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ASSESSING THE ROLE OF AUDITING IN FRAUD DETECTION AND PREVENTION AMONG COMMERCIAL BANKS A CASE STUDY OF KAMPALA DISTRICT, UGANDA

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CHAPTER ONE

INTRODUCTION

1.1. Background of the study

This research is concerned on the effect of auditing on fraud detection and prevention in Commercial Banks of Uganda no matter how informative the financial statuses of banks are, an essential component of the credibility of financial reportd is provided by the favourable opinion from auditors.

Fraud can be defined as intentionally deceiving or overriding controls in order to gain personal benefit while inflicting damage to the other party. Personal benefit could be in form of money, information or other assets¹. With the rising banking business in Uganda, fraud in banks is also increasing and fraudsters are becoming more and more sophisticated and ingenious.

Bank fraud, defalcation and forgeries have assumed unprecedented prepositions and dimensions in the banking industry. Fraud in Ugandan banking industry is epidemic and untraceable. Fraud has its root firmly entrenched in the social setting². A report of the Uganda Bankers Association indicates that albeit the good performance of the financial system in supporting the economy through intermediation and operation of the payment system, the financial sector faces the problem of bank fraud which unfortunately is on the increase. Bank frauds take various forms ranging from alteration of cheques and / or counterfeit to skimming or cloning of cards³.

In 1998, Uganda adopted International Accounting Standard (IAS) and International Standards on Auditing (ISA). The intention of the Accountants Act and adoption of the International Standards was to move forward the accounting and auditing profession would be practised aand regulated at an international level resulting into quality audits and financial reports (The ICPAU, 2009). Thus arguably, the country has instituted on appropriate legal and Professional framework to enhance the audit profession. Recent efforts include the

¹ Senkungu & 40rs v Mukasa (CIVIL APPEAL NO. 17 OF 2014)

² Uganda Bankers Association (UBA) (2014). Fraud Protection. Journal of Uganda Bankers Association, 2014

³ Uganda Bankers Association (UBA) (2014). Fraud Protection. Journal of Uganda Bankers Association, 2014

establishment of the Institute of Corporate Governance of Uganda (ICGU) meant to prescribe best practice (ICGU, 2008), The Audit Act, 2008, The Companies Act 2012 in addition to the Accountants Act 2013. Nevertheless, findings for example by the World Bank (2005) and the ICPAU (2009) continue to raise concerns over the quality of audits in the country. Thus auditors in Uganda may not be considering independence as being crucial to their certification of public reports describing companies' financial statements.

The amount of corruption and fraud is very high among Ugandan banks which affects the Well Being of the whole nation because these assets that disappear will have a straight impact on tax revenues. Also, the banks itself will have lack in performance, finances and the overall welfare of the work community (E Kultanen, 2017). This is concerned with the statutory function of external auditor who must give clean opinion on the account presented to them by the banks. On the other hand, auditing on fraud detection in the review could aid management's planning and decision making and control the well being of the banks. The auditors have the duties in preventing and detection of fraud and error detailed checking of entries in the records by assisting the client to develop sound internal control system. Therefore in ensuring that through his reports which are true and fair, fraud is prevented through pre-audit exercise and his post –audit function.

1.2. Statement of Research Problem

Bank fraud is one of the major factors affecting performance of commercial banks in Uganda. A report submitted to Bank of Uganda shows a significant increase in bank fraud in the following periodic performance report that shows that 2010 and 2011 there was an increase in fraud by 60%. Furthermore, reports indicates that Uganda loses between \$1

million (Shs2.4 billion) and \$10 million (Shs24.9 billion) annually to fraud while Kenya and Tanzania lose more than \$10 million, each annually.⁴ Different banks in Uganda have got their own share of the fraud victims. For example in 2014, it was reported that Stanbic Bank lost \$291,000 in fake dollar scam,⁵ and similar report of loss of funds to fraud are reported about other banks in Uganda. Similarly a number of bank fraud cases have been reported at Barclays bank ranging from forgery, connivance, electronic in which hundreds of millions of shillings were reported to have been lost to fraudulent acts at the bank⁶.

