**ASSESSMENT ON THE EXPLORING THE USEFULNESS OF INTERNAL CONTROL SYSTEM**

**ON DETECTION AND PREVENTION OF FRAUD**

**A CASE STUDY OF NATIONAL MICRO FINANCE BANK**

**HEADQUARTER DAR ES SALAAM**

**BY**

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**A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF BUSINESS DMINISTRATION**

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**UNIVERSITY OF TANZANIA**

DECLARATION

I Jackline Ismaely Shirima, declare that this research report is my own work and it has not been submitted to any other University or higher learning institution.

Candidate

Jackline Ismaely Shirima

Signature…………………………….. Date ……………………………………….

**DEDICATION**

This report l is dedicated to my parents who supported and encouraged me during my student hood.

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**LIST OF ABBREVIATIONS**

BBA Bachelor of Business Administration

UAUT The United African University of Tanzania

NMB National Microfinance Bank

HQ Head Quarter

TSH Tanzanian Shillings

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**ABSTRACT**

The usefulness of internal control system on detection and prevention of fraud is important to in order to ensure that accounting system provide an efficient means of recording and reporting financial transaction as well as providing management information and protecting the company’s asset from fraud misappropriation .With today’s the usefulness of internal control should be increasingly significant for institutions to know how they were used internal control system in order to detect and prevent of fraud .

This research examined the usefulness of internal control system of detection and prevention of fraud using a case study of National Microfinance Bank

The research designed a case study for accessing detailed information on the study topic: Sources of information were documents, observation, and interview sessions with the staff of National Microfinance Bank.

This report is arranged in five chapters .The first chapter describe the historical background of the study, Statement of the problem, Research objective, Research questions, Significant of the study, scope of the study, and definitions of key terms. The second chapter describe about Literature review, which were contained empirical review, Theoretical review, and conceptual review. Chapter three present Research methodology used in the study, research design, data collection instrument, population of the study, sample size of the study, budget will be used in the study. Chapter four shows data presentation and analysis of findings, lastly covers the discussion which is based on conclusion, summary and recommendations.

**CHAPTER ONE**

**INTRODUCTION AND BACKGROUND OF THE STUDY**

**BACKGROUND OF THE STUDY**

A system of internal controls is a critical component of bank management and a foundation for the safe and sound operation of banking organizations. A system of strong internal controls can help to ensure that the goals and objectives of a banking organization will be met, that the bank will achieve long-term profitability targets, and maintain reliable financial and managerial reporting (Markowski & Mannan, 2008). Such a system can also help to ensure that the bank will comply with laws and regulations as well as policies, plans, internal rules and procedures, and decrease the risk of unexpected losses or damage to the bank’s reputation. The Basel Committee, along with banking supervisors throughout the world, has focused increasingly on the importance of sound internal controls. This heightened interest in internal controls is, in part, a result of significant losses incurred by several banking organizations. An analysis of the problems related to these losses indicates that they could probably have been avoided had the banks maintained effective internal control systems. Such systems would have prevented or enabled earlier detection of the problems that led to the losses, thereby limiting damage to the banking organization. A system of accounting and records keeping will not succeed in completely and accurately processing all transaction unless controls known as internal controls are built into the system (Opromolla & Maccarini, 2010).

Internal controls are processes designed to provide reasonable assurance that management achieves effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations (Grant, Miller, & Alali, 2008). A system of internal controls potentially prevents errors and fraud through monitoring and enhancing organizational and financial reporting processes as well as ensuring compliance with pertinent laws and regulations (Rae and Subramanian, 2008). Reasonable assurance is provided when cost effective actions are taken to restrict deviations, such as improper or illegal acts to a tolerable level. The internal control system reviews the effectiveness of the internal control system to ascertain whether the system is functioning as intended (Fadzil, Haron & Jantan, 2005).

The system of internal controls should emphasize on, proper identification measurement and monitoring of risks, control activities for each level of operation, creation of reliable information systems that promptly reports anomalies and detailed reporting of all operations and monitoring of all the activities (Opromolla & Maccarini, 2010). Internal controls are affected by a company’s board of directors, management and other personnel and are designed to ensure effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations (Spira & Page, 2003). The management should assess and report the effectiveness of an institution’s internal controls to its stakeholders (Rezaee, 1995). Internal controls should have the following as its components, control environment, risk assessment, control activities, information and communication and monitoring activities (Basel Committee, 2011).These interrelated components of internal control must be present and functioning properly in order to have an adequate and functioning internal control system (Rezaee, 1995).

This research report was focused on the usefulness of internal control system in the organization.Internl control system has been the focused of many research studies because it’s important to many organizations. NMB was taken as a case study for the research undertaken.

