



**FRAUD CAUSES AND EFFECT ON THE FINANCIAL PERFORMANCE: THE CASE  
OF ETHIOPIA BANKING INDUSTRY**

**BY:**

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## **Statement of Certification**

This is to certify that Techalu Setarge has carried out his research work on the topic entitled “Fraud in the Banking Industry, a case study of Ethiopia”. The work is original in nature and is suitable for submission for the reward of the MSc Degree in Accounting and Finance.

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## **Statement of Declaration**

I, Techalu Setarge, have carried out independently a research work on “Fraud in the Banking Industry, a case study of Ethiopia” in partial fulfillment of the requirement of the MSc program in accounting and finance with the guidance and support of the research advisor.

This study is my own work that has not been submitted for any degree or MSc program in this or any other institution.

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**“Fraud Causes and Effect on the Financial Performance, the case of Ethiopia Banking Industry”**

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## **Abstract**

*This study aimed to evaluate banking fraud in the banking sector in Ethiopia. The study's goals were to identify the most common fraud types, their root causes, and how fraud affects banks' financial health. The study used a descriptive research design using 18 banks out of 28 banks as the case. Using simple random sampling technique, 84 employees, who represented 107 of the populations, and, 3 employees from NBE by purposive sampling, were included in the sample size. SPSS version 25 was used to determine the percentage and frequency of the data obtained. The research revealed that fraudulent money transfers, unauthorized withdrawals, theft and embezzlement, account opening fraud, money laundering, loan document falsification, unauthorized use of debit cards (ATM), and finally terrorist financing are the primary types of fraud that predominantly occur. Other than these, the main variables that contribute to fraud include shifting societal norms, economic pressure, a lack of training, increasingly complex crimes, socio cultural elements including ethics, crime rates, education, unemployment, and political elements. Finally, the study draws the conclusion that fraud has a significant negative impact on Ethiopian banks' financial performance, whether directly or indirectly. Based on the findings, the study suggests, among other things, that Ethiopian banks develop and implement efficient management quality, the regulatory and supervisory organizations of banks in Ethiopia must strengthen their supervision, the management needs updated technology, staff training, the personnel should have had a thorough background check before being hired, The private and governments bank should work together by developing a centralized fraud controlling mechanisms, that would reduce the incidence of fraud and fraudulent practices in the country's banking sector.*

**Key Words:** *bank fraud, theft, Ethiopian banks, Commercial Bank, financial performance*

## Table of Contents

Acknowledgment .....	I
Abstract .....	II
List of Tables .....	V
List of Figures .....	VI
Abbreviations .....	VII
CHAPTER ONE .....	1
1. Introduction .....	1
1.1. Background of the Study .....	1
1.2. Problem Statement .....	3
1.3. Research Objectives .....	5
1.3.1. General Objective .....	5
1.3.2. Specific Objective.....	5
1.4. Research Questions .....	5
1.5. Significance of the Study .....	6
1.6. Scope of the Study.....	6
1.7. Limitation of the Study.....	7
1.8. Organization of the Study.....	7
1.9. Definition of Terms .....	8
CHAPTER TWO .....	9
LITERATURE REVIEW .....	9
2. Introduction.....	9
2.1. Theoretical Literature Review on Fraud .....	9
2.1.1. Definition of Fraud .....	9
2.1.2. Theories of Fraud.....	11
2.1.3. External Environment of Fraud .....	17
2.1.4. Types of Fraud .....	21
2.1.5. Effect of Fraud on Financial Performance of Banks .....	24
2.1.6. Fraud Detection and Prevention of Strategy.....	25
2.2. Empirical Literature Review .....	27

2.3. Literature Gap.....	30
CHAPTER THREE .....	31
3. RESEARCH DESIGN AND METHODOLOGY .....	31
3.1. Research Design .....	31
3.2. Population and Sampling Design .....	32
3.2.1. Population .....	32
3.2.2. Sampling Design.....	32
3.3. Type of data and tools /Instruments of data collection .....	34
3.4. Data Collection Procedures .....	34
3.5. Data Analysis Methods .....	34
3.6. Reliability and Validity .....	35
CHAPTER-FOUR .....	37
4. DATA ANALYSIS AND DISCUSSION .....	37
4.1. Introduction .....	37
4.2. Response Rate .....	38
4.3. Respondent’s Profile .....	38
4.4. Types of Bank Fraud in the Banking Sector .....	40
4.5. The Prevalence Rate of Fraud Committed in the Banking Sector .....	45
4.6. Causes of Bank Fraud in Ethiopia.....	49
4.7. Effects of Fraud on Financial Performance of Banks in Ethiopia.....	52
CHAPTER FIVE .....	55
SUMMARY, CONCLUSION AND RECOMMENDATION.....	55
5.1. INTRODUCTION.....	55
5.2. SUMMARY .....	55
5.3. CONCLUSION .....	57
5.3.1. Causes of Fraud.....	57
5.3.2. Types of Fraud .....	57
5.3.3. Effect of fraud.....	57
5.4. Recommendations .....	58
Reference .....	61
Appendix Questionnaire .....	68

## List of Tables

Table 1: Sample Size .....	33
Table 2: All Variables Case-Processing Summary for Validity Test .....	36
Table 3: All Variables Case-Processing Summary for Validity Test .....	38
Table 4: The distribution of the respondents according to their profile category.....	38
Table 5: Basic types of frauds committed in Ethiopian Banking Industry .....	41
Table 6: The prevalence of fraud committed in the banking sector .....	45
Table 7: Causes of Fraud .....	49
Table 8: Effect of fraud on financial performance.....	52

## **List of Figures**

Figure 1: The Fraud Triangle .....	13
Figure 2: Work experience in the current Bank .....	39
Figure 3: The prevalence of money laundry in the study area.....	44
Figure 4: Customer Shifting Impacts on Financial Performance of Banks .....	54

## **Abbreviations**

<b>CIMA-</b>	Chartered institute of Management Accountants
<b>ISACA-</b>	Information Systems Audit and Control Association
<b>NRA-</b>	National Rifle Association
<b>ISA-</b>	International Standard on Audit
<b>NISS-</b>	National Intelligence and Security Service
<b>FBC-</b>	Fana Broadcasting Corporation

# **CHAPTER ONE**

## **1. Introduction**

### **1.1. Background of the Study**

The Ethiopian banking industry is regulated by the National Bank of Ethiopia (NBE), which manages bank supervision and monetary policy in line with key economic objectives within Ethiopia (NBE, 2022). The bank's core mandate for supervision includes review and revision of laws and policies related to banking as well as licensing and oversight of financial services and banking agencies operating within Ethiopia, including commercial banks, microfinance agencies, insurance companies, and other companies (NBE, 2008). In addition to this, it manages and administers the country's international reserves, lend money and regulate interest rate of banks. As of September 2020, Ethiopia had eighteen banks registered, including the Ethiopian Commercial Bank and seventeen private banks.

Fraud is an intentional act involving the use of deception to achieve an unjust or illegal advantage by one or more individuals among management, those in charge of governance, employees, or third parties (ISA). Fraud is defined by the Information, Systems, Audit and Control Association (ISACA) as a willful misrepresentation that causes another person to suffer damages, primarily monetary losses. Fraud is defined by (Idowu, 2009) as intentional misrepresentation, concealment, or omission of the truth for the purpose of deception or manipulation to the financial detriment of an individual or organization, and it includes embezzlement, theft, or any attempt to steal or unlawfully obtain, misuse, or harm a bank's asset. The National Bank of Ethiopia (NBE), which regulates Ethiopian banks, defines fraud as "a deliberate act or omission by shareholders, directors, employees, or customers with the intent of obtaining dishonest or unlawful advantage for the party committing fraud or for other parties" (fraud monitoring directive No SBB/59/2014).

Fraud is one of today's many enemies in the corporate sector. It can be found in all walks of life, including government, the export trade, shipping transactions, banking, and insurance. Special organizations have been formed to combat it, and Interpol is the international agency in charge of

it, but it has not and will not be eradicated. Fraud is a universal phenomenon that has existed for a long time. Its size is unknown because much of it is unknown or undetected, and not all of what is discovered is published. It is common knowledge that no part of the banking system is exempt to fraudsters, including the security teams tasked with preventing it. Because of the previous mentioned facts, its management has become a central point in banking, similar to risk management. Fraud is a major challenge for the entire business world; no company is exempt, and it affects every aspect of life (Olorunsegun, 2010). The banking public expects banks to be accountable, fair, transparent, and effective intermediates. Banks are expected to carry out their responsibilities with sincerity of purpose and without engaging in any fraudulent practices.