In an attempt to combat the fraud in the banking sector, a number of policies and laws have been put in place. In additions to the laws and regulations, the Central Bank of Uganda and commercial banks have undertaken other measures including strengthening internal control systems to be able to control bank fraud through policy formulation and installation of internal control systems, offered training to bank employees among others, awareness and vigilance in the operations of banks, all intended to minimize and reduce the rate of loses that banks make through fraud. However, despite a number of internal controls put in place, bank fraud is still reported to be in the increase especially with the development and increased use of Information and communication technology (ICT)⁷. Reports further shows that bank fraud take various forms ranging from alteration of

⁴ Kulabako F. (2014). Uganda loses about Shs25b to bank fraud annually – report. Accessed on 1st June 2017 at <http://www.monitor.co.ug/Business/Uganda>

⁵ Okuda I. (2014). Stanbic Bank loses \$ 291,000 in fake dollar scam. The Daily Monitor December 1st 2014

⁶ The Daily New Vision. Electronic Bank fraud taking route in Barclays bank. The daily New vision September 11th 2017.

⁷ Bank of Uganda. (2005). Bank Fraud - a challenge to Uganda's Banking Industry

cheques and/or counterfeit to skimming or cloning of cards⁸

Realizing the increase in fraud, Government of Uganda enacted a number of laws to help in the fight against bank fraud. However there still continues increasing reports of bank fraud despite the availability of a number regulations and legal framework put in place. The increasing cases of bank fraud in commercial banks indicate that there is weakness in the way the legal frameworks available are being enforced by the commercial banks. This is because strong enforcement of the law is expected to lead to reduction in the cases of fraud in the banks as more of the criminals are arrested, prosecuted.

However, the problem which is the crux of the research is that despite the intervention through enactment of a number of laws, strict regulation through policies adopted by the regulator, and technological safeguards adopted by banks, bank fraud still remains in the increase⁹. This study therefore sought to investigate the efficacy the current legal, institutional and policy framework in curbing bank fraud, the types and causes of bank fraud as well as establishing the propriety of measures used in controlling bank fraud in reference in Uganda Commercial banks

1.3 RESEARCH OBJECTIVES

1. To determine the types of bank frauds experienced in the commercial banks in Uganda.
2. To examine the factors leading to increased bank fraud in commercial banks in Uganda.

3. To assess the challenges faced in fraud detection and prevention in commercial banks in Uganda.
4. To determine how auditing is used to detect fraud in commercial banks in Uganda.

1.4. Research Questions

Research questions are a useful tool in guiding any research methodology towards a desired outcome. Well formulated questions can determine the course of research procedure, in either a qualitative, quantitative or both directions as well as determine the findings, argumentation and conclusion. Below are the research questions guiding this research.

1. What are the types and causes of bank fraud in commercial banks in Uganda?
2. What role can auditing play in detecting and prevention of fraud in commercial banks in banks?
3. What are the challenges faced in detection and prevention of bank fraud and how can the banking sector overcome them?

1.5. Statement of Hypothesis

Hypothesis is a prediction or conjecture state well in advance of observation about what can be expected to occur induce stated or given condition Asika (2004)

This research work “audit as a tool for prevention and control of fund” will be tested in the process of the research analysis as follows

1. **H₀:** There is no significant relationship between auditing and prevention and detecting of fraud in commercial banks in Uganda.

H₁: There is a significant relationship between auditing and in prevention and detecting of fraud in commercial banks in Uganda.

⁸ Bank of Uganda. (2005). Bank Fraud - a challenge to Uganda's Banking Industry

⁹ Okuda I. (2014). Stanbic Bank loses \$ 291,000 in fake dollar scam. The Daily Monitor December 1st 2014.

2. **H₁**: Auditing play a great role in detecting and preventing fraud in commercial banks in Uganda.

H₀: Auditing doesn't play any role in detecting and preventing fraud in commercial banks in Uganda

1.6. SIGNIFICANCE OF THE STUDY

This study will go a long way helping all corporate to banks on the possibilities and consequence of financial recklessness and misappropriation of fund in banks and probably the solution to ineffectiveness in the management firms.

Secondly, this study is significant because focused on corporate bodies which are the bedrock of every economy at large, this granting the continuity of corporate entities.

The study will encourage management to review and establish strategies to achieve maximum efficiency and effectiveness in order to bring about the desired return to contributors (shareholder).

Finally, this study, by using auditing as a tool, for prevention of fraud will help to ensure accountability, reliability and discipline within the management of companies (banks) in Uganda.

1.7. Scope of the Study

Content scope

The research works will be carried out in Uganda. However, the study will cover relevant areas such as auditing, fraud prevention, detection and control of fraud in the management of banks operating in Uganda.

Geographical scope

The study will be conducted on the commercial banks that are staged/located

within Kampala capital city of Uganda, which is located in the central region of Uganda.

CHAPTER TWO LITERATURE REVIEW

2.0 Introduction

This research is concerned on the effect of auditing on fraud, detection and prevention in commercial banks in Uganda. The auditor has the responsibility for the prevention, detection and reporting of fraud, other illegal acts bad errors is one of the most controversial issues in auditing and has been one of the most frequently debated areas among auditors, politicians, media, regulator and the public.