**HISTORICAL BACKGROUND OF NATIONAL MICROFINANCE BANK**

National Microfinance Bank Plc. (NMB) is one of the largest commercial banks in Tanzania, providing banking services to individuals, small to medium sized corporate clients, as well as large businesses. It was established under the National Microfinance Bank Limited Incorporation Act of 1997, following the break-up of the old National Bank of Commerce, by an Act of parliament .Three new entities were created at the time, namely: NBC Holding Limited, National Bank of Commerce (1997) Limited and National Microfinance Bank Limited. Initially NMB could only provide payment services as well as offer savings account, with limited lending capabilities, before becoming a fully-fledged universal retail bank. In 2005, the Government of the United Republic of Tanzania privatized the bank when it sold part of its shareholding (49%) to a consortium led by the Cooperative Centrale Raiffeisen-Boerenleenbank B.A. (‘Rabobank Group’)

Subsequently, there was further divestiture in 2008 when the Tanzanian Government off loaded another 21% of its shareholding to the Tanzanian public through an initial Public Offering(IPO).The listing of the bank’s stock on the Dar es Salaam Stock Exchange has led to a diversified ownership structure.

**STATEMENT OF THE PROBLEM**

The regularity of fraud and misappropriation of funds is creating fear, anxiety, and a loss of confidence in the minds of bank customers. Also, poor internal control system leads to increase in bank losses (ACFE, 2010). Management is required to set up an internal control system but this system varies significantly from one organization to the next, depending on such factors as their size, nature of operations, and objectives. Since internal controls operate in an environment which influences its operations, proper care must be exerted into the implementation of these systems in other to achieve the utmost aim of the bank. This heightened interest in internal controls is, in part, a result of significant losses incurred by several banking organizations (Hochberg, Sapienza & Jorgensen, 2009). An analysis of the problems related to these losses indicates that they could probably have been avoided had the banks maintained effective internal control systems. Such systems would have prevented or enabled earlier detection of the problems that led to the losses, thereby limiting damage to the banking organization (Levi, 2008).

Duffield & Grabosky, 2001; Zahra, Priem & Rasheed, 2005; Mustafa & Youssef (2010) concentrated on the causes and motivations to defrauding by staff. Other scholars, Alleyne and Howard, 2005; Bakre, 2007 & Lange (2008), studied the role of external auditors in fraud, detection and prevention and they produced conflicting findings. This shows that different opinions exist as to the effect of internal controls on fraud detection and prevention.

**Purpose of the Study**

The aim of the study is to explore the usefulness of internal control system on enhance fraud prevention and detection in nmb bank dar es salaam headquarter

**RESEARCH OBJECTIVES**

**GENERAL OBJECTIVE OF THE STUDY**

To explore out the usefulness of internal control system on the prevention and detection of fraud in management of Nmb Bank headquarter Dar es Salaam

**SPECIFIC RESEARCH OBJECTIVES**

1. To find out the employees knowledge based on the concept of fraud in Nmb bank
2. To find out the effective internal control system influence on prevention and detection of fraud
3. To find out the problem of fraud and how to overcome it
4. To establish the effect of reconciliation controls on the level of fraud prevention and detection in NMB Bank headquarter Dar es Salaam
5. To determine the effect of financial governance controls on the level of fraud prevention and detection in NMB Bank headquarter Dar es Salaam
6. To investigate the effect of reporting and budget controls on the level of fraud prevention and detection in NMB Bank headquarter Dar es Salaam

**RESEARCH QUESTIONS**

1. Are the Nmb employees have the necessary knowledge concerning the concept of fraud control?
2. Does Nmb bank have an internal control system? How effective is it?
3. How Nmb management find out the strategic way to prevent fraud in their bank?

**Research Hypotheses**

The research hypothesis were stated in null form

HO1:

Internal control system are not significant useful in fraud control and reduction The relevance of this study is to exploring the usefulness of internal control system on detection and prevention of fraud in NMB Bank Dar es salaam.

**SCOPE OF THE STUDY**

The scope of the study was limited to how Internal Control System will be used as an effective means to prevent fraud thus, an essential system have to be in place before fraud can be minimize and prevented. Although, information from bank on internal control and fraud are difficult to obtain since they are regarded as sensitive issues which cannot be provided without caution because it is mainly to protect the image of the bank and not to erode

Depositor’s confidence. On these circumstances, attention is focus on nmb bank Dar es Salaam headquarter in order to obtain easy accessibility of information. Also, it is believe that this type of study will expose the inadequacy and lapses in the bank with the presence of Internal Control system and this will be a possible suggestion for greater improvement, not only in nmb bank, but on all banks as a whole, other financial institutions and the economy at large.

