribute, they can help mitigate opportunity to commit fraud. Typical failures in control related issues that increase opportunity for fraud include: lack of segregation of duties, failure to inform staff about company rules and the consequences of violating them, rapid turnover of employees, constantly operating under crisis conditions, lack of an audit trail, ineffective supervision, lack of transaction authorizations, poor accounting records, lack of physical controls, lack of access to information, breakdown of procedures. Employees attempting to commit fraud are likely to work unusual hours and do not take days off (Hillison et al., 1999).

2.2.3. Rationalization of the act of fraud

Rationalization of the act of fraud also known as the moral justification through which employees create an attitude or thought that committing fraud is proper and right. It is created when an employee justifies his actions or crime through statements such as: it will be impossible for the company to find, the company can do without it, I am stealing, the

company does not recognize my efforts and therefore it's my reward for hard work (Clark and Hollinger, 1983). These justifications for the act of fraud often lead to fraud in the business. Justification of the acts of fraud can also emanate from the actions of superiors who engage in fraud. Junior employees will therefore engage with the rationalization that others are doing it, the earnings of the business are adequate to cover the losses or I am angry at the company (Clark and Hollinger, 1983). In summary Clark and Hollinger (1983) argued that most individuals commit fraud due to the consistency in the justification and the personal code of ethics.

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

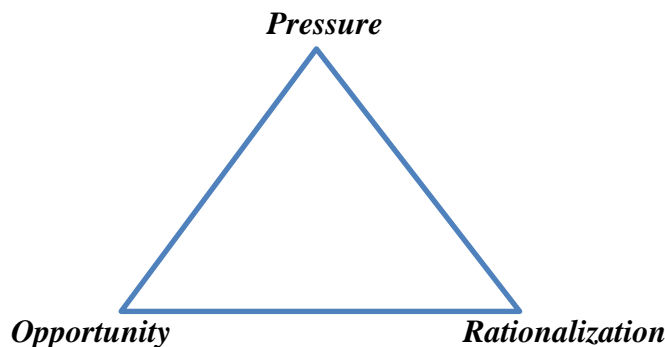


Figure 1: Fraud Triangle

Source: Well (2012)

2.3. Summary of Literature and Research Gaps

According to Kingsley (2012) in Nigeria revealed that institutional factors that lead to fraud may include but are not limited to weak accounting system, control systems, inadequate supervision of subordinates, disregard of know your customer rule, poor information technology and data base management, hapless personnel policies, poor salaries, general frustration occasioned by management unfulfilled promises, failure to engage in regular call

over, employees refusal to abide with laid down procedures without any penalty, banks reluctant to report fraud due to the perceived negative publicity, banking experience of staff and inadequate infrastructure that may include poor communication systems result to a build-up of unbalanced posting, inadequate training, poor book keeping and genetic traits like kleptomaniac who pathologically steals for fund. In the same author, social factors are those that can be traced to the immediate and remote environment which may include penchant to get rich quick, slow legal process, poverty widening gap, job insecurity, peer group pressure, societal expectations, financial burden on individuals, stiff competition in the banking industry may see banks engaging in fraud to meter up in terms of liquidity and profitability.

According to a survey done in 2009 by fraud examiners, the current increase in fraud cases stems from the intense pressure faced by individuals.