2.1. Definition and concept of Auditing

According to millichamp, (2002) An audit of financial statement is an exercise whose objective is to enable auditor to express an opinion whether the financial statement give a true and fair view (or equipment) the entity affair at the period and of it's profit or lost (income and expenditure) for the period then ended and have been properly prepared in accordance with the applicable reporting frame work (for example relevant legislation and applicable accounting standard or wthere statutory or other specified requirement preferable the term present fairly. "(Auditing practices Board) also the American institution of certified public accountants (A.I.C.P.A.) define auditing as the objective of the ordinary examination of financial statement by independent auditors in the expression of an opinion on the fairness either their present the

financial position in case conformity with general accepted accounting principle likewise, the American Accounting Association (AAA) defines Auditing as a systematic process of objectively obtaining and evaluating evidence regarding ascertain economic action and events to ascertain the degree of corresponding between the ascertain and establishment criteria communication the result to interested user.

Fraud is a deterring especially in developing regions like countries in Africa (Rossouw Mulders & Barkhusyen, 2000). Fraud has created a cycle whereby the lack of shareholder trust on the financial status as well as reputation of the entities, makes them unwanted investment subject. This leads to more fraudulent acts to be committed because of poor performance. Dee (2012, 10) says that banks must understand fraud and update information of the fraud cases in their industry. Rossouw (2000) defines fraud as intentional deception by concealing or misrepresenting information that harms the financial interest of another person (s) and benefits, the financial interests of the perpetrator. A more technical definition of fraud is provided by AICPA (2002 paragraph 5) and is as follows. 'Fraud is an intentional act that results in a material misstatement in financial statements that are the subject to audit.

Rossouw et.al. (2000) interviewed South-African fraudsters who were imprisoned. They were convicted from different types of asset embezzlements. The target was to find reasons that motivated and rationalized the act of fraud. They discovered that there were two types of reasoning, self-centered (greed) and other-centered (help someone else). Prisoners also told, that fraud was committed because of pressure (forced) or out of own choice (voluntarily). Conclusion was made that there

are no simple and straightforward solution or explanation for fraud (Rossouw et. al. 2000). Instead this kind of linear thinking can create more opportunities for fraudsters. This is why there has to be a cocktail of multi-disciplinary and inter-disciplinary approaches. Vona (2008, 10) indicates that each fraud scheme has variations and those variations have many scenarios. The industry and the country also give an impact to the type of fraud. The data profile of each case is unique

2.2 Types of Bank Fraud

Reports indicate that there are a number of bank frauds that are committed in commercial banks and the fraud crime committed continues to become more complex. Among the bank fraud commonly committed includes the following:

Electronic Banking Fraud:

Survey on the Internet banking and electronic fraud money transfer similar to banking systems, fraudsters work with banking insiders to route money off customers' accounts onto theirs. Barclays Bank could have lost sh5b in one transaction, had they allowed one of their clients to withdraw money as he had requested. In scrutinizing this huge withdrawal, the bank officials found that the money had been wired onto the account that very day. This account had been opened the day before and the money origin could not be traced thus the bankers tipped the Police who arrested the client ¹⁰. Internal reports in the bank indicate that criminals harked into the bank records to create records showing that sh10b was earlier deposited into Barclays bank account. Many bank clients in Uganda have reported that they have, at one time or the other, found significantly more money

¹⁰ The Daily New Vision. Electronic Banking fraud taking route in Barclays Bank. The daily New Vision. September 11, 2017

credited onto their accounts, only for it to disappear as mysteriously as it had appeared just hours later.

Money Laundering:

If one gets say sh40m through corruption or drugs they will want to disguise it. Routing it through other people's accounts is one of the ways, money laundering is very real in Uganda and Uganda is internationally ranked high as a destination or route for laundered money ¹¹Eleni Tsingou (2017). Bank of Uganda recognizes the growing problem and has established an Anti-Money Laundering Committee which is sensitizing the public and bankers have been aware of the growing problem of bank fraud.¹² Justine Bagyenda of Bank of Uganda re-assured the bankers that measures are being taken to combat fraud as an Economic Intelligence Unit was established by the central bank in 2005 to fight fraud. Still, the vice has persisted and even evolved from the forged cheques to the more sophisticated electronic fraud and the records show that bank fraud cases totaling to about sh11b were reported in between 2015 to 2016.¹³

Collusion between Bank Staff and Fraudsters:

Police and Bank of Uganda blame the rise in e-bank fraud on weak controls within commercial banks since customers money is often stolen by banking officials conniving with outsiders. Some of the bank insiders currently facing fraud charges include; John Baptist Mbaziira of Bank of Africa (sh17m),