**SIGNIFICANCE OF THE STUDY**

Establishment of an adequate Internal Control and its effective review and assessment by the management will go a long way in detection and preventing fraudulent acts and practices among the fraudsters within the Nmb bank .The usefulness and the expected benefit of the study to the banking industry entail the following:

1. It will help in knowing and studying how the principles of Internal Control Components or elements are used to prevent fraud.
2. The study will also unveil the lapses and inadequacies in the bank open to fraudsters within and outside the banks.
3. The study will help to review fraudster’s mode of operation and thereby recommend ways to avert their operations through the use of internal control system.
4. It will also result in reduction in an attempt to defraud by the management and staff as a result of lay-down expected punishment.
5. It will also enhance customers‟ confidence and trust in the banking industry as a result of strong internal control being put in place.
6. This study will ultimately help in promoting economic growth and development as a result of efficient mobilization of savings thereby enhancing profitability and solvency in the bank, all of which are achievable through implementation of strong system of internal control.

**DEFINITION OF RELATED TERMS**

INTERNAL CHECK**:**

This is the aggregate of the checks and balances imposed on day to day transaction in an organization whereby the work of one person is verified independently or in complimentary to the work of another?

INTERNAL AUDIT:

This is an independent appraisal function established by the management of an organization for the review of Internal Control System as a service to the organization.

INTERNAL CONTROL:

This is a whole system of control, financial or otherwise, established by the management in order to carry out the business of an enterprise in an orderly and efficient manner, ensure adherence to; management policies, safeguard the assets and secure as far as possible the completeness and accuracy of records.

FRAUDSTERS

These are the people who commit frauds.

FRAUD:

This is a crime involving cheating somebody in order to get money or goods illegally.

ERROR:

This is an unintentional; mis-statement in the financial statement. It is an act done without the intention of committing the act.

IRREGULARITIES:

This is an Intentional distortion of the bases of preparing the financial statement. It is act an error since it is a deliberate act and also not a fraud since personal benefit may not be the objectives. The end product of irregularities is fraud.

INTERNAL CONTROL SYSTEM:

It is a managerial control which functions by measuring and evaluating the effectiveness of other controls (in all areas of the organization.

**Bank:**

It is an establishment that deals especially with money; they give out loans, extension of credit, give advices to customers

Delimitation of the study

The study was delimitated t NMb Bank headquarters in Dar es Salaam. The researcher concentrated on detection and prevention of fraud in the organization

**CHAPTER TWO**

**LITERATURE REVIEW**

**Introduction**

The chapter explores the literature that focuses on the area of impact of internal control system on the detection and prevention of fraud. The chapter commences by reviewing the theories that informed the discussion on internal control system. It then dwells on the empirical studies that discuss the link between internal control system, detection and prevention of fraud.

**Conceptual framework;**

Figure 1, below shows independent variables which includes; component of internal control such as control environment, risk management, control activities, information and communication and monitoring .also accountability for funds, efficiency and effectiveness of internal control as dependent variables

Independent variables

Intermediate variables

Dependent variables

-Control environment

-risk management,

- control activities,

-Information and communication and monitoring

Detection and prevention of fraud

**Theoretical Review:**

The study was hinged on various investments theories; these are the fraud triangle theory and fraud management lifecycle.

**The Fraud Triangle Theory**

Albrecht et al., (2009) States that fraud is composed of three elements, namely a perceived pressure, a perceived opportunity and rationalization of the act of fraud; these three elements are called the fraud triangle. Every act of fraud, irrespective of whether it is done against an entity or on behalf of an entity, is always composed of the three elements (Albrecht et al., 2009). The three elements in the fraud triangle are interactive, for instance the greater the perceived opportunity or the more intense the pressure, the less rationalization it takes for someone to commit fraud (Albrecht, Turnbull, Zhang, & Skousen, 2010). However, fraud is a complex matter and is a function of a combination of factors (Rae & Subramaniam, 2008). For instance in some cases, although internal controls were poor, there were no incidence of fraud, while in other cases even though good internal controls existed employees still managed to circumvent the internal controls to commit fraud (Rae & Subramaniam, 2008). An understanding of how opportunities, pressures and rationalizations contribute to fraud in organizations can assist management to easily recognize the areas of susceptibility to fraud and strengthen these areas (Albrecht et al., 2010).

Fraud perpetrators must have some way to rationalize their actions as acceptable (Albrecht et al., 2009). Justification of fraudulent behavior is usually as a result of a fraudster’s lack of personal integrity or other moral reasoning (Rae & Subramaniam, 2008). Individuals do not commit fraud unless they can justify it as being consistent with their own personal code of ethics, as personal integrity may be the key limiting factor in keeping a person from misappropriating assets (Hillison et al., 1999). Rationalization by fraudsters emanates from their feeling that the victims owe them and that they deserve more than they are getting (Mutua, 2011). Some individuals possess an attitude, character or set of ethical values that allow them to knowingly and intentionally commit a dishonest act (Cohen et al., 2011). A strong moral code can prevent individuals from using rationalizations to justify illicit behavior; internal auditors however should assume that anyone is capable of justifying the commission of fraud (Hillison et al., 1999).