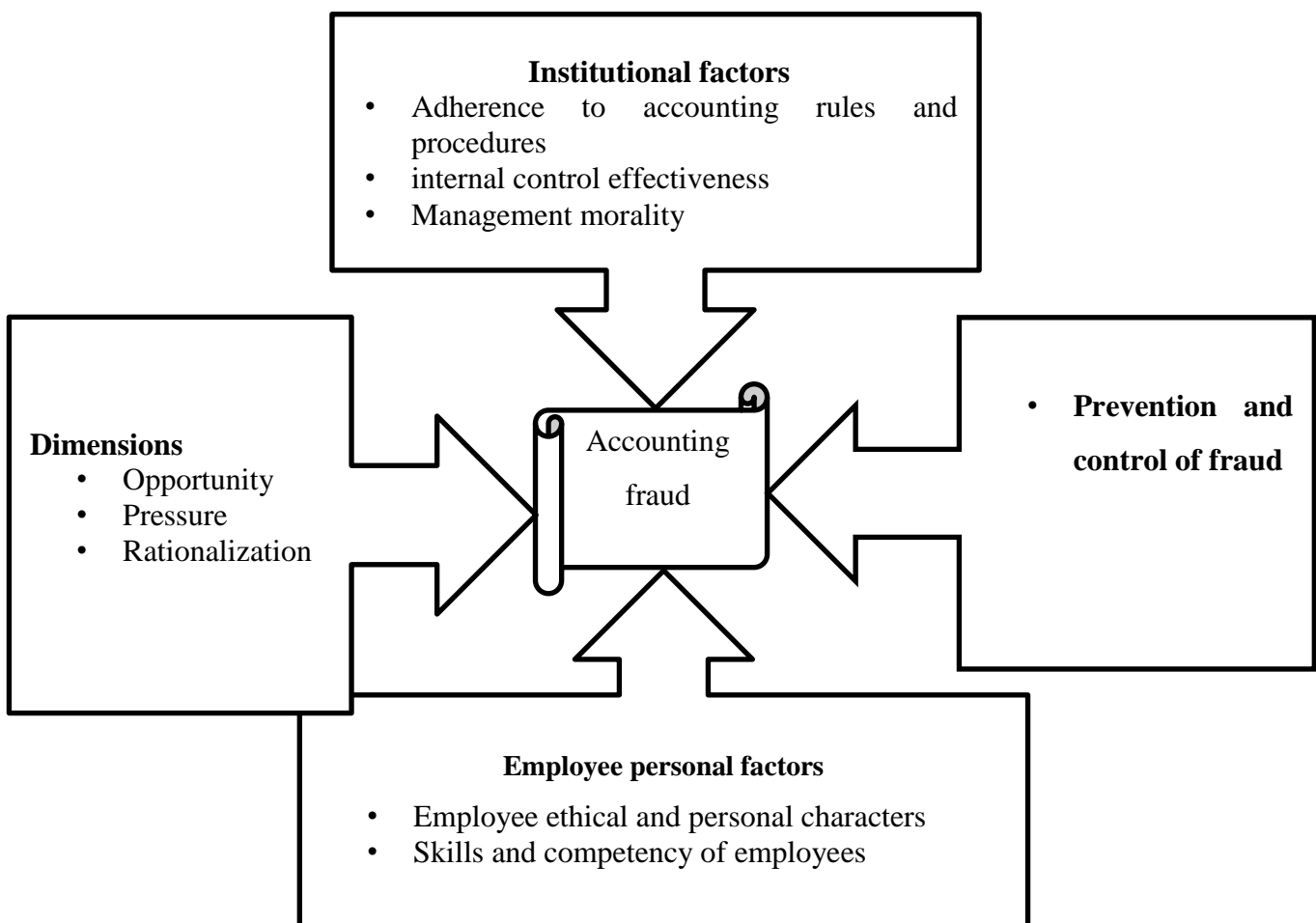


Figure 2: Conceptual Framework of Study

CHAPTER THREE

3. METHODOLOGY

3.1. Research Design and Approach

Research can be classified as descriptive, explanatory and exploratory depending on the specific purpose that the research tries to address. Descriptive research sets out to describe and to interpret what it looks at individuals, groups, institutions, methods and materials in order to describe, compare, contrast, classify, analyze and interpret the entities and the events that constitute the various fields of inquiry. It aims to describe the state of affairs as it exists (Kothari, 2004). Therefore, to achieve the research objectives the study adopted both descriptive and explanatory research designs. Descriptive research design was mainly used in order to analyze the existing fraud practices of both the private and public banks found in the study area based on the data collected from branch managers, customer service managers, auditors and clerical employees of the target banks through questionnaires and interviews. Multiple linear regression model from the explanatory research design was employed to empirically identify factors affecting the fraud.

As a matter of fact, there are three types of research approaches; quantitative, qualitative, and mixed (combination of both quantitative and qualitative) approaches. The former involves the generation of data in quantitative form which can be subjected to rigorous quantitative analysis in a formal and rigid fashion. Qualitative approach to research is concerned with subjective assessment of attitudes, opinions and behavior. Research in such a situation is a function of researcher's insights and impressions. Such an approach to research generates results either in non-quantitative form or in the form which are not subjected to rigorous quantitative analysis (Kothari, 2004). Quantitative data is usually gathered using questionnaires while qualitative data is gathered employing semi structured interview and from documents (Saunders et al., 2009, p.154). Therefore, the researcher employed both qualitative and quantitative approaches to examine its objectives.

3.2. Population and Sampling Frame

The target population of the study was current branch managers, customer service managers, auditors and clerks (accountants) employees of both private and public banks in Wolkite town of Gurage zone. In Wolkite town, there are around 14 (three public namely commercial banks of Ethiopia; and around 11 private banks namely Debub Global Bank, Awash Bank, Abyssinia Bank, Oromia International Bank, Nib International (two branches) and Hibret Bank, Cooperative Bank of Oromia, Wegagen Bank, Buna International bank, and Dashen Bank).

3.3. Sampling Techniques and Sample Size Determination

Sampling techniques refers to all the systems and process that a researcher uses to select the sample size (Cooper and Schindler, 2001). This study used a stratified random sampling technique. A stratified random sampling technique is justified for use in this study as it is based on scientific rules of probability, ensured adequate representation of all classes of employees and reduced the probability of respondent bias in the study i.e. respondents predominantly selected from one class (stratum). The strata for this study were used in different stages. Banks in the Wolkite town were stratified as public and private. Besides, the strata were constructed for the various employee classes who have a direct involvement in identification, prevention and reporting of fraud. The major importance of stratification is in this study is for the inclusion of sample of respondents from both private and public banks. The strata in this case during employees sampling were, therefore, branch managers, customer service (middle level) managers, auditors and clerks.

In the first stage all the available banks in Wolkite town were stratified into two as the public and private banks. Because of the smaller number of banks in Wolkite town, from the public banks, commercial bank of Ethiopia (all the three branches); and from private banks, all the 11 private banks namely Debub Global Bank, Awash Bank, Abyssinia Bank, Oromia International Bank, Nib International Bank (both *Yejoka* and Wolkite branches), Hibret Bank, Cooperative Bank of Oromia, Wegagen Bank, Buna International bank, and Dashen Bank were sampled.

In the second stage, from among the selected banks in Wolkite town, total sizes of sample of employees (branch managers, customer service manager, and auditors and clerks) were selected using stratified random sampling technique. After categorizing the employees,

simple random sampling technique was used to select the sample of employees. Proportional determination of the number of sample employees from each sample banks in this stage was based on the number of total employees in respective banks.

The size of statistical sample can be defined as the number of observations to be drawn from the population that constitute it (Yin, 2003). Taking into consideration variables such as homogeneity/heterogeneity in the data, and the experiences of other researchers (Bierstaker et al., 2006), this study utilized a total sample of 117 employees (from all categories of employees).

Since, the researcher required collecting of data from the four categories of respondent (namely branch managers, customer service managers, auditors, and bank clerk/accountant/tellers), the respective sample sizes of employees of different categories arecalculated as follows.

$$\text{Sample size for Branch managers } (n_1): n_1 = \frac{14}{1+14(0.05)^2} = 13.53 \sim \underline{\underline{14}}$$

$$\text{Sample size for customer service managers } (n_2): n_2 = \frac{9}{1+9(0.05)^2} = 8.80 \sim \underline{\underline{9}}$$

$$\text{Sample size for auditors } (n_3): n_3 = \frac{4}{1+4(0.05)^2} = 3.96 \sim \underline{\underline{4}}$$

$$\text{Sample size for clerk/accountant/tellers } (n_4): n = \frac{116}{1+116(0.05)^2} = 89.92 \sim \underline{\underline{90}}$$

Therefore, according to the computations of samples size above, a total of 117 samples of respondents (all the 14 branch managers, all the nine customer service managers, all the four auditors, and 90 bank clerk/accountant/tellers) were considered. The detail distributions of the sample size of the employees from each sample banks are presented below in Table 1 and the summarized one in Table 2.