¹¹ Eleni Tsingou; Europe and the Governance of Global Finance Pg141

¹² Bank of Uganda Annual Supervisory and Regulatory Report 2005

¹³ Ibid 12

four Crane Bank employees (sh50.6m), three cashiers of Capital Finance Limited (sh500m), Margaret Tumwine of Barclays Bank and Sarah Karungi of Crane Bank¹⁴.The central bank feels that it is the duty of the individual banks to combat fraud and Sam Katwere, Bank of Uganda's acting spokesperson said, We emphasize the know your customers' measure for combating fraud. By this, the central bank recommends that commercial banks should at least know the clients address, occupation, telephone numbers and credit records.¹⁵

2.3 Causes and effect of fraud in commercial banks

According to Adewunmi, causes of fraud can be categorized into two that is, institutional factors and external / environmental factors¹⁶, the institutional factors are those that can be traced to the internal environment of the organization. They are to a great extent factors within the control of the management of the bank. Management of the institutional factors tend to be more complex these days as the complexities of both the employee and the systems are become more and more dynamic some which cannot be handled singly by a single manager.¹⁷

A major institutional cause of fraud is poor management; this is reflected in form of inadequate supervision. A junior staff with fraudulent tendencies that is not adequately supervised would get the impression that the environment is safe for the perpetuation of fraud. Poor management will also reflect ineffective policies and procedures, which a

¹⁴ Ibid 13

¹⁵ Ibid 14

¹⁶ Adewunmi (2000), Investigation into Fraud Management

¹⁷ Ibid 17

fraudulent minded operator in the system will capitalize on¹⁸.

Poor salaries and poor working conditions of service can also cause and encourage fraud. Employees that are poorly paid are often tempted to fraudulently convert some of the employer's monies to their own use in order to meet their personal and their social needs. Thus this temptation is very stronger on bank employees who on daily basis have to deal with cash and near cash instruments. Some people have high appetite to accumulate wealth and would therefore steal irrespective of how good their earnings are.¹⁹

People are driven to commit fraud as a means of easy acquisition of money and property which, in our today's world, translates into recognition and power thus pursuit of money and the constant quest for growth entirely explain the financial scandal of bank fraud and much as the desire to accumulate wealth amongst people is very high, these needed to be checked by the existing laws so to ensure that those that acquire such wealth in a wrong way are prosecuted and charged and this will point a signal that fraud is one of the risky areas which should be avoided.²⁰

Among the internal causes of fraud, the Nigerian Deposit Insurance Corporation, states that prevalence of fraud and forgeries are an indication of weaknesses in bank internal control system and understanding the laws that can be used in curbing the internal causes of bank fraud would go a long way in reducing bank fraud in commercial banks²¹. It should however be noted that internal control systems

alone cannot eliminate bank fraud as the systems are always abused even by those who are supposed to enforce the systems and monitor it and that is why the laws come in to bridge that gap which cannot be filled with the internal control system by ensuring that those who commit the crime are charged in the courts of law.²²

The Distress Syndrome:

Bank frauds tend to jeopardize the industrial growth of the Nation. Bank frauds have made some banks to wind up, while some are still battling with the distress syndrome. Bank failures have gulped billions so far from innocent depositors, who end up losing their hard earned money and their confidence in these banks. This in return has promoted churning of keeping money with the banks as people fear for the safety of their savings and yet keeping money in their homes are more dangerous due to theft and robber.²³

Bank staff involvement

According to the NDIC publication between 1994 and 1996 in Nigeria, about 1914 bank staffs of various ranks were involved in fraud like forging cheques and diverting funds to other sources. The obvious effect is possible termination of appointment, dismissal and suspension, which would certainly affect their homes adversely and this method of handling bank fraud cases however tend to make it look less punishable to those employees who commit the same act.²⁴ Okpora reported high

¹⁸ Ibid 18

¹⁹ European Journal of Social Science- vol. 10, No. 4 (2009).

²⁰ Ebong (2005). Management of Bank Fraud

²¹ NDIC, (2000). NDIC Annual Report and Statement of Accounts.