**The Fraud Management Lifecycle**

Effective management of the fraud management lifecycle starts with a common understanding of the stages in the lifecycle (Wilhelm, 2004). The fraud management lifecycle is a network lifecycle where each stage in the life cycle is an aggregated entity that is made up of interrelated, interdependent and independent actions, functions and operations (Albrecht et al., 2009). The fraud management lifecycle is made up of eight stages; Deterrence stage involves stopping fraud before it happens by increasing the difficulty of committing the fraud as fraudsters tend to migrate tend to migrate toward the path of most anonymity and least resistance (Wilhelm, 2004).Deterrence is achieved through creating fear of consequences or difficulty of perpetration, to turn aside, discourage or prevent fraudulent activity from being attempted (Kimani, 2011).

Policy must seek to balance deterrent value, loss reduction, sales volume, operational scalability and cost effectiveness (Wright, 2007). Policy development involves constantly reassembling the situations disassembled in the analysis stage, by taking advantage of the knowledge gained by analysis, combining it with internal, external and interactive environmental factors in order to craft policies that address the whole, while leveraging the knowledge of the parts (Wilhelm, 2004). Policy development staffs are most 10 frequently the leaders within the fraud management organization as they must consider all disciplines within the fraud management department as well as the needs of the rest of the business enterprise (Hassink et al., 2010). The investigation stage involves obtaining enough evidence and information to stop fraudulent activity, to obtain recovery of assets or restitution and to provide information and support for the successful prosecution and conviction of the fraudsters (Albrecht, et al., 2009). Fraud investigations are focused upon three primary areas of activity; internal investigations, external investigations and law enforcement coordination. Internal investigations includes investigations of employees, contractors, consultants or vendors while external investigations are conducted on customers, fraudsters and organized groups (Wilhelm, 2004). Law enforcement coordination as further argued by Gottschalk (2010) is the provision of information and resources to, and the maintenance of, a partnership with federal, state, regional and local law enforcement authorities.

**Empirical Review**

This section reviewed the literature from prior scholars regarding the impact of internal control system on the detection and prevention of fraud. Njenga and Osiemo (2013) sought to investigate effect of fraud risk management on organization performance with focus to deposit-taking micro finance institutions in Kenya. The study was guided by the following specific objectives, that is, anti-fraud policies, corporate governance practices, fraud detection mechanisms and systems of internal controls and their effect on performance of deposit-taking microfinance institutions in Kenya. The target population of this study was all deposit-taking microfinance institutions in Kenya. The study adopted stratified sampling with the sample been drawn from the senior management, middle management and lower management staff of the head office branches of the 8 deposit-taking microfinance institutions. The study used both primary data and secondary data. Secondary data accessed from the CBK (2012) report while a semi-structured questionnaire was used for collecting primary data from the respondents. Both qualitative and quantitative analysis was carried out. The study concluded that, most of the organizations had anti-fraud policies which were also effective. On the same, the stud 12 day established that the institutions have separate and distinct anti-fraud policy from a code of conduct policy. The institution’s employees were trained on anti-fraud mechanisms and that management reports on the occurrence and the cost of fraud to staff of the institution. The findings also indicated that the institutions have documented policies and procedures which are clearly communicated to all employees and that employee understand what fraud constitutes in all products of the deposit-taking microfinance while Anti-Fraud Policies affect organization performance to a great extent.

**Review of Related Literature**

Nature of fraud

The concept of fraud in itself disordered. But scholars vary significantly in their expressions about fraud. The cause is sometimes confused with effect. Defining fraud is as difficult as identifying it.

*Fraud is defined by EFCC (2004:46)* as the non-violent criminal and illicit activity committed with objective of earning wealth illegally either individually or in a group or organized manner thereby violating existing legislation governing the economic activities of government and its administration

*Nwaze (2012)* defined fraud as a predetermined as well as planned tricky process or device usually undertaken by a person or group of persons with the sole aim of cheating another person or organisation to gain illgotten advantage which would not have accrued in the absence of such deceptive procedure.

*(Onuorah and Appah, 2012) as cited in Bello (2001) and quoting Russel (1978) remarks that the term fraud is generic and is used in various ways. Okafor (2004*) added that fraud embraces all the multifarious means which human ingenuity can devise, which are resorted to by an individual to get advantage over another in false representation. No definite and invariable rule can be laid down as a general proposition in defining fraud as it includes surprise, trick, cunning and unfair ways by which another is cheated fraudulently.