As the study of (Bariyo & Rusibana, 2021, p-425) stated that “ fraud is like an endemic disease that affects banking sector and has great effects on the country’s economy.” Which indicated that increase in bank frauds calls for strengthening of security mechanisms, banks supply their services by "dealing with public money," and their "staff should show due care and attention in managing the transactions in banks" as the study of Ashu and Bindu 2009 (Bariyo& Rusibana, 2021). Cash stolen by employees by presenting false invoices, transfer amount from dormant accounts that have not been activated for more than six months for cheque accounts and more than two years for savings accounts, forged cheque and money, credit card, ATM, false identification fraud, and loan frauds are the most common forms of fraud that occur in day-to-day bank operations.

Fraud impacts Ethiopian Banking Industry in several areas including financial, operational, and psychologically. While the monetary loss owing to fraud is significant, the full impacts of fraud on the organization can be staggering. The losses to reputation, goodwill, and customer relations can be devastating. Fraud in general, inflicts untold hardship on bank and customers, as most bank failures are associated with large scale frauds. Therefore, the lack of effective fraud control in Ethiopian banking sector is the major cause of bank frauds as cited by Kalkidan (2018).

Fraud eventually has an impact on the bank's financial operations as well as its client relationships. Banking fraud debases the banks' reputation. As a result of refunding clients, the bank and its personnel incur costs, and fraudulent conduct can lead to a loss of customer trust

and confidence in their bank. Due to the high level of competition in Ethiopia's banking business, banks must have robust anti-fraud measures (controlling mechanisms) to protect customers, workers, and the bank itself from financial losses and a negative image.

This has attracted the attentions of the banking sector, as well as every other organization in Ethiopia. Despite the fact that this phenomenon is not unique to the banking industry or to Ethiopia, the high incidence of fraud within the banking industry has become a problem for which a solution must be found, given the large amounts of money involved and the negative economic consequences. Fraud decreases a company's assets while also increasing its liabilities.

## **1.2. Problem Statement**

Fraud is a threat to a company's reputation and interactions with external stakeholders like customers, suppliers, financiers, and business partners. Similarly, fraud can result in significant financial losses. According to (KPMG, 2011), a US financial institution found a fraud instance involving a sophisticated loan application that was manipulated into performing loans by a senior management. This has resulted in the weakening value of the collateral and the related property in a corroding economy. According to the Association of Certified Fraud Examiners (ACFE), 36.6 percent of fraud occurs in banking and financial services, government and public administration, and manufacturing. Banking and financial services had the highest number of fraud instances (17.8%), with a median loss of \$200,000 per case (ACFE, 2014).

Fraud is a worldwide issue that affects every company, industry, and organization. It results in losses that, despite major developments in fraud detection technology, continue to represent causing damage to industries. According to the Association of Certified Fraud Examiner's (ACFE, 2010) global fraud study report to the nations on occupational fraud abuse, a typical organization loses 5% of its annual revenue to fraud. According to (Kroll, 2013), reports 70% of businesses have experienced at least one type of fraud.

According to (Idowu, 2009) , fraud and its management have been the primary element in bank hardship, and despite different steps made to reduce the incidence of fraud, it continues to climb by the day since fraudsters in Nigeria always devise tactical ways of committing fraud.

As part of world Ethiopian banking industry suffering with frauds, in different years, there have been a number of notable fraud incidents involving banking institutions. According to (Cusack, Solomon, 2020), study in the fiscal year covered by the NRA (i.e. between July 1, 2015 and June 30, 2016), they found that bank fraud totaling Birr 17,661,540 (US\$796,282) was reported to the National Bank, with the illegal hawala, which is an unlicensed money transfer service. In addition to this commercial Bank of Ethiopia, for example, is one of Ethiopia's largest public banks (CBE), According to (Koigi, 2016), the Commercial Bank of Ethiopia has been victimized by several scams over time. In December 2012, the bank lost more than \$314,000 at its headquarters, and in March 2016, \$852,000 was transferred from a customer account to a fake account that was created on purpose. This fraud was performed by bank employees using other coworkers' user names and passwords, and employees collaborated with outsider clients. Furthermore, according to the National Intelligence and Security Service (NISS), May 10, 2020 the Nigerian man has foiled banking fraud worth over \$US 110 million, he worked with fraudulent Bankers in Ethiopia.

"Authorities at the central bank have ordered all banks to immediately terminate business relationships with 65 individuals suspected of foreign exchange fraud valued at 13 billion Br from ten banks," according to Addis fortune (2021). "Nearly half of the transactions were reported at Wegagen Bank, followed by Lion International Bank and Commercial Bank of Ethiopia (CBE), and Abyssinia, Awash, United, Berhan, Abay, Addis, and Cooperative Bank of Oromia were also included in the list." And also according to investigation report of Ethiopian ministry of justice, as cited by FBC (2022), indicated that the banking industry in Ethiopia has suffered Br. 1.8 billion in fraud loss in five years since 2017, out of the total banks 50% of the loss is suffered by the commercial bank of Ethiopia, and some of Ethio telecom employees work with fraudulent persons.

Fraud in the banking industry was at an alarmingly high level, particularly in emerging countries. Many banks have collapsed as a result of these fraudulent actions, and many investors and depositors' funds have been trapped. Indeed, many banks are currently suffering as a result of these fraudulent acts. To be honest, it has turned into a cankerworm that has eaten its way deep into Ethiopia's banking sector, resulting in the loss of millions of Ethiopians to frauds. Few researchers, such as (Fikru, 2018), The Effectiveness of Internal Control System in Detection and

Prevention of Fraud in Ethiopian Banking Industry, stated more on detection and prevention mechanisms of fraud only is not state about types and causes of fraud.

(Aragie M., 2011) conducted a study on "an assessment of bank fraud and its management in Ethiopia commercial banks," is also focus on controlling mechanism and the data was collected from only branches like manager, teller, accountant and auditor. As the researcher observed that majority of research's focused on fraud prevention and detection of Banking Industry in Ethiopia. However, as far as the researcher aware, there have been no studies on major types, cause and effects of fraud in the Ethiopian baking business. This study focuses on the key categories of fraud, the causes of fraud, effects of fraud on the Ethiopian banking industry, and lastly, fraud control measures. As a result, this study covers a significant knowledge gap related to fraud in banking sector.

### **1.3. Research Objectives**

#### **1.3.1. General Objective**

The aim of this study is to deal about the causes and effect of fraud on the financial performance of Ethiopia Banking industry.

#### **1.3.2. Specific Objective**

The specific objective of the study was:

- To identify the major types of frauds in banking sector.
- To assess the major causes of fraud in Ethiopia Banking industry.
- To examine the effect of frauds on the performance of Ethiopian banks.

### **1.4. Research Questions**

The study was addressed the following basic questions:

- a. What are the major types of frauds on banking sector in Ethiopia?
- b. What are the causes of fraud in the Banking industry in Ethiopia?
- c. What is the effect of frauds on the performance of banks?

## **1.5. Significance of the Study**

This study will assist banks in reducing fraudster activities by investigating frauds in the banking sector in Ethiopia and recommending solutions to the identified problems. Due to its financial failures from other sections of the economy, bank failures have significant effects in any country's economy referred to as "network externalities." Furthermore, the study has many benefits and provide a better understanding about major types of fraud, causes of fraud and effects of fraud on the performance of Ethiopian banks to detect fraud.

The study is useful to policymakers, academics, bank personnel, customers, and researchers in addition to banking industry decision-makers. Banks are able to get a more thorough understanding of fraud and implement effective tactics to reduce loss brought on by fraudulent actions. This is as a result of the study's newfound information and knowledge. The researcher developed research skills, and she will utilize the findings to identify, suggest, and evaluate current regulations pertaining to the activities of departments that are vulnerable to fraud. The study will be helpful to academics as a source of information and understanding, and others may utilize it for future research on the banking business and the causes of fraud in the banking industry. Based on actual evidence and data, policy makers can create appropriate policies and substitute actions. As a result, it will act as a resource for information for future inquiry and recommendations that will serve as a guideline for financial fraud in Ethiopia's banking sector, as well as information to bank staff, consumers, and researchers.