Table 1: Proportional determination of sample of employees from each worker's category

Sample Branch	No of Total Employees (N)					No of sample Employees (n) ¹				
	Branch Manager (N ₁)	Customer Service Manager (N ₂)	Auditor (N ₃)	Bank Clerk/accountant/teller (N ₄)	Total Population size (N _t)	Branch Manager (n ₁)	Customer Service Manager (n ₂)	Auditor (n ₃)	Bank Clerk/accountant/teller (n ₄)	Total sample Size (n)
Commercial a bank of Ethiopia (Wolkite branch)	1	3	2	26	32	1	3	2	20	26
Commercial a bank of Ethiopia (Yejoka branch)	1	1		14	16	1	1	-	11	13
Commercial a bank of Ethiopia (Bekur branch)	1	1		13	15	1	1	-	10	12
Debub Global Bank,	1			5	6	1	-	-	4	5
Awash Bank	1	1		6	8	1	1	-	5	7
Abyssinia Bank	1	1	1	6	9	1	1	1	5	8
Oromia International Bank	1			5	6	1	-	-	4	5
Nib International Bank (Yejoka Branch)	1			6	7	1	-	-	5	6
Nib International Bank (Wolkite Branch)	1	1	1	6	9	1	1	1	4	7
Hibret Bank	1	1		5	7	1	1	-	4	6
Cooperative Bank of Oromia	1			5	6	1	-	-	4	5
Wegagen Bank	1			7	8	1	-	-	5	6
Buna International Bank	1			5	6	1	-	-	4	5
Dashen Bank	1			7	8	1	-	-	5	6
Total	14	9	4	116	143	14	9	4	90	117

¹ The total sample size of each category of employees are allocated across the selected banks on the basis of proportional sampling criteria taking into account of the number of total employees in the respective banks..

Table 2: Summary of proportional of sample size determination

Bank Type	Sample Branch	No. of total Target Employees	Sample of Employee
Public Banks	Commercial a bank of Ethiopia (Wolkite branch)	32	26
	Commercial a bank of Ethiopia (Yejoka branch)	16	13
	Commercial a bank of Ethiopia (Bekur branch)	15	12
Private Banks	Debub Global Bank,	6	5
	Awash Bank	8	7
	Abyssinia Bank	9	8
	Oromia International Bank	6	5
	Nib International Bank (Yejoka Branch)	7	6
	Nib International Bank (Wolkite Branch)	9	7
	Hibret Bank	7	6
	Cooperative Bank of Oromia	6	5
	Wegagen Bank	8	6
	Buna International Bank	6	5
	Dashen Bank	8	6
	Total	143	117

3.4. Data Types, Sources and Method of Data Collection

3.4.1. Data Types

To achieve the objectives of the study, a combination of both qualitative and quantitative data were collected.

3.4.2. Sources of Data

There are two types of sources when collecting data; primary and secondary data sources. The study was undertaken mainly based on the data that were collected from both primary and secondary sources of data that enable the researcher to meet the objectives of the study.

Primary Data Source: Primary data consists of all the data collected throughout the study that can be directly related to the study purpose. Primary data on types of accounting frauds committed, what factors contributed to individual employees to commit fraud, employees'

ethical and personal characters, skills and competency, adherence to accounting rules and procedures, and internal control effectiveness of the firm were collected by using semi-structured questionnaire which contained a mixture of closed ended and open-ended questions. In order to assess the fraud commitment, questionnaires were distributed to the respondents working place so as to address the objective of the research. The researcher was also utilized interview checklist in order to obtain general data like about the objectives of the banks' establishment; total amount of fraud committed throughout the survey period, accounting fraud preventing mechanisms, the remedial measures/actions taken against the commitment of accounting fraud (if any) from the selected branch managers of the bank.

Secondary data Source: Secondary data were also collected from different relevant documents recorded in the bank related to organizational structure and others fraud commitment related information; and from development published and unpublished books, journals, articles, previous studies, annual reports and website of the bank.

3.4.3. Method of Data Collection

The primary sources of data were collected through semi-structured questionnaire (self-administered surveys) and interview as a tool. By semi-structured questionnaire, it is to mean that both open ended and closed ended questions were included in it. The primary data were obtained by questionnaire useful in describing the characteristics of a large population. Prior to the main data collection, for checking the reliability and validity of, pre-test on the questionnaire as an instrument was done.

The questionnaires were distributed at the respondents place to be filled individually and collected in convenient ways. Face to face in-depth interviews were also conducted to collect the primary data to address mainly the qualitative the research one. The secondary data were also collected by document analysis from the banks' books, articles, annual reports and bank records related to fraud.

3.5. Method of Data Analysis and Presentation

After collecting the necessary data, it was analyzed in order to get some sort of findings and to make conclusions. Once the data is received, the researcher edited it by checking for missing data or unfilled sections of the questionnaire. Then, the primary data collected

through semi structured questionnaire and interviews were entered into software, analyzed; compared and interpreted using STATA version-13 in order to code and analyze the responses from questionnaire. Descriptive statistical techniques were adopted for analysis of data from questionnaire responses of respondents, in doing so percentages, frequency, and other important statistics were computed and summarized using tables, graphs (pie chart). The collected data were analysed using mean and mode which are measures of central tendency. Other data analysis techniques and measures used in this study include: range, standard deviations and variances. Particular responses of the different classes of respondents were cross tabulated. Correlation analysis and multiple linear regression models were also employed to investigate the relationship between and identify various contributing factors to fraud in banks. The collected data from interview discussion were also organized as the interview checklist designed and included in the data discussion and interpretation part of the study. Hence, the final findings using of all analytical methods were presented using tables, graphs, pie charts, and frequency distributions depending on the nature of the data.