*Ojaide (2000) Ramamoorti (2007*) argued that fraud is a human endeavor, involving deception, purposeful intent, intensity of desire, risk of apprehension, violation of trust, and rationalization. It is therefore important to understand the psychological factors that might influence the behavior of fraud perpetrators. The rationale for drawing on behavioral science built on evident from the intuition that one needs to think like a crook to catch a crook. Karwai

*(2002), Ajie and Ezi (2000)* are of the view of fraud in organizations vary widely in nature, character and method of operation in general. Fraud may be classified into two broad ways: nature of fraudsters and method employed in carrying out the fraud. On the basis of the nature of the fraudsters, fraud may be categorized into three groups, namely; internal, external and mixed frauds. Internal fraud relates to those committed by members of staff and directors of the organizations while external fraud is committed by persons not connected with the organization and mixed fraud involves outsiders colluding with the staff and directors of the organization.

**CAUSES OF FRAUD**

(A) Brune (1992) said that causes of fraud are through lapses or inadequacies, which manifest in various ways. Lacks of adequate supervision, which fraudulent minded operator in the system sees as an opportunity and utilize it.

(B) Development of new technologies has facilitated the tempo fraudulent activities (More pronounced in computer and information technology

(C) Human avarice, the insatiable appetite to a mass wealth and the social economic condition of the society. However, there are many causes of bank fraud that can be summarized into two namely.

(1) **Institutional Factor**;

These are factors that exist because of the action or inaction of the banks management. They are therefore factors that are within the control of the management .The following are responsible for fraud perpetuation in any organization particularly resulting from the failure to separate duties, and where an individual handle exclusively all stages of transactions.

1. Where employee are allowed to accumulate their vocation, which make it difficult to uncover illegal abstraction
2. Absence of employee rotation: failure to shift personnel encourages fraud by covering the work of each employee
3. Remuneration: fair remuneration aids controlling speculation. Where an employee, is remuneration accounting to the value of its contribution to the bank and accounting to the going wage, rather comparatively his dues not to try to correct it through
4. Training :

inadequate or lack of proper training of bank personels allows a staff in bank to unconsciously create lapses in the operation asiged to him/her causing another fraudulent minder staff utilize the opportunity to perpetuate the fraudulent act.

(2**) Environmental/Social Factors**

These are factor that are not within the control or the bank management. The high ranking among these factors is the general lust for wealth, also the fact that the society does not challenge the source of people’s wealth, but rather recognition is given into such. The bank is a part of the society, coupled with the regard and position bankers are placed in the society. This therefore encourage people even bankers to be bold confident when involved in such malpractices.

**CLASSIFICATION OF FRAUDS.**

As it has been said earlier, fraud is a criminal act of involving the use of deceit to gain undue or illegal advantage. This comes in different shapes and magnitude. According to Biggs (2006), he classified fraud into (2) namely;

(a)**DEFALCATION**

This involves either misappropriation of money or goods, which can coax the omission of cash received.

(b**) MANIPULATION**

Fraudulent manipulation of account involving defalcation. This is less frequent and it involves large amount. It’s also a form of frauds that is indigenous and skillfully concealed and carried out by person holding position of the higher trust. Megis also classified fraud into; A. Management fraud B. Employee fraud.

MANAGEMENT FRAUD

This type of fraud comes from the top where the executives of a company deliberately deceive stock holders, creditors and independent auditor .According to Fakunle (2006), management fraud often involves the manipulation of the records and the account, typically by the enterprise’s senior officers with a view to benefiting in some indirect way. An example is, obtaining finance under false presences, or concealing a material, worsening off the company’s true position, i.e., window dressing. Robertson (1996) defines management fraud as a deliberate fraud, committed by management that injures investors and creditors, through materially misleading financial statements. Management fraud is sometimes called fraudulent financial reporting. Management fraud is usually perpetrated by the management staff of an organization, which management frauds are investors and creditors and the instrument of perpetration is financial statement. The essence of management fraud most times is to attract more shareholders to come and invest in the organization. It is also perpetrated, so that organization will be in better position of obtaining loans from banks, because, a good statement will show a healthy look, hence it will be a good collateral security

**Determinants of Fraud Detection and Prevention**

According to Vorhies (2006) balance sheet account reconciliations are one of the oldest and most important accounting processes. Yet, in many companies they’re underappreciated as an internal control over financial reporting. Before Sarbanes-Oxley many companies relegated this control to a corrective role; since the control operates after the financial reports are issued, it is effective only in identifying misstatements for correction. With increasingly tight SEC filing deadlines and section 404 requirements, many companies haven’t recognized the importance of accelerating balance sheet account reconciliations in order to make them detective controls and to complete them in time to identify and correct errors before the company files SEC reports. According to Basel Committee, (2011) companies need to reconcile all accounts that could contain a significant or material misstatement and post all necessary adjustments to the general ledger in a timely manner. Necessary adjustments include all identified general ledger entries that either individually or in the aggregate are significant or material to the financial statements, with the most necessary adjustments being those that would result in a material misstatement if they were not recorded. The company also should analyze all unreconciled accounts and unposted identified adjustments to the 15 general ledger to determine their effect and the potential for financial misstatement or significant deficiency or material weakness.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

**Introduction.**

This chapter contains discussion on various methodological techniques which were used by researcher in collecting data from various sources. It includes the research design employed, area of the study, population of the study, methods of collecting data, sample and sampling procedures and data analysis techniques.