²² Ibid 22

²³ Journal on Risk Management in Banking Industry in Uganda by Prof. Emmanuel T, Mutebile pg 1

²⁴ NDIC Publication 1994 and 1996 Nigeria

involvement of bank fraud by staff in fraudulent bank practices.²⁵

Further Nwaze affirms that most bank forgeries are perpetuated by internal staff or by outsiders acted in collusion with employees of the bank thus this is because when they commit the act, they are suspended silently for fear of losing customers could it be known that an act of fraud was committed by or with the help of a bank staff²⁶

Bad Name:

According to the BBC News on Nigerian bank frauds Nigeria has become synonymous with fraud as some of its citizens use the boom in the internet cafes to send Spam mails, promising millions in exchange for the gullible recipient's bank details. This has proved to us that fraud has become an unfortunate staple in Nigeria's international reputation, thus, giving us a bad name. However not only in Nigerian banks alone but a number of fraudulent acts are also reported in the Ugandan commercial banks where billions of money is lost to fraud.²⁷

The European Journal of Social Sciences reports that fraud is perhaps the most fatal of all the risks confronting banks. The enormity of bank frauds can be inferred from its value, volume and actual loss²⁸ Fraud leads to loss of money, which belong to either the bank or customers. Such losses may be absorbed by the profits for the affected trading period and this consequently reduces the amount of profit,

²⁵ OKpura G.C (2009) Bank Failure and persist distress in Nigeria: A descriptive Analysis Nigerian Journal of Economic and financial research

²⁶ Nwaze, C. (2006). Bank fraud exposed with cases and preventive measures. Lagos: Control and Surveillance Associates Ltd.

²⁷ Ibid 28

²⁸ European Journal of Social Sciences - Volume 10, Number 4 (2009)

which would have been available for distribution to shareholders.²⁹

Loss of Bank Funds:

Frauds cause financial hardships in banks, especially those whose liquidity is not strong. As fraud cases in banks continue to rise, bank's losses in terms of money also rises. Fraud can increase the operating cost of a bank because of the added cost of installing the necessary machinery for its prevention, detection and protection of assets. Moreover, devoting valuable time to safeguarding its asset from fraudulent men distracts management. Overall, this unproductive diversion of resources always reduces outputs and low profits which in turn could retard the growth of the bank.³⁰

It also leads to a diminishing effect on the asset quality of banks. The problem is more dangerous when compounded by insider loan abuses. Indeed, the first generation of liquidated banks by NDIC was largely a consequence of frauds perpetrated through insider loan abuses. If this problem is not adequately handled, it could lead to distress and bank failures.³¹

2.4 Fraud Prevention and Detection

The process of identification of frauds will enable the bank to assess its susceptibility and identify which types it has to address particularly. Having done so, the next stage would be to evolve measures to prevent the occurrence of such frauds. The existing control systems can be classified into two,

²⁹ Ibid 30

³⁰ Fraud protection – Uganda Bankers Association Journal

³¹ Gombarume, F. B. (2014). Challenges of Internal Bank Fraud Policy. A Case Study of Commercial Banks in Harare Central Business District. International Journal of Management Sciences and Business Research, 2014

those aimed at prevention and those aimed at detection.³² Ekechi stated that measures aimed at fraud prevention include dual control, operational manual, graduated limits of authority, lending units, reporting systems, close circuit television, establishment of inspectorate units, referencing on presentation of document of value, segregation of duties, verification of signatures, controls of dormant accounts, detection of passport sized photos, close watch on the lifestyle of staff and coding/decoding and testing of telex messages.³³

Measures aimed at fraud detection include checking of cashiers, call-over, reconciliation and balancing of accounts at branches, interbank at head office levels, periodical submission of statement of accounts, stock taking of security items and cash in the vaults and inspection by bank inspectors.³⁴

The supervisors are also to cooperate with the external auditors of banks to ensure that the internal audit program of banks is comprehensive, adequate and effectively executed. The supervisors should also conduct an in-depth investigation into activities of a bank when put on enquiry in order to enhance the ability of supervisors to carry out their responsibility effectively; they must be adequately trained and equipped with modern tools for supervision.³⁵

³² Gombarume, F. B. (2014). Challenges of Internal Bank Fraud Policy. A Case Study of Commercial Banks in Harare Central Business District. *International Journal of Management Sciences and Business Research*, 2014

³³ Ekechi (2000) "Frauds and forgeries in banks, causes, types and prevention", Seminar in bank audit organized by Institute of chartered accountant of Nigeria. Lagos

³⁴ (Ojeigbede,2000). Fraud in Banks: a paper presented at the Effective Bank Institute course organized by FITC, Lagos

³⁵ Ibid 4

In devising the general preventive measures, the bank should appreciate the main feature of fraud, one of which is that fraud is rapidly increasing and it is a highly profitable industry. According to Ekeiqwe, computer technology facilitates and accentuates the growth. Other features are that frauds involve misappropriation of assets and manipulation or distortion of data and most frauds result from basic failure and inadequacies of internal controls. This was rightly confirmed in a report by the NDIC 1999 annual reports and statement of accounts, where it said that most frauds are committed by insider usually in collusion with outside third parties, and mostly are discovered by accident or tip offs rather than internal and external auditors.³⁶