3.6 Model Specification and Description of Variables

3.6.1 Model Specification

A strictly dichotomous variable often is not sufficient for examining the extent and intensity of some problem such as amount of accounting fraud committed by bank employees. Therefore, multiple linear regression model was applicable for accounting fraud analysis if all bank employees to be surveyed under consideration participated in accounting fraud commitment. The Econometric model specification of account fraud function notation is:

$$Y_i = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + \dots + b_nX_n + e \dots\dots\dots(1)$$

Where Y_i is the dependent variable representing the tendency of accounting fraud committed, X_i are explanatory variables/factors like sex, age, position in the bank, internal control effectiveness, skills and competency of employees, information asymmetry, adherence to accounting rules, management morality, employee ethical and personal character, reward system suitability affecting fraud, b_i is a vector of parameter to be estimated, and e is the disturbance (error) term.

3.6.2 Description of Study Variables

3.6.2.1 Dependent variables

Accounting fraud tendency (fraud): Accounting fraud tendency is referred to the misuse or embezzlement of an asset which is described by misstatements arising from fraudulent financial reporting on the asset by a bank employee in the survey period of 2018/19 fiscal year.

3.6.2.2 Independent variables: Based on the preliminary information and other literatures reviewed, the following variables were defined and hypothesised accordingly.

Table 3: Hypothesis of dependent and independent variables in summary

Independent variables	Measurement	Expected effect on the dependent variable (fraud tendency)
Internal control effectiveness	Dummy	-
Reward system suitability	Dummy	-
Information asymmetry	Dummy	+
Adherence to accounting rules	Dummy	-
Management morality	Dummy	-
Employee ethical and personal character	Dummy	-
Skills and competency of employees	Dummy	-

CHAPTER FOUR

4. RESULT AND DISCUSSION

4.1. Result of descriptive analysis

4.1.1. Socio-demographic characteristics of employees

4.1.1.1. Respondent profiles

The questionnaire was distributed to 117 samples of employees of from 14 selected banks of both public and private/non-governmental banks in the study area. As depicted in the figure 1 below, from the total respondents about 90 (76.92%) were worked on the accounting and related area; 14(11.97%) worked as branch manager; 9(7.69%) as customer service and related manager; and the remaining 4(3.42%) were working as auditor. It showed that all the categories of the respondents were believed to be associated with the internal control and accounting fraud.

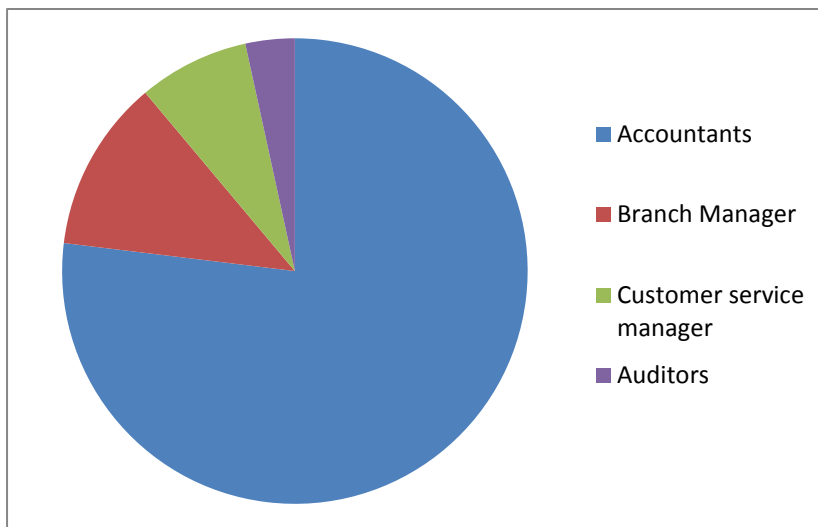


Figure 3: Respondent profiles

4.1.1.2. Sex of the respondent

The results of the findings regarding the sex of the employees, the result in figure 3 below showed that 79 (67.52%) were male and the remaining 38(32.48%) were female employees. Male respondents were more than female respondents by 35.04%.

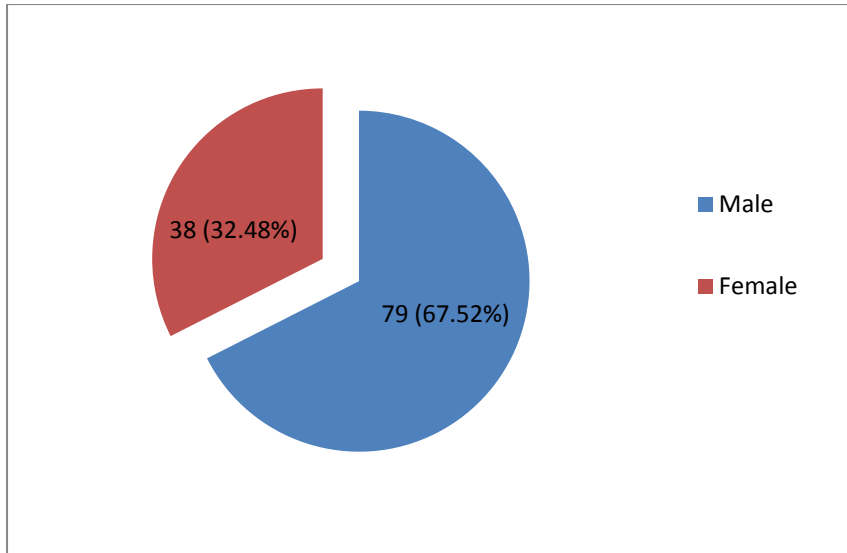


Figure 4: Sex of the employees

4.1.1.3. Educational qualification of the respondents

In terms of the educational background of respondents, it is revealed that 20.51% and 74.36% of the respondents have Master of Arts in Business and Administration and Bachelor of Arts degrees in the field of the accounting and other related discipline respectively and the remaining 5.13% groups have other than the stated educational qualification. Accordingly, the result indicated that almost all of the sample respondents were having educational level of above BA degree which implies that they are qualified enough to provide relevant data about the problem.