**Population of the study**

The population of the study was 600 people included, Human Resource Managers, Marketing managers, Engineers, technician, officers of different department and other employees. The researcher included these groups into the sample because they are a key people in performing

**Sample size**

The sample size of the study was 600 which are categorized into four parts which are Administration and financial department, Engineering Department, Development department, Maintenance department. Due to big number of staff for the whole branches of NMB in Tanzania, it was not possible to cover the whole population of the study. Therefore the researcher select NMB headquarter case study which has 353 employees to represent the whole NMB staff in Tanzania

**Table 3.1: Sample size/population**

|  |  |
| --- | --- |
| Category | Sample size |
| Maintenance department 100 | **20** |
| Administration and financial department 250 | **46** |
| Engineering Department 135 | **30** |
| Development department 115 | **28** |
| Total 600 | **124** |

**Sample and sampling techniques**

The researcher got the sample from the sample size of the using both probability and non-probability sampling techniques .judgmental sampling was used to the resourceful persons such as the top management team, the reason for purposeful selection is that the views of members of top management are important in the study even before preparation of the interview .also random sampling was used to get information from the sample working universe because of the number of department in the organization these techniques were used for the purpose of voiding biases duplication, and unreliability of findings.

**Data collection method / Instruments**

The study used three (3) data collection method; these are interview, documentary sources as well as observation. There was no practical need to send out questionnaire. I worked in the agency for three months with ample time to observe and interview people {units of inquiry}.

**Interview**

The researcher conducted both structured and unstructured interviews with the heads of department and other staff .specifically unstructured interview were used by the researcher because the study was carried out to the employees were busy and hence difficult in setting time for conducting structured interviews. This method helped to get clarifications of the various issues that were raised by both the management and employees.

**Observation**

This is non-verbal method of data collection, in this case observation and noting behaviors and actions of employees in their daily activities helped to gather information. The researcher participated in the day to day activities like other employee; this helped the researcher to get information that would not be given by the respondents through other methods of data collection.

**Data analysis;**

Both qualitative and quantitative data analysis techniques were used in the study .by qualitative analysis techniques, the researcher examined data basing on the attributes shown by the respondents and discussion on them. Also the researcher used tables and percentile tables to analyses the findings obtained through interview, observation, and documentary sources.

**Data validity and reliability**

The questionnaire was subjected to a pilot test. Specifically, two internal audit managers were requested to fill the questionnaire. Data from the 2 filled questionnaires were entered into SPSS and cronbach alpha statistics calculated. A cronbach alpha of 0.7 was the benchmark of deciding whether or not the instrument is reliable. Validity was enhanced by requesting industry experts and the supervisor to express an opinion on the terminologies used in the questionnaire. Care was taken to exclude the 2 piloted respondents from the main study.

**Ethical Consideration**

Researches that are undertaken by social researchers have both the positive and the negative impact on the stakeholders (Kumbar, 2005). It is however, the researcher’s prerogative to make sure that the negative impact of the research is reduced to the barest minimum to ensure that no harm is done to the participant nor the researcher

|  |
| --- |
| * Ensuring that no harm comes to participants |
| * Respecting the dignity of research participants |
| * Ensuring a fully informed consent of the research participants |
| * Protecting the privacy of research subjects |
| * Ensuring the confidentiality of research data |
| * Protecting the anonymity of individuals and organizations |
| * Avoiding deception about the nature or aims of the research |
| * Declaration of affiliations, funding sources, and conflict of interest |
| * Honesty and transparency in communicating about the research |
| * Avoidance of any misleading, or false reporting of research findings |

To ensure the non-violation of ethical codes for researches in social and management sciences the above ethical principles.

To achieve, first, access to the respondents were sought and gotten in a much civilised manner through letters and telephone calls.

Second, participant were not coerced into participating in the research, rather their consent were sought and gotten with the use of consent forms.

Third, those who volunteered to take part in the research were assured of the confidentiality of the information, which they will supply. To ensure confidentiality, the participants’ names were not required.

Fourth, data obtained were kept secured so that the information does not get into wrong hands. The data were stored on the school’s personal computer assigned to the researcher and researcher’s personal laptop with secured passwords known to the researcher only.