## **1.6. Scope of the Study**

The study's focus was on the causes of fraud and how it affected the banking industry in Ethiopia's financial performance because fraud affects a wide range of organizations. Data for the study, which was restricted to the Ethiopian banking industry, came from 17 banks' risk management and internal control departments as well as from an interview with NBE. An interview with NBE and a sampling frame of risk and internal control department workers from 17 banks were used to perform this study. There were 107 populations in the study as a whole. The sampling frame was composed of 84 workers in total. Both quantitative and qualitative methods were used in the investigation.

## **1.7. Limitation of the study**

Limitations are those circumstances that are beyond of the researcher's control and may prevent the study's conclusion, its application to other circumstances, and its exploration of potential areas for future research connected to the current study.

In general, this study's flaws prevent it from being flawless. The results of this study may therefore have been constrained by some circumstances, like those of most investigations. The following are a few examples:

First and foremost, the results of the proposed study may not fully address all of the study's issues because it was based on data collected using closed-ended questioners from the risk management and internal control departments of seventeen commercial banks and an interview with NBE workers. Information regarding fraud was confidential to the bank and difficult to obtain. The researcher was asked to get secondary data from NBE, NISS, and the Anti-corruption Commission, however getting secondary data proved difficult. As long as it doesn't harm the Banks' reputation, the data must be paid for by other academics.

Lack of relevant local review of literatures, particularly which were done on the financial fraud causes and effects in Ethiopia commercial banks also embed the researcher to the great extent in order to well enriched the study and to make some comparative analysis can be also the major limitation of the study.

## **1.8. Organization of the Study**

This research was divided into five sections. The background of the study, statement of the problem, basic research questions, purpose of the investigation, significance of the study, limitation of the study, and scope of the study are all covered in the first chapter. The literature review is presented in the second chapter, followed by a brief description of the research design in the third chapter, and finally, an analysis of the study's findings in the fourth chapter. The study's summery, conclusions and recommendations are presented in Chapter 5.

## 1.9. Definition of Terms

- **Fraud**-is loss of assets an act that involves misrepresentation of acts so as to gain business advantage.
- **Misrepresentation**-unfruitful statement made by customers or employee either in writing or orally in orally to gain business advantage.
- **Concealment** -the action of hiding something or preventing it from being known.
- **Altered cheque**- erases amount or the name of the payee.
- **Counterfeit cheque**- fraudulent identification or are false cheques drawn on valid accounts.
- **Cheque fraud**- through stolen cheques and forged signatures.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2. Introduction**

This overview of the literature establishes a theoretical framework for financial fraud and includes a discussion of the research questions. To begin, it provides the background information needed to comprehend banking fraud in a real-world setting. Second, it defines fraud in the context of this study and highlights the various types, causes, and consequences of fraud that are the study's main focus, and last; it explains empirical research and research gaps.

#### **2.1. Theoretical Literature Review on Fraud**

##### **2.1.1. Definition of Fraud**

Various scientists, researchers, and authors have given their interpretations of the term "fraud." Embezzlement, financial misrepresentation and misappropriation, extortion, illicit amassing of money by illegal methods, act of deceit, bribery, false representation, theft, concealing of material fact, and so on have all been connected with the notion. (Adeyemo, 2012, p-62) defines fraud as "any illegal conduct marked by deception, concealment, or breach of trust." These actions are not based on the use of threats, violence, or physical force. The UK fraud act (Act, 2006), on the other hand, describes fraud as occurring in three ways: false representation, failure to disclose information, and abuse of position. Meanwhile, according to the Federal Bureau of Investigation (FBI) in the United States, fraud is an illegal act characterized by deception, concealment, or breach of trust that does not always require the use or threat of physical force or violence.

Individuals and organizations commit fraud in order to obtain money, property, or services; to avoid paying for or losing money or services; or to gain a personal or commercial advantage (Silverstone, H. & Sheetz, 2004). As a result, fraud encompasses all criminal offenses involving the use of deception for personal gain at the expense or loss of another person. Deception, theft, bribery, corruption, forgery, embezzlement, misappropriation, conspiracy, collusion, money laundering, extortion, and hiding of material facts are all examples of this type of activity (CIMA, 2008). For the purposes of this study, bank fraud is defined as the fraudulent use of one's position within or outside of the bank for personal gain by intentionally misusing or

misappropriating the bank's financial resources, assets, or other properties held by the bank, as well as fraudulently obtaining funds from bank customers (depositors).

Fraud can be divided into three categories: fraud that has been uncovered and made public, fraud that has been identified by organizations but has not yet been made public, and fraud that has not been detected (Silverstone, H. & Davia, 2005). They also suggest that only about 20% of fraud falls into the category of revealed fraud. Most fraud is discovered by chance; independent auditors do not proactively audit to detect fraud; entities without internal staff cannot audit to detect fraud proactively; most internal auditors lack adequate training or experience to detect fraud proactively; and most internal controls are insufficient to prevent fraud.

This research will primarily focus on financial fraud in the banking industry that has been made public. However, because of the procedures that will be employed in this study, it is possible that some evidence of fraud will be discovered that has not yet been made public. Insiders (managerial and non-managerial personnel) perpetrate some of the fraud that is publicly exposed, while outsiders (customers, suppliers, agents, organized criminals, opportunists, and predators, to name a few) commit others.

As cited by Elliot, R. K., & Willingham (1980) divided fraud into two categories: management and staff fraud. Financial statement fraud, misrepresentation of material facts, misuse of assets, hiding of material facts, illegal conduct, bribery, corruption, and conflict of interest are all examples of management fraud done by managers. Management fraud, according to (Silverstone, H. & Sheetz, 2004), entails the falsification of earnings presented in financial statements provided for shareholders and creditors. Stock prices, management bonuses, and the availability and terms of debt financing are all affected by this form of fraud.

Employee fraud, on the other hand, is done by non-managerial employees and includes, but is not limited to, embezzlement, breach of fiduciary obligations, and theft of intellectual property trade secrets (Elliot, R. K., & Willingham, 1980). Employee fraud can also include things like pilferage, petty theft, fake overtime claims, sick leave abuse, and the misuse of business assets for personal gain, not to mention bribery and corruption.

Insider fraud can also be defined as "the use of one's occupation for personal profit through the willful misuse or misapplication of the employing organization's resources or assets," according

to the Association of Certified Fraud Examiners' (Association of Certified Fraud Examiners Inc. (ACFE), 2008, p-5) definition of occupational fraud, asset theft, corruption, and fake financial statements are the three primary types of occupational fraud, according to the Association of Certified Fraud Examiners' 2008 Report to the Nation (USA). According to the (ACFE, 2006), asset misappropriation accounts for 80% of occupational fraud cases in the United States, corruption accounts for 13%, and fake financial statements accounts for 7%. Despite the fact that asset misappropriation was the most common type of occupational fraud, the average losses were the smallest when compared to the average losses due to corruption and falsified financial statements (ACFE, 2006).

Customer fraud includes fake claim applications, fraudulent claims, and the submission of misleading financial information on bank loan applications, in addition to management and employee fraud.

Collusion within a company, for example, between a manager and a junior employee; collusion externally, for example, between customers and organized criminal groups or customers with agents or suppliers; and boundary spanning, for example, collusion between an internal employee or manager and an external fraudster with specific skills to defraud the bank.

### **2.1.2. Theories of Fraud**

A number of fraud theories have arisen during the last half-century to explain the nature of fraud. The fraud triangle theory proposed by Cressey will be the fundamental theory of fraud employed in this study (1973). There are, however, a variety of other theories that can be used to comprehend various aspects of fraud as well as the causes of fraud. The fraud triangle theory is discussed first, followed by a brief description of a number of additional theoretical viewpoints that can be employed to examine the research field.