Table 4: Educational qualification of the respondents

Qualification	Frequency	Percent
Master of Art (MA) in Business administration	24	20.51
Bachelor of Art (BA) in Management	17	14.53
Bachelor of Art (BA) in Economics	14	11.97
Bachelor of Art (BA) in accounting	56	47.86
Other	6	5.13

Source: Own computation form survey result, 2018

4.1.1.4. Age and service year of the employees

The result of the descriptive analysis revealed that from the total sample respondent, the minimum and maximum age of the employee in the banks were 26 and 64 years respectively; and the average age of the employees was around 37 years. With regards to the service year of the employees in banks discovering how many years the various respondents had worked in the bank. The minimum and maximum working experiences of the employee were 1 and 12 years respectively. The average service year as working experience in banks was around 6.

4.1.2. Motivation, Opportunities and rationalizations to commit fraud

4.1.2.1. Motivating Factors for Committing Accounting Fraud

Sample of employees in the respective bank were asked to point out the major fraud motivating factors responsible for committing fraud in the bank in that the result of descriptive analysis revealed that personal financial losses, lack of internal control, living beyond own means, ignorance, apathy, and incapacity, lack of an audit trail, and other miscellaneous factors. As presented below, from the total respondents, around 46.15% replied that the reasons that were contributing to bank employees to commit accounting frauds are the combination of those factors which are stated in the table below. Next to the combined factors, the highest frequented response which accounted 12.82% of the total response is that the cause for the accounting fraud to be committed inside the organizations is living beyond once means. A perceived financial need, whereby an employee in bank strongly desires material goods but doesn't have the money or means to acquire them. A person may also have an addiction such as gambling or drugs, and that could be a motivator as it required more financial source beside own means. Furthermore, factors such as lack of internal control (11.97%) and ignorance, apathy, and incapacity (10.26%) respectively ranked third and fourth in terms of motivating or triggering accounting fraud.

Table 5: Motivating Factors of Accounting Fraud

Motivators of fraud	Frequency	Percent	Rank
Lack of an audit trail	6	5.13	6
Failure to discipline fraud perpetrators	5	4.27	7
Personal financial losses	11	9.4	5
Living beyond once means	15	12.82	2
Ignorance, apathy, and incapacity	12	10.26	4
Lack of internal control	14	11.97	3
The combinations of all the above	54	46.15	1
Total	117	100	

Source: Own computation from survey result, 2018

The result of the descriptive analysis revealed that employees in bank are mainly forced to commit accounting frauds because of the motivation, opportunity and rationalization. The motivation component of fraud or embezzlement is the burden or the need that an employee feels. Financial need, such as the need to replace belongings after a house fire, financial distress from a lost job, high medical bills, child support payments, investment losses, or heavy personal debt were found to be the motivation and other strongly financial desires for material goods and fulfilling employees' addiction of gambling or drugs but doesn't have that money or means to acquire them were found to be the motivational factors for fraud.

4.1.2.2. Opportunities to commit accounting frauds

Question: What do you think are the contributing opportunities of employees for committing fraud in your respective bank?

As presented in table below, access to assets, access to peoples, and access to records/systems were replied by respondents as the contributing opportunities for accounting fraud in bank. As presented below the opportunity to commit fraud includes the access to assets, people, information, and computer systems that enables employees to commit the fraud and even to hide it. 31.6%, 15.4%, and 14.53% of employees respectively responded that access to records/ systems, access to assets, and access to information are major components of fraud. Employees are given all sorts of access to assets and records in order to carry out their job duties, and that access is one of the key components of fraud.

Table 6: Opportunities to commit accounting frauds

Opportunities for frauds	Frequency	Percent	Rank
Access to assets	18	15.39	3
Access to information	17	14.53	4
Access to peoples	11	9.4	5
Access to records/ systems	37	31.62	1
The combinations of all the above	34	29.06	2
Total	117	100	

Source: Own computation form survey result, 2018

Question: What are the reasons that individual employees in bank might be given with more access and control over the opportunities?

The reason why individual employees in bank might be given more access and control over the above opportunities mainly because of the case that bank structures become more complex and managers may have become responsible for a wider range of employees and functions. Increased access to resources and data, along with increased control over functional areas of companies, has created a situation in which it may be easier than ever to commit occupational fraud. Obviously, these increased opportunities to commit fraud involve risk, but in many ways they are unavoidable in the modern business world. However, it is so importantly recommended to limit employees' access to only the assets, systems, and information that are necessary for them to properly perform their jobs.

4.1.2.3. Rationalization to commit accounting frauds

The other important piece of the fraud is rationalization; the process by which an employee determines that the fraudulent behaviour is assumed to be okay in her or his mind. What matters in rationalization of committing frauds is the moral value of the employees themselves. For those with deficient moral codes, the process of rationalization is easy. For those with higher moral standards, it may not be quite so easy; they may have to convince themselves that a fraud is okay by creating excuses in their minds.

Question: Have you believed in the determination that the fraudulent behaviour is assumed to be okay in your mind?

As depicted in table below, while around 66% of respondents believed that the fraudulent behaviour is assumed to be okay in their mind the remaining 34% of employees not so.

Table 7: Rationalization of frauds

Rationalization of frauds	Frequency	Percent
Yes	40	34.19
No	77	65.81
Total	117	100

Source: Own computation form survey result, 2018

4.1.4. Fraud Mitigation Mechanisms

Question: In your opinion what ethical value must be followed by the employees of the bank in order to mitigate (diminish) the fraud related problems?