Fifth, the aim of the research and the researcher’s affiliation were clearly statement on the research instruments (as in the case of the quantitative strand) or made through verbal explanations (as in the case of oral interviews)

Finally, the researcher has ensured that no mis-leading or false information is included in this report.

**LIMITATION OF THE STUDY.**

In this course of the study the following limitations faced the researcher

I was confronted with some problems when carrying out this research. These problems include.

**Uncorporative attitude of some of my respondents:**

Some of the respondents refused to fill my questionnaires and some refuse to return the filled ones.

**Problem of school exeat:**

Due to the nature of my school I was confronted with the problem of permission to leave school to carry out my research such as sharing and collection of questionnaires and other materials relevant to my research work.

**Financial problems:**

The success of my research work depends on the finance availability and this affected the researcher because the finance at his disposal was not sufficient to carry out the research effectively.

**Time:**

This has to do with the time-frame given for the completion of the study and also other challenges; activities and engagements forcing me as a final year student reduced my time-frame

**Lack of literature review**

Through this study there is lack of literature review materials from other researchers about this study.

Not all the questionnaires distributed for administering was returned

**CHAPTER FOUR**

**PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA**

This chapter deals with data presentation of findings and discussion. It is about what has been collected during the research.

The chapter is divided into several sub headings including what has been collected from the interview, some parts trying to answer research questions which were asked during the interview, and what are the objectives of the study.

NMB Bank headquarter has total of 600 employees in members.in conducting study different methods of collecting data were used. The reason behind using those different methods was to help the researcher to gather as much information understanding as possible, the methods employed includes interview, documentation questionnaire’s and observation.

The research aimed at finding out if there are frauds at NMB Bank and ways of detection and prevention them, therefore the findings revealed that there are different types and sources of frauds at NMB bank.

The researcher conducted interview in trying to find out if there re frauds at NMB bank and how those frauds can be detected and prevented. The question to which the employees responded to was “are the any fraud rising in the NMB? ’The table below shows how employees responded to the interview question.

**Table 1: Responses from the interviews.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Sample taken** | **Response** | **Percentage to the sample** | **Number of respondents who agreed** | **Percentage of respondents who greed** | **Number of respondents who disagreed** | **Percentage of respondents who disagreed** |
| **353** | **126** | **100%** | **120** | **95%** | **6** | **5%** |

**Source: field notes 2017.**

From the result obtained, the researcher found out that of 126 employees who responded to the interview, 120 number of respondents who agreed (95%) agree that fraud prevail at NMB Bank .6 number of respondents who disagreed (5%) disagree that there are no frauds prevailing at NMb Bank.

**Types of frauds found at NMB bank**

Different types of fraud were found at NMB Bank among which are **:**

**CASH FRAUD:**

There is several method of cash fraud that is engaged in by the bank staffs. A cash fraud from the cashier may be outright cash theft by unsuspecting cashier to suppress other colleague. Management cash fraud may take the form of removing cash from strong room and replacing the strong room money with counterfeit currency.

**CHEQUE FRAUD:**

This is in form of forging of Cheque that is, making an alteration on Cheque by changing the figures or the signature. Cheque fraud may involve the following:

1. Removal of Cheque books from stock (e.g. safe) or Cheque leafs from Cheque book.
2. Illegal and unauthorized adjustment of Cheque amongst which include alteration of signature and date.
3. Clearing Cheque fraud, bank drafts, bank Cheque and banker’s payment. These are means of payment commonly used in the banking system. Once they are suppressed, intercept, stolen and signatures perfectly forged and names cleverly altered, the fraud will be good and successful.

**FOREIGN EXCHANGE MALPRACTICES**

These involve the unlawful trafficking in foreign exchange and non-adherence to official guidance on foreign exchange transaction.

**TELEX FRAUD:**

These occur among authentic massages which are to be tested and sent by bankers telex official. Spurious telex messages are introduced because of such fake messages in which money is usually paid to a fictions account through a correspondence bank and later cashed by the overseas collaborations. Then the correspondence bank without notice will credit the fictions account after decoding the telex message.

**LOAN FRAUD:**

This type of fraud is peculiar to specialized banks though occur in all banks. The area of frauds and forgeries are the procedure for granting, recording and monitoring of loan and advances to customers. Loan fraud may take the form of outright grants to unintended and unqualified borrowers who are aided and abetted by senior bank staff that may be relatives, friends and business partners. By this, it is an outright intention to defraud

**CHAPTER FIVE**

**SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

**Summary of Findings**

The study sought to explore the usefulness of internal controls system on fraud detection and prevention at NMB Bank headquarter Dar es Salaam. The main problem was that there is increased level of fraud and misappropriation of funds in NMB Bank caused by poor internal control measures. The fact that NMB Bank has the highest incidences of fraud in Tanzania, based on a global ranking of 50 Banks surveyed and also the findings that NMB Bank in Dar es Salaam headquarter are more susceptible to fraud than other banks

**Recommendations**

The study recommends that NMB Bank should fully reconcile their accounts more frequently in order to reduce the cases of more incidences of frauds. The study also recommends that NMB Bank should put in place stronger financial governance control measures through more frequent meetings among the members of the risk management committee and also finance and investment committee. Another recommendation made by the study is that NMB banks should reduce the variances in budgets through better reporting and budgetary control measures as it will reduce cases of frauds.