It was suggested by Nwankwo that on the discussion of the anatomy of frauds, management should evolve positive attitudes towards safeguarding the bank's assets and ensuring that staff does not exploit the weakness in internal control. He further said that the policies should stress the cardinal principles of separation of duties to ensure that one person does not originate and complete an assignment or entry. The policy should also emphasize dual control of sensitive areas such as strong rooms and locks to security documents and account, the need for daily balancing of account and the various precautions which include necessary references for opening of accounts.³⁷

Ekechi was of the opinion that, in order to attain the objective of fraud management, there is need for full compliance with established policies, rules and procedures. Also employees should be made aware of the risks of attempting to defraud the bank and the action expected if caught. Thus the policy

³⁶ CBN (2000): Central bank of Nigeria Annual report and statement of accounts

³⁷ Nwankwo (2000) Investigation Bank fraud Nigeria

should incorporate and emphasize investigation and possible prosecution of suspected frauds.³⁸

In controlling fraud in the banks, the boards of directors play a major role because the leadership responsibilities must be clearly spelt out and formally explained to them. This responsibility should include the directing of the overall policy and management of the bank, fiduciary duty to act honestly and with utmost good faith, and exercise of skill and care in discharging the statutory obligations of the bank. In particular, the board has the collective responsibility of the members to ensure that suitable security systems exist, there are adequate accounting records and internal control measures and there are adequate precautions to prevent falsification of accounting records and facilitate the discovery of any falsification.³⁹

Oyelola contends that it is acknowledged world-wide that consistent customer education is critical to the prevention of fraud, particularly with regards to the safeguarding of customer's personal information, from PINs to statements, ID books and rates accounts, which are all used in KYC verification processes.⁴⁰

Barlington on policy and analysis of fraud states that, as a bank's policy, banking begins from customer identification to establish a valid business relationship and this is the most important norm of know your customer concept (KYC). This concept is very important because once followed, one is able to prevent frauds, identify money laundering and suspicious activities. Banker's

responsibility does not end with the opening of accounts. It also involves monitoring of transactions in the initial few months of its opening, and also ensuring full satisfaction about credentials of the customer with no scope of any suspicions.⁴¹

The banks in Uganda have kept abreast of all applicable legislation and regulations, changes to rules, standard and codes as well as relevant sector developments which can potentially impact the banks fraud control system thus complying with all applicable legislation, regulations, standards and codes is integral to the banks culture in combating bank fraud.⁴²

While there are increasing incidences of fraud in the banking industry, its important to note that fraud is a derivative risk, fraud occurs because either gap exist in the organization's internal control or mechanism of monitoring such controls is compromised. Prudential balance between the risks and safety to customers' deposits funds should always guide banks in the conduct of banking business and this does not preclude action by the authority on the other external factors like provision of an adequate legal framework and a National identification system.⁴³

Simon Peter Kitimbo, 2014 said Bank of Uganda, under the Financial Intelligence Authority include credit institutions, acceptance and discount and finance houses. Regulations, guidance notes and annual reports on supervision are issued regularly. The Bank of Uganda conduct an on -site annual examination of each bank atleast once a year. Off site supervision involves electronic reporting system and the Financial Intelligence

³⁸ Ekechi CC (2000) Computerizing banking system – Issues for banking executives

³⁹ (Asukwo, 1991 & Oyeyiola, 1996)8. Internal control and management of fraud in banking industry

⁴⁰ Oyelola (2002)

⁴¹ Barlington (1997). Policy and Analysis

⁴² Stanbic Bank Annual Report and Financial Statement 2013 Pg 23

⁴³ Journal on Fraud Management in Banking Industry in Uganda 2010 Pg 1

Authority requires all supervisory returns to be verified by external auditors. Consolidated supervision is being implemented.

According to Mugere Tonny (2018), increased scrutiny of corporate finances through audits and anti-fraud measures requires a high level of visibility for all financial transactions. Relying on e-banking provides an electronic footprint for all accounting personnel, managers and banks owners who modify banking activities.

Internal Control System

Angella Amudo & Eno L. Inanga has done a study on Evaluation of Internal Control Systems: A Case Study from Uganda in 2009, this study is based on the Regional Member Countries (RMCs) of the African Development Bank Group (AFDB) focusing on Uganda in East Africa and developed a conceptual model used in evaluating the internal control systems in Public Sector Projects in Uganda financed by the African Development Bank. The results found that some control components of effective internal control systems are lacking in these projects. These reason out that the current control structures ineffective. The study identified internal control components as independent variables, internal control as dependent variable, authority and working relationship as moderating variables. The independent variables determine the effectiveness of an internal control system. The presence and proper functioning of all the components of the independent variables ensures effectiveness of internal control system.