In this regard majority of the respondents stressed that organization should have an ethical value to combat accounting frauds on top of the company internal control. An organization's culture evolves from the values of its members and the culture, in turn, exerts a strong influence on the actions, decisions, and behaviors of all employees. An ethical culture requires engaged employees and managers who understand why doing the right thing is important for the organization's long-term viability; and they have the determination to see that in fact the right thing does get done.

Table 8: Fraud Mitigation Mechanisms

Mechanisms	Frequency	%.	Rank
Providing uniform Information	6	5.13	7
Keeping management morality and employee ethics	32	27.35	1
Improve skill and competency of employees	15	12.82	4
Establishing suitable rewarding system	21	17.95	2
Ensure effective internal controlling system	14	11.97	5
Obeying for accounting rules	11	9.4	6
All the combinations	18	15.38	3

Source: Own computation form survey result, 2018

From the above result, keeping management morality and employee ethics (i.e. 27.35% of respondents replied) to make sure of employees to feel a sense of responsibility and accountability for their actions and for the actions of others ranked first in alleviating the occurrence of accounting fraud in the bank. Besides, establishing of suitable rewarding system (17.95%), improving of the skill and competency of employees (12.82%), and ensuring of effective internal controlling system (11.97%) were the major important mechanisms to reduce and or alleviate the accounting fraud.

4.1.3. Assessment of the perception of employees towards factors determining fraud commitment

As stated by Wilopo (2006) internal control effectiveness includes the application of appropriate authority and responsibility, the examination of transaction records, physical control, and accounting system, as well as the monitoring and evaluation of superiors to subordinates on the operational activities to assess the implementation of internal control. Table 9 below depicted the concern of the internal controlling practices on the accounting fraud. For this respondents were questioned as whether the organizational internal control mechanism is important in reducing the fraud commitment; in this item 5.13% and 27.35% were strongly disagreed and disagreed respectively. In contrary 23.93% and 31.62% replied with agreement and strong agreement respectively that the organizational internal control mechanism is important in reducing the accounting fraud. The remaining 11.97% did respond neutral on it. From this the majority of the key respondents confirmed that the bank should control practices related with fraud.

Another factor information asymmetry is a situation where management has better information on the company's activities, more familiar with the input-output relationship, better knowledge of the potential of company performance, more familiar with the technical work, more knowledge of the influence of external factors, and better understanding on what can be achieved than the parties outside the company. Around 23% and 30% of the respondents strongly disagreed and strongly agreed respectively, that information in their respective bank is symmetrically communicated to the employees. This showed that considerable proportion of employees are questioned the uniformity of information communication. Regarding the adequacy of skill and competence of employees in bank,

around 20.5% and 43% of employees respectively agreed and strongly agreed that banks where they are working in are with adequate skill and competency of employees.

Table 9: Perception of employees towards factors determining fraud commitment

No.	Questions	Response scale (%)					Total (n=117)
		Strongly Disagree	Dis-agree	Neutral	Agree	Strongly Agree	
1	The organizational internal control mechanism is important in reducing the fraud commitment	5.13	27.35	11.97	23.93	31.62	100
2	The employees rewarding system of the bank determines the accounting fraud	6.84	9.40	7.69	21.37	54.70	100
3	Information in the bank is symmetrically communicated to the employees	23.08	17.09	17.09	12.82	29.91	100
4	Obedience of employees to accounting rules and responsibilities in the organizations is highly related to accounting fraud	2.56	10.26	8.55	29.06	49.57	100
5	Managements are actively involved in supervising the employees to make sure accounting and finance rules are executed	14.53	18.80	16.24	18.80	31.62	100
6	Employee ethical and personal characters in your respective bank is influences fraud	21.37	29.91	8.55	11.11	29.06	100
7	The bank where you are working in is full of employees with adequate skill and competency of employees in your organization	8.55	14.53	13.68	20.51	42.74	100

Source: Own computation of survey result, 2018.

4.2. Result of Econometric Analysis

The econometric analysis was used to examine factors affecting the tendency of committing accounting fraud in bank. The analysis was undertaken using the multiple linear regression model. For the parameter estimates to be efficient, the hypothesized explanatory variables were checked for existence of heteroscedasticity and multicolliniarity.

Test for multicollinearity: A certain degree of correlation (multicollinearity) between the independent variables is normal and expected in most cases. Multicollinearity is considered severe and becomes a problem when this correlation is high and interferes with the estimation of the model's parameters at the desired level of statistical certainty. For this study, formal test namely Variance inflation factor (VIF) was used to check the severity of multicollinearity problem. The result revealed that there was no existence of severe multicollinearity problem with mean VIF of 1.09 and each explanatory variable VIF of less than 2 (Appendix Table 1).

Test of heteroscedasticity: heteroscedasticity tests were performed using Breusch-Pagan test for heteroskedasticity and there was no serious heteroskedasticity problem in data set. The heteroscedasticity test value ($\chi^2(1) = 3.03$; $\text{Prob} > \chi^2 = 0.182$) revealed that there was no existence of heteroskedasticity problem, as the null hypothesis saying there is constant variance of error terms is accepted at 5% significance level.

As shown in Table 10 below, the F-value for the model from the analysis, 39.67 indicated that the model is fit enough to explain the effect of the hypothesized variables on the dependent variable and it is good and statistically significant at 1% significance level. Similarly, the coefficient of multiple determinations (Adjusted R^2) which was used to check the goodness of fit for the regression model was satisfactory and is found to be around 65.6%. it revealed that 65.6% of the variation in fraud commitment by bank employees was explained by the hypothesized explanatory variables.

Furthermore from the result of multiple linear regression (MLR) analysis below, among the independent variables regressed, five explanatory variables namely Information asymmetry, management morality, reward system suitability, internal control effectiveness, and adherence to accounting rule were found to significantly affect the tendency of committing accounting fraud.