#### **❖ Fraud Triangle Theory**

The most widely recognized fraud theory is that proposed by (Cressey, 1973), a criminologist who studied 200 embezzlers (trust violators) who were arrested and housed in several jails throughout the United States Midwest. "Trusted persons become trust violators when they conceive of themselves as having a non-shareable financial problem, are aware that this problem

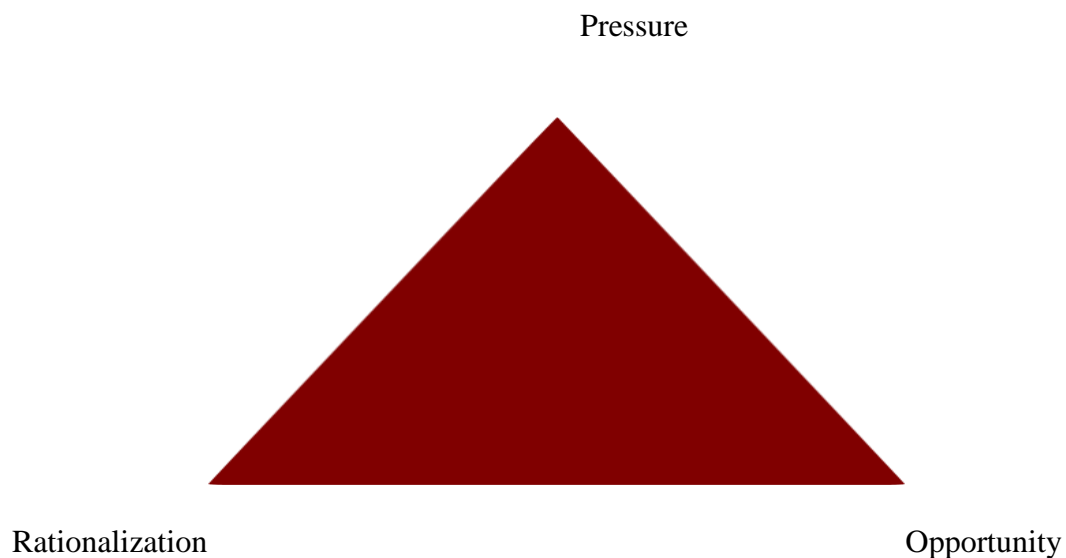
can be secretly resolved by violation of the position of financial trust, and are able to apply verbalizations to their own conduct in that situation that enable them to adjust their conceptions of themselves as trusted persons with their conceptions of them," Cressey's concluded (Cressey, 1973, p-30).

The Fraud Triangle Theory is the popular name for this idea. The triangle's legs reflect the pressure, opportunity, and rationalization that individuals have for committing fraud.

The first reason, employee pressure, is caused by "non-shareable" financial concerns. Fraud, according to (Cressey, 1973), is the result of issues that the individual perceives as non-shareable in some way. He identified six sorts of non-shareable issues that were thought to lead to the individual's capacity for fraud. According to (Cressey, 1973), the term "non-shareable" is a relative concept that varies from person to person. As a result, what one person considers non-shareable may not be so for another. However, he came to the conclusion that non-shareable issues were related to actions that involved status-seeking or status-maintaining. The six types of non-shareable concerns include violations of obligations, personal failures, business reversals, isolation from friends and associates, status gaining demands, and challenges in the employer-employee relationship (Cressey, 1973).

Opportunity is the second component of the Fraud Triangle. The non-shareable problem will not cause an employee to conduct fraud on its own (Wells, 2005). The employee must also believe that doing the offense without being caught is (M. D. Akers & Gissel, 2006) possible. While a position of trust may offer an opportunity to solve a non-shareable financial problem, (Cressey, 1973) discovered that many trusted people did not recognize the opportunities that such positions offer at first, and thus did not commit fraud by using entrusted funds to solve their non-shareable problems. He interconnected cerebral processes of knowing and justifying that the problem may be handled by violating their position of trust produce the link between the non-shareable problem and the criminal remedy. A person in a position of trust is unlikely to be unaware, in general, that the position of trust can be breached, and hence that there is an objective potential for trust violation. In terms of general knowledge, (Wells, 2004) claims that the very nature of a person's fiduciary ability implies that, because the position is one of trust, it can be breached. Poor internal controls, lax discipline procedures, or a lack of organizational ethics could all (Cressey, 1973; Wells, 2004) Rationalization is the third thing to consider. The act of

rationalization is not an afterthought that justifies the deception; rather, it is the true reason(s) for the person's fraudulent behavior. As a result, rationalization is a component of the motive to conduct fraud, and it is frequently abandoned once the criminal act has occurred(Wells, 2005). A trusted person, according to (Cressey, 1973), does not construct a novel explanation for his breach of trust; rather, he applies to his own situation a verbalization that has been made available to him as a result of his contact with a culture that has such verbalizations. Such verbalizations are obtained by the fraudulent individual from others who have past experience with situations involving positions of trust and trust violations.



*Figure 1: The Fraud Triangle*

#### ❖ Theory of Differential Association

The "Theory of Differential Association," formulated by Edwin Sutherland in the 1930s, was one of the first hypotheses. Sutherland is known as the "Father of White-Collar Crime," as he was a pioneer in the field of white-collar crime study (Wells, 2005). In 1939, he invented the term "white-collar crime" to describe fraud committed by upper-class business leaders against shareholders or the general public.

Sutherland (1949) proposed that crime, like any other subject, is taught through the Theory of Differential Association. He felt that criminal behavior occurred in the context of a

communication process, and that criminality could not exist without the assistance of others. Sutherland, unlike economic explanations, biological and psychological viewpoints, attributes crime to the individual's social situation, according to (Gaylord, M.S. and Galliher, 1988). Criminal behavior, according to (Sutherland, 1949), arises when an individual is exposed to more definitions favorable to breaking the law than definitions unfavorable to breaking the law; thus, criminal activity is a result of conflicting values. He proposed that the criminal mind's learning process was divided into two parts: the procedures for committing the crime and the criminal mind's attitudes, impulses, rationalizations, and justifications. As a result, he discovered that organizations with dishonest employees will eventually 'infect' a part of the honest ones, and that honest employees will eventually influence some of the dishonest ones (Sutherland, 1949; Wells, 2005). Today, one of the most frequently recognized theories of white-collar crime is the Theory of Differential Associations.

Sutherland's Differential Association theory was attacked by (R. L. Akers, 1996) based on the incorrect idea that Sutherland was saying that simply interacting with criminals would lead to criminal action; however, this was not Sutherland's proposal. Other critiques stem from the theory's seeming incapacity to explain acts of deviance that are not always learned. Other authors contend that the theory cannot be empirically tested (Matsueda, 1988; R. L. Akers, 1996) because quantifying and defining Sutherland's concept of "definitions" favorable and unfavorable to criminal action is impossible or problematic. Because not everyone in a position of trust, such as a vehicle mechanic, has a white-collar employment, Sutherland did not precisely identify which offenses were white-collar crimes.

Another objection is that Sutherland's thesis is a "cultural deviance" theory because it makes assumptions about individual behavior and the role of culture in deviant conducts that are inaccurate (Matsueda, 1988). R. L. Akers (1996), on the other hand, claims that this objection is yet another misreading of Sutherland's idea. Sutherland's approach was incorrect, according to Laub (2006, p-1), because he "embraced a social model of crime and in doing so adopted a sort of sociological positivism." He also claims that Sutherland overlooked significant facts concerning crime that contradicted his theoretical biases.

### ❖ **Job Dissatisfaction Theory**

Employee unhappiness drove employees to commit fraud, according to research conducted by (Hollinger, R. C., & Clark, 1983) on 12,000 employees. Employees were more prone to justify and conduct fraud when they believed their jobs or working environment were unjust (Wells, 2005). However, due to a general lack of information about employee theft, this idea is difficult to establish; while it can be examined in detail, it is difficult to recognize in general due to a lack of reliable and broad information about employee theft (Mustaine, E. E., & Tewksbury, 2002). Furthermore, this model has the same motive and rationalization problems as the Fraud Triangle theory.

### ❖ **The Fraud Scale**

In the 1980s, (Albrecht, S., Howe K., & Romney, 1983) established the "Fraud Scale," a fraud theory that shared some of the fraud features utilized by (Cressey, 1973) to explain criminal behavior. According to his view, three variables contribute to fraud: situational pressure (such as Cressey's financial strain), perceived potential to conceal the fraud, and the level of personal integrity of the employees. The immediate challenges that people face in their environment are referred to as situational pressures. Individuals, as well as defective or missing internal controls, might create opportunities for fraud. Each person's personal code of ethical behavior is referred to as personal integrity.