2.5 Forms of common bank frauds in Uganda

Most common frauds in Ugandan banks are cheque frauds, which can be made in four ways: counterfeit, forge, alter and draw on

closed account (Fraud & Anti money laundering [Referenced 29.11.2016]). Still a rare way is credit and debit card frauds, because payments are still made mostly with cheques and cash. One possible way is a deposit slip scam, whereby a person writes a deposit slip which is valueless. Another tactic is the exploitation of assets. The charitable publications scams are committed mainly the same way as in corporations (Greenlee, 2007). Other forms of fraudulent acts are receipt fraud and false accounting (Fraud 14 & Anti money laundering [Referenced 29.11.2016]). Lastly it has been seen in Uganda that the use of ghost workers is increasing (Rumney 2016). Adding ghost workers is explained as an act whereby payroll clerk adds on the list of employees, workers who do not exist. After that the clerk starts to make salary payments to him/herself in cash or straight to his/her personal account.

2.6 Challenges faced in combating bank fraud in uganda

Among the challenges reported by the bank staff in combating bank fraud are; Lack of advanced technology to handle fraud includes; inadequate trained personnel to implement fraud detection policies, people supposed to fight fraud are the ones implicated, weak regulation, laws and policies to protect and ensure stability of financial systems, unregulated communication tools, evasion of internal security controls by hackers Corruption, fraudsters colluding with police, staff colluding with fraudsters, lack of ethics and integrity, Inadequate training of workers, lack of segregation, lack of advanced technology to handle fraud and its very expensive to investigate fraud. According to the bank clients, the challenges reported in combating bank fraud includes internal collusion, expensive investigations, and

unqualified personnel employed are among the major challenges reported by the bank clients.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter set out various stages and phases that will be followed in completing the study. It specifically includes; research design, study population, sampling design, sample size techniques, data sources, data collection methods and instruments, data presentation, data processing and analysis, ethical considerations and study limitations

3.1 Research Design

The study will apply a descriptive and cross-sectional research designs. This will enable the researcher to investigate the relationship between auditing on fraud prevention of commercial banks in Uganda. Both quantitative and qualitative study approaches will be applied. The quantitative approach will involve the researcher collecting data from the respondents while qualitative approach will include collecting data from key informants who will be knowledgeable about the topic under the study. Qualitative method will be used because it will provide detailed in-depth information which will be supported with quotations from the key informants.

In this paper data will be collected through primary and secondary sources. Primary data will be obtained through personal interviews with respondents, observations and self-administered questionnaires. Secondary data

will be gathered from magazines, newspapers, journals, textbooks, internal sources, government publications, statistical and economic bulletins as well as other resources.

3.2 Research Approach

According to Kothari (2008), Research Approach means the development of a theory on a pattern of measuring on the basis of the data they have collected. Both qualitative and quantitative approach will be used. The research will focus on the analysis and systemization of the literature written in this field as well as the rules governing the activities of audit published national wise.

3.3 Study Population

The study will be carried out from Ugandan Commercial Banks such as Centenary Bank, DTB bank, ABSA bank, Equity Bank, Dfcu bank, Stanbic bank, Baclays Bank among others, basically considering their branches that are located in Kampala district, the capital city of Uganda; this is because almost 90% of the Commercial Banks have either their main branches or branches in Kampala district, since it is the business center of the Country (Uganda). In line with the current study, the population will comprise of management, and employees of commercial Banks and a few clients/customers of named commercial banks. The researcher will use a total population of 140 for the study and this will be considered a considerate number in providing reliable and articulate information regarding the study.

3.4 Sampling

3.4.1 Sampling Design

The study will employ simple random sampling to choose quantitative samples. This is because the selection is done without personal bias of the researcher and the representativeness of the sample can be

estimated by calculating sampling error. Purposive sampling will be used to choose key informant for qualitative data and these will include accounts & finance staff and bank branch managers.