Table 10: Result of Multiple linear regression model for factors determining tendency of accounting fraud

Source	SS	Df	MS	Number of obs =117		
Model	63.8135951	7	9.11622787	F(7, 109) = 39.67		
Residual	31.0255658	109	.229819006	Prob > F = 0.0000		
Total	94.8391608	116	.667881414	R-squared = 0.6729		
				Adjusted R-squared = 0.6559		
				Root MSE = .47939		
Variable			Regression Coefficient	Std. Err.	t	Sig
Information asymmetry			.185**	.0747	2.47	0.015
Management morality			-.369***	.131	-2.81	0.006
Skill and competency			-.088	.101	-0.87	0.386
Reward system suitability			-.196**	.092	-2.12	0.036
Internal control effectiveness			-.928***	.087	-10.67	0.000
Adherence to accounting rule			-.499***	.068	-7.37	0.000
Employee ethical and personal character			-.119	.081	-1.46	0.147
Constant			-.234	.299	-0.78	0.434

*** and ** significant at 1% and 5% significance level, respectively.

Source: Own computation of survey result, 2018.

The effect of explanatory variables on accounting fraud tendency

Management morality: The test result of the effect of the variable of management morality on accounting fraud tendency depicted that the management morality has negative effect on the tendency of accounting fraud, which means that the better the moral of management, the lower the intention to commit accounting fraud. It is shown by the result of the hypothesis test indicating that the significance value of management morality on accounting fraud tendency is $0.006 < 0.05$. The coefficient value for the variable management morality is 0.369 with negative sign. It revealed that management morality has a negative relationship with the tendency of accounting fraud in the bank. This implied that any increase of one unit in the management morality, the accounting fraud would decrease by 0.369 unit, assuming that the other independent variables being constant. It can be concluded that there is a significant

effect on the tendency of accounting fraud. This means that good management morality significantly reduced the tendency of accounting fraud. This finding suggested that considering the moral of managers in preparing the financial statements can reduce the occurrence of accounting fraud. This result was consistent with research conducted by Predita Arie Ayu Putri and Soni Agus Irwandi (2016) and Wilopo (2006) stating that management morality has a significant effect on the tendency of accounting fraud.

Internal control effectiveness: The regression result showed that the variable internal control effectiveness has negative effect on accounting fraud tendency, which means that the more effective the internal control in a company, the smaller the tendency to commit accounting fraud. The significance value for the internal control effectiveness on the accounting fraud tendency is $0.000 < 0.05$. It can be said that this explanatory variable has a significant effect on the accounting fraud tendency. The coefficient value for the variable internal control effectiveness was found to be 0.928 with negative sign. It showed that the effectiveness of internal control has a negative relationship with the tendency of accounting fraud. this implied that any increase of one unit in internal control effectiveness would decrease the accounting fraud by 0.928 unit, *ceteris paribus*. Therefore, an effective internal control in a bank can minimize the tendency of accounting fraud. The result is consistent with the research conducted by Predita Arie Ayu Putri and Soni Agus Irwandi (2016) and Wilopo (2006) which shows that the internal control effectiveness has a significant effect on the tendency of accounting fraud.

Reward system suitability: The test result of the effect of the variable of reward system suitability on accounting fraud tendency showed that it has negative effect on accounting fraud tendency, which means that the more suitable the reward given by the bank on the employee's performance, the lower the intention to commit accounting fraud. It is shown by the result of hypothesis test indicating that the significance value of the reward system suitability on the accounting fraud tendency is $0.036 < 0.05$. The coefficient value for this explanatory variable is found to be 0.196 with negative sign. It showed that the reward system suitability has an opposite relationship with the tendency committing accounting fraud implying that any increase of a unit in the reward system suitability would reduce the fraud by 0.196 unit, other factors being unchanged. This means that suitable reward system in banks significantly reduces the tendency of accounting fraud. This indicated that the in the form of financial compensation and promotion can reduce the tendency of accounting

fraud, probably in the form of tendency for manipulation, falsification or alteration of accounting and supporting documents. This result was in line with the research conducted by Predita Arie Ayu Putri and Soni Agus Irwandi (2016) and Thoyibatun (2009) revealing that the reward system suitability has significant effect on the tendency of accounting fraud.

Information asymmetry: The regression result of the effect of the variable of information asymmetry on the accounting fraud tendency indicated that it has positive effect on accounting fraud tendency, which means that the lower the level of information asymmetry in the company, the lower the opportunity to commit accounting fraud. It is shown by the result of hypothesis test indicating that the significance value of information asymmetry on accounting fraud tendency is $0.015 < 0.05$. The coefficient value of information asymmetry as independent variable was is 0.185. This revealed that any increase of one unit of the information asymmetry could result in an increase in committing of accounting fraud by 0.185. It can be concluded that there is a significant effect on the tendency of accounting fraud. Thus, the low level of information asymmetry in banks can decrease the tendency to commit accounting fraud. This result was consistent with the research conducted by Predita Arie Ayu Putri and Soni Agus Irwandi (2016) and Ratri and Wahyu (2012).

Adherence to accounting rules: The result of the effect of the variable adherence to accounting rules on accounting fraud tendency showed that it has a negative effect on the tendency of accounting fraud, which revealed that the more obedient the employees to the accounting rules in the financial reporting, the lower the level of the accounting fraud. It is shown by the result of regression that the significance value of adherence to accounting rules on the tendency of accounting fraud is $0.000 < 0.05$. The coefficient value of adherence to accounting rules was found to be 0.499 with negative sign. Other variables kept unchanged, it implied that any increase of one unit in adherence to accounting rule would decrease accounting fraud by 0.499 unit. It can be generalized that there is a significant effect on the tendency of accounting fraud. This result was in confirmation with the research conducted by Predita Arie Ayu Putri and Soni Agus Irwandi (2016) and Wilopo (2006) revealing that the adherence to accounting rules has significant effect on the tendency of accounting fraud.