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Introduction

This chapter presents a summary of the findings of the study. The conclusions to the main issues of the study and recommendations are also provided. The purpose of this study is to explore the usefulness of the internal control system in fraud detection prevention at NMB Bank headquarter Dar es Salaam. In recent times, there has been an increased interest in the internal audit function in the NMB Bank to fight fraud. This study was carried out in the NMB Bank headquarter Dar es Salaam. The data were collected through the use of questionnaires and interview and observation.

Appendix

The following are some general questions which researcher interviewed the staff of NMB bank.

Are the Nmb employees have the necessary knowledge concerning the concept of fraud control?

Does Nmb bank have an internal control system? How effective is it?

How Nmb management find out the strategic way to prevent fraud in their bank

**TABLE 3. RESEARCH BUDGET**

|  |  |  |
| --- | --- | --- |
| **ITEM** | **PRICE PER UNIT** | **AMOUNT** |
| **STATIONERY** |  |  |
| **Two reams of paper** | @5000/= | 10,000/= |
| **Two note pads** | @1500/= | 3,000/= |
| **Five ball pens** | @400/= | 2,000/= |
| **Accommodation** | 5000/=@ week | 85,000/= |
| **SUBTOTAL** |  | **100,000/=** |
| **Typing and Printing** |  | 120,000/= |
| **Binding and Lamination** |  | 80,000/= |
| **SUBTOTAL** |  | **200,000/=** |
| **Transportation to place** |  |  |
| **Of work for 17 weeks** | 6,000/=@ week | 102,000/= |
| **Trip to Institute** |  | 160,000/= |
| **Lunch for 17 weeks** | 10,000/=@ week | 170,000/= |
| **SUBTOTAL** |  | **432,000/=** |
| **GRAND TOTAL** |  | **732,000/=** |
|  |  |  |

**APPENDIXES**

**TABLE 2.  APPENDIX 1. FIELDWORK SCHEDULE.**

       The study was taken 17 weeks comprising of the activities as shown in the Gantt chart below which is the semi-structured decision model showing the different task to be performed in carrying the complete research work and the time frame for their accomplishments.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **ACTIVITIES** | **EXPECTED DURATION IN WEEKS** | | | | | | | | | | | | | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 |
| **FAMILIARIZING WITH THE ORGANISATION** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **DESIGN OF THE RESEARCH** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **DATA COLLECTION** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **COMPILING AND PREPARATION OF MANUSCRIPT** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| .**REPORT WRITING AND SUBMISSION** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

RECOMMENDATIONS

Based on the findings of the study, the researcher made the following recommendations:

1. Government should establish more anti fraud and anti corruption agencies to assist in sanitizing Nigeria banking system.

2. Bank management should employ strategies that will ensure early and prompt detection, prevention and control of fraud in commercial banks.

3. Banks management should strengthen their security arrangement and use sophisticated security gadget to 107 ensure tight security in both inside and outside the bank premises.

4. The recruitment system in the bank should be based strictly on merit instead of considering who you know, connection and tribalism. This will ensure efficient and effective staff functioning.

5. Banks should avoid employing fraud victim in the bank or in other organization

CONCLUSION

The conclusion drawn on this study is that “there is existence of frauds in Nigerian commercial banks”. Management of these frauds in commercial banks is of great importance and has a lot of benefits to both the banks, customers and the entire public if properly carried out. This includes:

106 Giving confidence to the bank customers that their money is safe and encouraging or attracting local and foreign inventors to invest their money into the banking sector with the impression that their money is secure.

Exposing the fraud victim in the commercial banks for punishment and prosecution and giving the commercial banks the impression that their business environment is free from fraud and they are working with faithful and honest staffs.

CONCLUSION

Bank Frauds are now becoming a global phenomenon. Fraud in general, inflicts untold hardship on bank owners, customers and their family members, as most bank failures are associated with large scales of fraud. The prevention and detection of frauds are basically the responsibility of the management, through the establishment of an effective and efficient internal control system. Conclusively the importance of the internal control department/unit of any organization, especially banks cannot be undermined. Since the lack of an effective internal control system, according to the findings is the major cause of bank frauds. It is then concluded that the management of every bank should create and establish a standard internal control system, strong enough to stand against the wiles of fraud in order to promote continuity of operations and to ensure the liquidity, solvency and going concern concept of the bank.