Albrecht determined that occupational fraud is considerably more likely to occur when situational pressures and perceived possibilities are strong and personal integrity is low than when the opposite is true (Albrecht, S., Howe K., & Romney, 1983). The Fraud Scale model's key contribution is the inclusion of an integrity factor in understanding the occurrence of fraud. The integrity factor was added as a refinement to Cressey's recommended rationalization concept (1973).

### ❖ **The Fraud Diamond Theory**

Using the fraud triangle idea as a foundation, (Wolfe & Hermanson, 2004) proposed that a fourth factor – the offender's capabilities – be added to the fraud triangle to create the "Fraud Diamond." According to the fraud diamond hypothesis, in order for fraud to be viable, the

offender must have the capability of executing the crime, which can include technical knowledge, confidence, and other factors that allow the offender to execute and/or get away with the crime (Wolfe & Hermanson, 2004). Some of the potential limitations of the fraud triangle have been addressed by including cognitive capabilities and biases; for example, one group of researchers uses cognitive heuristics to understand why some managers may develop a rationalization to commit fraud while others do not, based on individual cognitive biases and conditions (Anadarajan, A., & Kleinman, 2011). Although the addition of the fourth leg leads to social manipulation, this model has received little attention in the literature (Omar, N. B., & Mohamad Din, 2010). Social engineering is a term used to describe the involvement of people in a fraud by deception or manipulation of emotions, social position, or other variables. This type of manipulation allows the fraudster to enlist the help of others in the fraud in order to gain from their access or skills. As a result, co-conspirators may be involved in this form of fraud who are not entirely aware of the nature of the deception (or may not be aware of it at all), but who are acting out of a desire to aid a coworker or other acquaintance (Omar, N. B., & Mohamad Din, 2010). This further complicates the picture of the fraudster, because one or more conspirators may not have the incentives involved with the formulation of a fraud intention as indicated in the fraud triangle.

#### ❖ **Fraud in the Accounting Environment**

The development of fraud theories is ongoing. Riahi-Belkaoui and Picur attempted to relate fraud to the accounting environment (2000). They provide a fraud framework for identifying conditions in the accounting environment that are most favorable to fraud. The framework draws on criminological models and theories like conflict and consensus approaches, ecological theory, cultural transmission theory, and anomie theories.

The conflict and consensus methods propose that laws emerge from general public opinion, which reflects society's popular will. According to the conflict method, interest groups influence and pass laws in their favor. This shows that accounting special interest organizations provide the image of being in charge of difficult situations when they aren't. As a result, the laws intended to check for fraudulent reporting and white-collar crime are ineffective. According to the conflict perspective, fraud is caused by a system of inequalities that tolerates certain sorts of aggressive conduct that leads to crime, and people who commit fraud are reacting to the

conditions of their own social class. As a result, the conflict model of crime posits that the beginnings of deceptive accounting techniques are linked to a society's political and economic development (Carey, 1978, cited by Riahi-Belkaoui, A. and Picur, 2000).

According to the ecological idea, certain sorts of criminals are drawn to sectors like business and accountancy. This theory attributes corporate fraud, white-collar crime, and audit failures to the inadequate social organization of accounting as a discipline, as well as the general public's failure to act effectively as a social control agency by remaining apathetic to crime (Riahi-Belkaoui, A. and Picur, 2000). The interactions between accounting groups (who advocate for private regulation), social institutions and inequality, social disorganization and elements of anomie, and the criminal's attraction to the firm, which is seen as a lucrative target, all contribute to the various forms of white-collar crime. Despite its complexity and intricacy, this theory has received little attention in the literature, and there has been little actual involvement or implementation of the concept. This model's applicability may be limited because it focuses on fraud in the accounting environment rather than a broader view of fraud. As a result, putting the idea into practice is complicated and likely to be difficult.

Within and around the banking business, there is an external and internal environment that influences fraud levels. Individual banks' strengths and weaknesses are part of the internal environment. The external environment, on the other hand, offers opportunities to the banking industry while also posing challenges. Banks in the business can grow their profitability, market share, and client base by taking advantage of the opportunities, but this may accidentally raise the danger of fraud.

### **2.1.3. External Environment of Fraud**

The economic environment, technology environment, competition, legal and regulatory sector, socio-cultural environment, and customer sector are the six primary components of a bank's external environment (Popoola, 2000). The next sections go through each of these habitats.

#### **❖ Economic Environment**

Economic factors such as currency rates, inflation rates, interest rates, unemployment, economic growth rates, and stock markets, among others, make up the economic environment (Popoola, 2000).

A situation in which an agent acts in his or her personal interest rather than in the interest of the main or owner of the corporation is known as an agency dilemma. The principal-agent relationship is one in which two parties are involved: the principal, who is usually the bank's owners (who own equity in a certain asset and should manage it in their best interests), and the agent, who is the asset's manager (who acts to manage the asset for the principal). the main (Krugman, P., & Wells, 2006; Stremitzer, 2005). Because the agent has primary authority over the asset and has control over the information delivered to the principal, the agent may be able to influence the asset's management to his personal benefit. To solve this challenge, the knowledge asymmetry between the agent and the principal must be resolved, and the agent's interests must be aligned with the principal's (Krugman, P., & Wells, 2006; Stremitzer, 2005).

When a bank is no longer liable for the full cost of any losses, moral hazard is introduced into the banking system. With this obligation removed, the bank may operate in ways that increase the risk of loss, such as taking more risks in legitimate operations and putting less effort into decreasing or eliminating fraud. The most popular way for the government or the sector as a whole to do this is through deposit insurance or another technique (Mayes, 2005). However, in many developing nations, these institutions have yet to be put in place; as a result, the cost of bank insolvency or collapse will be borne by consumers and customers, investors, owners, and the government (Mayes, 2005). Depository insurance, which protects bank clients from some losses in the event of a bank failure, might inject moral hazard into the financial system. Deposit insurance increases the degree of instability in the banking system, according to empirical findings, and the more extensive the insurance, the greater the negative effect. Deposit insurance, on the other hand, is required to build trust in the banking system (Demirguc-Kunt, A., & Detragiache, 2002).

### ❖ **Technology Environment**

The technological environment encompasses, among other things, new product and service innovation, research and development, new service techniques and processes, and, increasingly, information technologies related to the banking business. The way financial data is kept, processed, and evaluated has changed dramatically as a result of technological advancements. At the same time, it has improved the quality of banking services and risk management skills, resulting in lower banking costs and greater lending capacity for banks (Wilson, J.O., Casu, B.,

Girardone, C., Molyneux, 2010). International banks have found it easier to share information and technology as a result of increased globalization (Claessens & Horen, 2008). The application of information technologies in banks for the perpetration, prevention, and detection of fraud will be the focus of this study.

The usage of information technology is expected to be one of the primary contrasts between local and international banks (IT). According to research (Furst, K., Lang, W., & Nolle, 2002), banks are more likely to adopt new technologies such as internet banking if they are part of a bank holding company (international banks and branches); are located in a city; and have high fixed operating costs compared to their operating income. As a result, it has been discovered that bank location, bank size, and industry location are all critical determinants in the adoption of online banking technologies (Wilson, J.O., Casu, B., Girardone, C., Molyneux, 2010). The use of information technology in financial auditing is a relatively new trend, reaching back only to the early 1990s (Shao, 1999). Accounting and auditing systems are critical for preventing and detecting risky behavior and potential fraud in the banking sector (Fernandez, A. I., & Gonzales, 2005).

Today, statistics and machine learning are used in some of the most common fraud detection methods based on information systems (Bolton, R. J., & Hand, 2002). These methods range from a simple historical comparison to complicated neural networks that create behavioral models, and they vary greatly in sophistication and technology used (Bolton, R. J., & Hand, 2002). Many of these techniques are classified as data mining, which is a process in which existing bodies of data (including all information going into and out of the organization) are modified using machine-based procedures to provide insight into various aspects of the data (Homazi, A. N., & Giles, 2004).

#### ❖ **Regulatory environment**

Political developments, policies, government legislation, and regulations that affect bank operations make up this environment. It also encompasses government activities such as deregulation, as well as acts taken by law enforcement agencies such as the police, courts, and legal systems.