5. SUMMARY, CONCLUSION, AND POLICY IMPLICATIONS

5.1. Summary and Conclusions

Majority of the respondents are male headed respondents; more than female respondents by 35.04%. around than 20.51% and 74.36% of the respondents have Master of Arts in Business and Administration and Bachelor of Arts degrees in the field of the accounting and other related discipline respectively. the major fraud motivating factors responsible for committing fraud in the bank in that the result of descriptive analysis revealed that personal financial losses, lack of internal control, living beyond own means, ignorance, apathy, and incapacity, lack of an audit trail, and other miscellaneous factors.

The result of the descriptive analysis revealed that employees in bank are mainly forced to commit accounting frauds because of the motivation, opportunity and rationalization. The motivation component of fraud or embezzlement is the burden or the need that an employee feels. The opportunity to commit fraud includes the access to assets, people, information, and computer systems that enables employees to commit the fraud and even to hide it.

Increased access to resources and data, along with increased control over functional areas of companies, has created a situation in which it may be easier than ever to commit occupational fraud. Obviously, these increased opportunities to commit fraud involve risk, but in many ways they are unavoidable in the modern business world. The other important piece of the fraud is rationalization; the process by which an employee determines that the fraudulent behaviour is assumed to be okay in her or his mind. Around 66% of respondents believed that the fraudulent behaviour is assumed to be okay in their mind the remaining 34% of employees not so.

Rationalization is probably the most dangerous piece of the fraud triangle because it is the one that companies have the least control over. It is nearly impossible for management to eliminate the rationalization piece because they can't control the minds of employees. Management has no way of knowing what lies an employee may tell himself in order to justify fraud in his mind, so there is virtually no way of counteracting the lies. Management has the most control over the opportunity portion of the fraud triangle. It can limit access to

assets and put controls in place that ensure monitoring of systems and people. Motivation can be constrained by management as well, although not to the degree that opportunity can be limited. The results of Multiple linear regression model analysis showed that, among the other, five independent variables, namely information asymmetry, management morality, reward system suitability, internal control effectiveness, adherence to accounting rule found to statistically and significantly determine the commitment of accounting fraud in private and public banks in the study area.

5.2. Recommendations

It is so importantly recommended to limit employees' access to only the assets, systems, and information that are necessary for them to properly perform their jobs. Therefore, the banks are very much recommended to keep in the morality of management, provides different incentive and compensation systems, strengthening the internal bank's controlling mechanisms, transferring and communicating the employees of the bank with the uniform information, and improving awareness of the employees to obey for the accounting rules so the tendency of accounting fraud in the bank would be alleviated. Keeping management morality and employee ethics to make sure of employees to feel a sense of responsibility and accountability for employees actions and for others ranked first in alleviating the occurrence of accounting fraud in the bank. Besides, establishing of suitable rewarding system improving of the skill and competency of employees and ensuring of effective internal controlling system were the major important mechanisms to reduce and or alleviate the accounting fraud.

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APPENDIX

Appendix 1: Result of multicollinearity test

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. vif
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Variable	VIF	1/VIF
adher_acc~e	1.20	0.836120
internal_c~l	1.17	0.854671
skill_comp~y	1.10	0.912256
mgt_morality	1.07	0.936634
info_asymm~y	1.06	0.947279
reward	1.05	0.948314
ethics_cha~r	1.01	0.986421
Mean VIF	1.09	

Appendix 2: Questionnaire

Wolkite University
College of Business and Economics
Department of Accounting and Finance
Research Project, 2018/19

**Factors Affecting Committing of Accounting Fraud in Public and Private Banks in
Wolkite Town of Gurage Zone, Ethiopia**

Employee Questionnaire

Introductory Statement: As per the requirement of the research project, I prepared this questionnaire to conduct study entitled as ‘**Factors Affecting Committing of Accounting Fraud in Public and Private Banks in Wolkite Town of Gurage Zone, Ethiopia**’. Thus, I kindly request you to share your precious time and fill the questionnaire as the objective of this research depends on your participation, thank you in advance for maximum effort and patience while giving information required.

1. Sex: 1. Male 2. Female

2. Age of the employee:
 1. 20-29 2. 30-39 3. 40-49 4. 50-59
3. Educational status : 1. Diploma 2. Degree 3. MA/M.Sc 4. PhD 5. Other

4. Religion: 1. Orthodox 2. Muslim 3. Catholic 4. Protestant 5. Other

5. Marital status: 1. Married 2. Single 3. Divorced/divorcee 4. Widow
 5. Widower
6. Ethnicity status: 1. Oromo 2. Amhara 3. Tigre 4. Gurage 5. Kefa 6. Other

7. Do you have leadership position in your organization?
 1. Yes 2. No
8. Mention your leadership status/s.....
9. Which accounting frauds are commonly committed in your banks? 1. Management
 fraud 2. Employee fraud 3. Third party fraud 4. Other
10. Do you think that effective internal control alleviate accounting problem?
 1. Yes 2. No
11. What factors motivate peoples to commit accounting fraud?-----

12. In Your Conclusion Which party is said to be the most perpetrators (fraud committer)of
 accounting fraud? please choose any of the following.
 A .Chairman/managers'
 b. Customer Service Manager
 c. accounting staff
 d. auditors
- In your opinion what ethical value must be followed by the employees the organization in
 ordered mitigate (diminish) the fraud related problem on top of organization internal control?

13. What do you think are the contributing opportunities of employees for committing fraud in your
 respective bank?
14. What are the reasons that individual employees in bank might be given with more access and
 control over the opportunities?

15. Have you believed in the determination that the fraudulent behaviour is assumed to be okay in your mind?

16. In your opinion what ethical value must be followed by the employees of the bank in order to mitigate (diminish) the fraud related problems?

17. In your opinion ,what factors motivates peoples' to commit fraud. please put this mark

✓ in any of the following listed factors.

a. living beyond once means

b. personal financial losses

c. Lake of circumvention of internal controls that prevents or detect fraud

d. Ignorance, apathy, and incapacity

e. Rationalization (by saying like I deserve more, I'm only borrowing the money, it's for my sick child and it's for a good cause)