3.4.2 Sample Size

According to Krejcie and Morgan tables (1970), out of the total population of 140 respondents, the researcher will use a sample size of 103 respondents who will participate in the study as shown in the table 3.1 below. This sample size is appropriate as it will enable triangulation of the findings to what takes place in Commercial Bank as far as auditing and fraud detection is concerned. The sample size for this study will be determined using the Krejcie and Morgan (1970) table as illustrated below;

Table 3.1: Study population and sample size

Category/department	Study Population	Sample size	Sampling method
Administration and human resource	20	15	Purposive sampling
Accounts and finance	30	23	Purposive sampling
Internal audit department	10	5	Purposive sampling
IT department	20	15	Simple random sampling
Tellers	20	15	Simple random sampling
Loan department	20	15	Simple random sampling
Clients/customers	20	15	Simple random sampling
Total	140	103	

Source: Krejcie and Morgan (1970)

3.5 Data Collection Methods and Instruments

3.5.1.1 Data Collection Methods

3.5.1.1 Questionnaire

This is the discussion in written form where by the responses of the participants will be put on paper provided by the researcher. The main reason for using this method of collecting data will be to enable the researcher believe that this method provided the necessary information as well as the ease with which the method facilitates data collection. This will ensure balance and comprehensive

information reliable enough for conclusion to be drawn.

Under this method, the responses received from respondents in questionnaires will be expressed as a proportion of 100 having assumed 100 percent as the sample size of the number of questionnaires administered. Conclusions will then be based on the response that has the highest share of the 100 percent.

3.5.1.1.2 Interviewing

Interviewing means face to face interaction between the interviewee and the interviewer. Interviews will be arranged to allow respondents to freely provide their views related to the problem that is being investigated. The purpose of use this method will be to supplement the questionnaire

method of data collection so as to obtain the qualitative data that will be collected using questionnaires. In other words, it will help to get data that serve as supportive in narrating the effect of auditing on fraud prevention in commercial banks in Uganda.

3.5.2 Data Collection Instruments

3.5.2.1 Self-Administered Questionnaires

The researcher will use self-Administered questionnaires in generating some of the information from the respondents. The questionnaire will comprise of closed ended questions. The use of structured questionnaire guarantees reliability of questions and answers from the respondents. Anonymity makes respondents prefer a questionnaire. Obtaining data from participants with different methods and experience will help to prevent information bias and thus increased credibility regarding the information collection.

3.5.2.1.2 Interview Guide

According to (Kothari, 2004), an interview is a set of questions administered through oral or verbal communication or is a face to face discussion between the researcher and the interviewee or respondent. This method suits the research most appropriately and the researcher will be able to collect data through in-depth semi structured interviews which give unbiased opinions hence proving a useful pool of resources for the researcher to analyze the situation and provide the researcher with deeper understanding of the subject and enable her with accurate understanding.

3.6.Data Presentation

Data collected will be presented using bar graphs and frequency distribution tables indicating frequencies and percentage of each variable in question. For easy presentation of collected data, bar graphs and frequency tables will be developed by use of Microsoft Excel computer programme. Tabular presentation, Tables will be used to present numerical data. This method is used to facilitate quick understanding of how they are related to the study. Graphical presentation will also be present in the course of the study.

3.7 Data Processing and Analysis

3.7.1 Data Processing

After data collection, data cleaning process will be done. This will be followed by coding to ensure completeness, accuracy and comprehensibility. Data editing will then be carried out to ensure that the data from the respondents is accurate, reliable and consistent. The responses will be translated into numerical terms and finally tabulate for easier analysis.

3.7.2 Data analysis

Quantitative data will be coded, edited and tabulated. Frequencies will be obtained for respondent's responses. By use of Microsoft

Excel 2013 and SPSS, tabulated data will be presented on tables, and charts using frequencies and Percentage. Qualitative data analysis will include analyzing data during and after collection and this will involve identifying the themes of the study. All responses will be coded according to each theme and analyzed accordingly.

3.8 Ethical Considerations

Ethics in this study will be adhered to by the following processes;

The researcher will attain an introductory letter from the university to be used for accessing different targeted respondents.

The researcher will also obtain informed consent of the respondents on the arrival at the data collection sites.

The researcher will observe and respect the privacy, confidentiality and anonymity of all the participants and respondents in this study.

The researcher will express high level of honesty, objectivity, integrity, care, openness, confidentiality and respect in reported data, results, methods and procedures, and will not fabricate, falsify, or misrepresent data.

3.9 Limitations of the Study

- i. Disease Outbreak (Corona Virus); The study might be blocked by the Pandemic of Corona Virus (Covid 19) since it is risky to interact with people during this corona period which might lead to delay and postponement of respondent's appointment. But the researcher will use mask and sanitizers when approaching respondents and make sure social distance is maintained.
- ii. A lot of money might be required in this study. This will involve buying

data for internet, photocopying of articles, making phone calls, word processing, binding, transport. These will increase the cost of the study. But the researcher plans to solicit for funding from the Guardians, friends, and relatives.

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