Deregulation is one of the main factors of change in the banking business (Wilson, J.O., Casu, B., Girardone, C., Molyneux, 2010). One of the key drivers of financial fraud is deregulation, which has been a driving force in the ongoing economic reforms over the past thirty years (Black, 2005b). Despite the ideological belief that companies will self-police, the reality of deregulation shows that it raises the risk of fraud (Black, 2005b). Regulation has also been found to have an impact on the type and degree of fraud that occurs. The type of fraud perpetrated in the banking business has changed as a result of changes in regulation and reporting requirements. According to (Green, B. P., & Reinstein, 2004), while the overall size of fraud has decreased, the number of individual fraudulent instances in the financial system has remained about the same, at least in the United States.

Although law enforcement is typically viewed as the institution's primary tool for avoiding fraud, it may not be as effective in Ethiopia, where law enforcement agencies are weak and frequently regarded as incompetent. While in-house investigative organizations may provide some interim solutions for banks aiming to avoid fraud, a lack of devoted and skilled law enforcement employees may prohibit institutions from effectively preventing fraud. Slow judicial systems that do not allow for effective enforcement of legal standards, deficiencies in the legal framework designed to facilitate the discovery and prevention of fraud, and a lack of independence in regulatory agencies are all structural factors for fraud in Ethiopia (Omurgonulsen, M., & Omurgonulsen, 2009). Additional factors include personal greed and social and ethical norms along with national culture (Black, 2005b).

#### ❖ **The Socio-cultural environment**

Although law enforcement is typically seen as the institution's primary tool for combating fraud, it may not be as efficient in Ethiopia because Ethiopian law enforcement agencies are weak and frequently regarded as ineffectual. While in-house investigative organizations may provide some interim solutions for banks aiming to avoid fraud, the lack of devoted and skilled law enforcement employees may prohibit institutions from preventing fraud effectively. Slow judicial systems that do not allow for effective enforcement of legal standards, inadequacies in the legal framework designed to facilitate the discovery and prevention of fraud, and lack of independence in regulatory agencies are all structural factors for fraud in Ethiopia (Omurgonulsen, M., & Omurgonulsen, 2009). Nonetheless, objective courts and improved law

enforcement have a tendency to reduce corruption (Barth, J. R., Lin, C., Lin, P., & Song, 2009). Increased competition and information exchange within the banking industry, according to (Barth, J. R., Lin, C., Lin, P., & Song, 2009), helps to reduce corruption in bank lending. Lending corruption was also shown to be less common in companies that were either government or foreign-owned, and in banks that were both private and foreign-owned.

#### ❖ **The Political environment**

The regulatory environment is inextricably tied to the political environment. This is because political processes determine the laws that govern and regulate enterprises. Changes in government can result in changes in policies, which can have a beneficial or bad impact on business. War and civil conflicts, riots, strikes, expropriation, and other political hazards are all included in the idea of political risk, which is the influence of political change on commercial operations (Buckley, 2004). The banking industry in Ethiopia has been harmed by government influence due to politicians' involvement in banks. Insider dealings have resulted as a result of this interference, some of which have been fraudulent.

#### **2.1.4. Types of Fraud**

The argument being made in this section is that there are many distinct varieties of fraud, and different scholars have classified those using varied criteria or criteria that are appropriate for their intended purpose. Almost every fraud study and significant fraud author has their own classification scheme for frauds. However, for the sake of this study, fraud can be divided into two categories.

Insider fraud is the first sort of fraud, which is committed by a member of the bank's personnel or, but not exclusively, by the bank's control systems (Greenbaum, S. I., & Thakor, 2007). According to a report by the Association of Certified Fraud Examiners (ACFE), insider fraud will be a big global concern in 2020, with 2,504 incidents resulting in a \$3.6 billion loss. "Embezzlement, insider trading, self-dealing, lying about facts, failing to disclose information, corruption... cover-ups... [and] intentional misrepresentations in financial statements" are only a few examples of insider fraud in the workplace (Zahra, S. A., Priem, R. L., & Rasheed, 2007, p-122). Falsification of loan paperwork, leak of bank or customer information that could lead to

fraudulent behavior, theft of cash or checks, misuse of bank assets and/or one's position, identity theft, and electronic theft are just a few examples in banks.

External fraud is the second sort of fraud, which occurs outside of the bank. New account fraud, "which involves the criminal utilizing a false identity, made-up or stolen, to open a new account, generally to obtain a credit card or loan" (Hartmann-wendels et al., 2009, p-347), is one of the most common types of external fraud. Existing account fraud is another type of external fraud, in which a criminal acquires access to an existing account or collection of accounts and utilizes them for fraudulent reasons. Cases of hacking, phishing, and frauds demonstrate this. Existing account fraud is usually easier to detect than new account fraud since it emerges quickly through algorithmic detection rather than requiring time to emerge, especially if the fraudster has been using the account legitimately for a long period (Hartmann-wendels et al., 2009).

This sort of fraud may also entail dealings with third parties, such as customers or other businesses, who provide an incentive to the employee (such as a bribe or kickback) in order to support the fraud (Mishkin, 2006). In its fraud prevention and detection series, the bank administration institute (1989) identified the following as the most important and common types of fraud:

#### **❖ Unauthorized Withdrawals**

Unauthorized withdrawal is defined as the withdrawal or transfer of funds from a bank account without the owner's permission or authority (Yalew, 2021). Such frauds occur when a person, either willingly or unwittingly, divulges sensitive information such as social security numbers and passwords to criminals or others. According to Olongo, forgeries of a customer's signature are used to take money unlawfully from an individual's bank account, as are forgeries of other money from one account to another or withdrawals of money from one account to another via an ATM (automated teller machine) (2013, as cited in Yalew, 2021). "Savings accounts, deposit accounts, current accounts, and transfer instruments" might all be targets of the counterfeit (Yalew, 2021, p-48).

#### **❖ Unauthorized Use of Credit or Debit Card**

Unauthorized credit or debit card use is a transaction that involves the charging of expenses for the purchase of goods and services without the card owner's consent. Credit or debit cards that

are lost, stolen, not received, issued on a fraudulent request, phony, or other fraudulent events may result in such transactions (Yalew, 2021).

#### ❖ **Illegal Foreign Exchange Trading Scheme**

Illegal foreign exchange, according to (Yalew, 2021), is the buying or selling of foreign currency by a person or institution who is not a licensed dealer. Buying or selling foreign currency by a resident who is not a certified dealer, with a person from outside the nation, or without the permission of the foreign exchange regulator.

#### ❖ **Illegal Deposit Taking**

Illegal deposit taking is the act of receiving, taking, or accepting money, precious metals, precious stones, and other valuables from members of the community with the promise of repayment with interest or returns in money or money's value without first obtaining a legal license from the appropriate authorities under the Banking and Financial Institutions Act of 1989 (Olongo, as cited in Yalew, 2021).

#### ❖ **Fraudulent Money Transfer**

In his study on the assessment of fraud in the Nigerian banking industry, Akinyomi, (2012, as referenced in Chelangat, 2014), defines fraudulent money transfer as a fraudulent demand or change of a legitimate fraud transfer request for the purpose of perpetrating fraud. After that, the fraudster will work with bank workers to extract the cash.

#### ❖ **Theft and Embezzlement**

Another sort of fraud is theft and embezzlement, which involves the illegal collecting of financial objects such as cash and checks Chelangat (2014), as cited in Yalew (2021).

#### ❖ **Account opening fraud**

Fraud conducted in connection with new account opening is generally defined as fraud perpetrated on an account within the first 90 days of its opening and discovered to have been opened with the intent to commit fraud. This entails depositing and then cashing counterfeit checks. It usually begins when a person who is unknown to the bank requests to open a

transaction account, such as a current or savings account, using fake identification Onkagba (1993).

#### ❖ **Computer fraud**

In the fraud world, technology plays a variety of functions. Typically, when technology is utilized to conduct fraud, the mechanism is a computer. Technology is becoming more integrated into society, and it is also becoming more integrated into crimes such as fraud. Computer fraud is a relatively recent sort of fraud that involves the theft of information through the use of a computer and, implicitly, an electronic transfer of monies. People who engage in computer fraud are frequently motivated by the desire to prove their skill to break banks' security systems as well as the fraudulent retention of frauds for their personal benefit Onkagba (1993).

Finally, this section has demonstrated that the term "fraud" has a wide range of legal definitions. This research focuses on financial fraud that has been made public. Insider fraud and outsider fraud are the two types of fraud that have been recognized. Although fraud is defined broadly in the preceding sections, the scope of this study does not include all possible forms of fraud. The focus of this study is on types of fraud that occur within banking institutions and are perpetrated by management, staff, customers, and other bank-affiliated individuals. This study, however, does not address fraud control or management fraud, such as systematic fraud connected with accounting system subversion and external fraud such as earnings management.

#### ❖ **Money laundering**

Money laundering is the illicit technique of making significant sums of money obtained through criminal activities, such as drug trafficking or terrorist financing; appear to have originated from a legitimate source. The proceeds of illicit activities are regarded "dirty," thus the process "launders" them to make them appear clean James (2021).

### **2.1.5. Effect of Fraud on Financial Performance of Banks**

Fraud in the banking industry has been on the rise in recent years, posing a serious threat to the financial sector's stability and survival, particularly banks Olongo (2013), as cited in Yalew (2021). According to Yalew (2021), if fraud is not properly detected, it can result in significant monetary losses for financial institutions and their customers, as well as a drop in shareholder

money and banks' capital base, as well as a loss of public trust in banks. Furthermore, the prevalence of frauds and forgeries may result in the shutdown of banks in extreme circumstances Yalew (2021).

In the study of Bariyo & Rusibana (2021) on the effect of financial fraud on commercial banks performance, stated that financial fraud such as identity theft, loan fraud, and invoice fraud have negatively affected bank performance, which means fraud significantly decrease banks capital as well as goodwill.

### **2.1.6. Fraud Detection and Prevention Strategy**

The use of effective fraud prevention techniques intended to prevent existing customer fraud particularly is important because without these techniques, it can be difficult to build trust between the bank and the customer, which can result in reduced ability to use Internet banking and increased customer churn (Suh & Han, 2002).

Types of fraud encountered in the banking environment include internal fraud and external fraud (Black, 2005b; Greenbaum & Thakor, 2007; Mishkin, 2006; Weiss, 2009). Fraud detection and prevention is at the heart of every fraud management system. Detection of fraud is highly complex, and a large percentage of fraud cases are actually detected externally (such as by the media or external auditors) or by accident (Dyck, Morse, & Zingales, 2017). However, approaches such as lifecycle monitoring and verification can be used to reduce the incidence of fraud overall (Potter, 2002; Porter, 2003; Wilhelm, 2004; Venkatraman & Delpachitra, 2008).

According to Wilhelm (2004) the fraud management lifecycle can be used to encapsulate the process of fraud prevention. This cycle consists of eight stages, including deterrence, prevention, detection, mitigation, analysis, policy, investigation, and prosecution (Wilhelm, 2004). The deterrence stage involves activities that hinder or discourage fraud through fear of consequences (Wilhelm, 2004; Webster, 1997, 1976, 1941). On the other hand, prevention activities hinder, check, keep away or stop the fraudster from committing fraudulent activities. The detection stage uncovers existing or attempted fraud while mitigation includes activities designed to stop the continuation of the fraud e.g., blocking access to the bank account. The analysis stage seeks to determine the root cause of the fraud and the factors that led to the occurrence of the fraudulent activity. The policy stage is characterized by the creation, evaluation and communication of

policies aimed at reducing fraud e.g., fixing limits to the authority to incur expenditure such as any transaction over £10,000 should be reported. The seventh stage of investigation brings together any evidence and information to curb further fraudulent activity, recover assets or secure restitution and gather evidence necessary for the successful prosecution of the fraudsters. Many known frauds are not prosecuted due to concerns about the damage such prosecution could cause to the image and reputation of the organization. The combination of internal factors (information technology, risk tolerance, fraud management philosophy etc.) and external factors (regulatory requirements, competitors, fraud methods etc.) all play a part in influencing fraud management. The complexity of fraud management increases with a dynamic and ever-growing environment (Wilhem, 2004; Webster, 1997, 1976, 1941).

Bank verification has traditionally depended on the customer signature for verification of identity (Potter, 2002). However, the meaning of the signature has become increasingly complex as technology has changed and it has become increasingly easy to forge signatures, as well as to detect forgeries (Potter, 2002). A recent introduction to customer-side fraud prevention by banks is the use of biometric security (Venkatraman & Delpachitra, 2008). The use of this technology in banking is still relatively rare, although it is being piloted in the New Zealand Bio-Sec project, and poses considerable ethical and operational concerns in addition to being expensive (Venkatraman & Delpachitra, 2008). However, it represents a strong improvement on current methods of customer-side authentication.

Specific signs of potential fraud by insider employees that (Porter, 2003). Identified included long hours, refusal to delegate, different behavioral patterns than expected, copying data, overriding controls, and relatively low levels of documentation.

Fraud leads to loss of money belonging either to the bank or customers. Such losses may be absorbed by the profits for the affected trading period and this, consequently, reduces the amount of profit which would have been available for distribution to shareholders. Losses from fraud, which are absorbed by the equity capital of the bank, impair the bank's financial health and constrain its ability to extend loans and advances for profitable operations. In extreme cases, rampant and large incidences of fraud could lead to a bank's failure. Fraud can increase the operating cost of a bank because of the added cost of installing the necessary machinery for its detection, prevention and protection of assets. Moreover, devoting valuable time to safeguarding

its asset from fraudulent men distracts management. This unproductive diversion of resources reduces outputs and low profits which in turn could retard the growth of the bank.

## **2.2. Empirical Literature Review**

Several investigations into fraud in the public and private banking sectors have been conducted around the world. According to Swain & Pani (2016), who published a report titled *Frauds in Indian Banking: Aspects, Reasons, Trend Analysis, and Suggestive Measures*, frauds in the Indian banking sector have been on the rise in India over the previous several years. Negligence by responsible officers, a lack of seriousness, lack of understanding among bank employees, non-compliance with Reserve Bank of India (RBI) KYC rules, and rising pressure on personnel about the same are some of the key causes of bank fraud.

According to (Kanu, S. I., & Okoroafor, 2013), the factors of fraud are classified according to the environment, including technological, legal, human, social, and management factors. Technological causes, according to his research, are those that have been made conceivable by technological innovation. Legal reasons of fraud are those that make fraud more likely as a result of an ineffective legal system. The actions or omissions of an organization's management that lead to fraud are known as management causes of fraud. Individuals who commit fraud owing to a lack of character development as a result of a poor upbringing are known as personal reasons of fraud. The social causes of fraud are those that are reinforced by bad societal values, such as when the society idolizes a wealthy individual without questioning his or her sources of money.

In a Study to Investigate the Reasons for Bank Frauds and the Implementation of Preventive Security Controls in the Indian Banking Industry, Khanna, A., & Arora (2009) found that workers' level of awareness is insufficient to avoid various frauds. There is a lack of training, overworked workers, competitiveness, and a low degree of employee compliance.

According to Oguda Ndege, Odhiambo Albert and John Byaruhanga (2015) investigated the Effect of Internal control on Fraud Prevention and Detection in District treasuries of Kakamega Country. The study propose hypothesis to test the relationship between internal control systems and Fraud Detection and Prevention. The study sampled 31 key respondents out of 122 populations with the acceptance range of 20% sample determination, the sample include district accountant, district internal auditors and head department, and used close ended questionnaire.

The response analyzed by using Pearson Correlation. The study result shows there is a significant positive relationship between internal control systems and fraud detection and prevention.

Yalew (2021) as cited in Olongo, did a study on the influence of fraud risk management practices in commercial banks and their effect on fraud risk exposure. The objective of the study was to hunt out the effect of fraud risk management practices on fraud prevention and fraud detection in commercial banks in Kenya, the researcher used descriptive research design and the sample size was 30 commercial banks. The results of the study establish that loans fraud, cheque related fraud, account opening fraud, computer fraud and credit card fraud are the most common in Kenya banking industry.

In the Nigerian banking industry, Abdurashed & Yinusa (2012) investigated the impact of fraud on bank performance. The study employed a vector error correction model using quarterly data from 2000 to 2013. It also focused on the fraud triangle theory. According to the study, the number of employees participating in fraud has a large positive influence on return on assets, however the quantity of fraud perpetrated and the number of employees involved in fraud both have a negative impact on bank performance.

Within the period 2001-2011, Beatrice (2014), conducted a study on the influence of fraud and fraudulent behaviors on bank performance in Nigeria. The research design was evaluated, and multiple regression analysis was employed to investigate the impact of fraud on bank performance. According to the survey, weak controls are the leading source of fraud and fraudulent activity.

According to Yego & John (2016), in their paper “The Impact of Fraud in the Banking Industry: A Case of Standard Chartered Bank”, fraud has become one of the most serious problems in the world today, and it is unlikely to go away very soon, Because of the scams, it is impacting the profitability of enterprises as well as the firm's solvency. However, continual monitoring and verification can help to reduce the risk of fraud to some level. According to Kundu, S., & Rao (2014), in their paper Reasons of Banking Fraud – A Case of Indian Public Sector Banks. Customers want banks to provide them with openness, accountability, fairness, and effective

intermediation. One of the most difficult tasks facing modern bankers is safeguarding public funds and people's trust.

Khanna, A., & Arora (2009), conducted research into the causes of bank fraud in the Indian banking sector. The study's goal was to determine the factors that contribute to bank fraud. Through cluster sampling, 253 employees from various banks were chosen for the study. Lack of training, overburdened staff, competition, and inadequate compliance (the extent to which procedures and prudential policies defined by the Federal Reserve Bank of India to prevent frauds are followed) are the key causes of bank frauds, according to the study.

Fikru (2018) the banks and regulatory authorities have proposed and allowed internal control measures to check the practice of bank fraud. But the effectiveness of any internal control system is dependent on how fluid the system interacts with itself and how embedded it is into the organization 's business processes. This paper examines the issues of effective internal control vs. fraud Detection and prevention in the Ethiopian banking industry by adopting primary data. Using a survey method, this work examined how the internal control systems in the Ethiopian banks have aided in combating or preventing fraud in the banking industry. To do this the study examines the effectiveness of internal control in Ethiopian banking industry and based on that effectiveness the researcher test the effectiveness of ICs in preventing and detection of fraud in Ethiopian banking industry. Among the findings were those internal control techniques employed by banks in checking fraud have been effective but put marks on some improvements and the final conclusion of this study is that there is a significant relationship between internal control system (control environment, risk assessment, control activity, information and communication and monitoring) and fraud.

Kalkidan (2017) this study focused on assessment of fraud control practice in the case of Dashen Bank. The research has applied descriptive statistics by using questionnaires and document review. To undertake the research simple random sampling is used to select respondents from branches and purposive type of sampling was used to select 27 branches out of 109 branches found in Addis Ababa. 185 questionnaires were distributed in which 183 of them returned. Data were analyzed using descriptive statistics using SPSS software. The result indicates that there are fraud cases but the rate is low and internal control in the bank is 21 not effective. There is a deficiency in controlling component mainly the risk assessment and information and

communication component. Comparing to risk and information communication control environment, control activities and monitoring practice are good. Employees do not have adequate awareness about anti-fraud policy, and the controlling mechanisms used by the bank are not enough to prevent fraudulent activities.

As mentioned in the previous studies, bank fraud is on the rise in various countries on a daily basis. However, those studies do not particularly address bank fraud in Ethiopia, which is why the researcher wishes to investigate bank fraud in Ethiopia.

### **2.3. Literature Gap**

According to a theoretical and empirical literature assessment, there are several sorts of frauds and theories that are imposed on bank activity, and of course, the frauds that occur in one country are not the same as those that exist in another. In truth, fraud is a widespread issue in the banking industry, including in Ethiopia. As a result, the researcher wants to know how much fraud is harming public and private bank financial performance, as well as how widespread it is in Ethiopia. There are various studies on fraud in different countries, but there is few research on fraud prevention and detection on the banking sector in Ethiopia. As a result, this study was focused on fraud causes and effect on Ethiopian Banking industry being undertaken to bridge this knowledge gap by clearly investigating the problems with possible recommendations.

## **CHAPTER THREE**

### **3. RESEARCH DESIGN AND METHODOLOGY**

The preceding chapter has presented the background information of the study, defined the researcher problems, and annotated the findings of relevant literature related to causes, and effects of fraud acts in the performance of commercial banks. The literature review has also revealed that the major types of fraudulent acts, particularly in Ethiopia Limited as per the knowledge of the researcher.

The actions and techniques utilized to collect data for the research effort are described in this chapter. It explains in detail how the data for this study was obtained and handled. The following topics are discussed: study design, sample and sampling methodology, data sources, research tools, data analysis method, reliability and validity, and ethical consideration.

#### **3.1. Research Design**

A research design is a method for achieving a research goal. It also covers the situation for data gathering and analysis that is relevant to the study goal, as well as cost-effective and conventional processes (Kothari, 2004). Because the study's goal is to learn more about financial fraud in Ethiopian banks, descriptive research is the best way to accomplish that goal. A descriptive research design was justified for use in this study as it sought to identify and describe how the independent factors influenced the dependent variable.

The independent variables were: Types of fraud like, Fraudulent money transfer, Unauthorized withdrawals, Unauthorized use of debit card, Theft and embezzlement, Money laundering, Account opening fraud, Falsifying loan documents.

Whereas how fraud influenced the financial performance of banks considered as a dependent variable.

## **3.2. Population and Sampling Design**

### **3.2.1. Population**

Population is defined by Cooper and Schindler (2001) as the total collection of elements about which we wish to make some inferences. The population includes all groups with the same attributes. The population of this study was drawn from all employees of risk management and internal control departments, working in governmental and private banks of Ethiopia.

The population of this study consists of twenty-eight Ethiopian banks, namely National bank of Ethiopia, Development Bank of Ethiopia, Commercial Bank of Ethiopia, Abyssinia, Awash, Berhan, Bunna, Cooperative Bank of Oromia (CBO), Dashen, Lion, Nib International Bank (NIB), Oromia International Bank (OIB), Abay, United, Wegagen, Zemen, Addis, Debus Global, Enat, ZamZam, Amhara bank, Tsehay, Ahadu, Siinqee, Hijra, Tsehay, Shabelle, and, Goh betoch banks, which are all registered with the NBE.

### **3.2.2. Sampling Design**

The sampling frame describes the list of all population units from which the sample is selected (Cooper & Schindler, 2008). Accordingly, this study was used two sampling stages. The first one is to sample out the commercial banks which were selected purposively by the researcher based on the time of entry to the banking industry and occurrence of fraud causes. The name of the selected banks was: Commercial bank of Ethiopia, National Bank of Ethiopia, Awash Bank, Bank of Abyssinia, Bunna Bank, Dashen Bank, Nib International Bank, United Bank, Oromia International Bank, Berhan Bank, Lion International Bank, Zemen Bank, Addis International Bank, Abay Bank, United Bank, Wogagen Bank, ZemZem Bank, Debus Global Bank and Enat Bank. The second one is to sample out risk management department and internal control department which were selected purposively by the researcher because the problem is more of a worry for the risk management departments and internal control department.

Sample size is the number of observations in a sample (Bolton & Hand 2012). It is commonly denoted  $n$  or  $N$ . A sample size of 84 has been selected for the purpose of data collection within risk management department and internal control of the above selected governmental and private banks in Ethiopian banking industry.

The following formula has been recommended by Yamane (1973):

$$n = \frac{N}{1+Ne^2}$$

Where: n is the sample required

N is the total population

$e^2$  is the probability error

This study assumes a confidence interval of 95% which means the allowed error is 5%.

$$\text{Hence, } n = \frac{N}{1+Ne^2} = \frac{107}{1+107 \times 0.05^2} = 84.$$

**Table 1: Sample Size**

No	Banks	Population	Sample
1.	Commercial Bank of Ethiopia	16	13
2.	Awash	10	8
3.	Abyssinia	8	6
4.	Berhan	5	4
5.	Dashen	12	9
6.	Bunna	6	5
7.	Cooperative Bank of Oromia (CBO)	5	4
8.	Lion	4	3
9.	Nib International Bank (NIB)	5	4
10.	Oromia International Bank (OIB)	6	4
11.	Abay	5	4
12.	United	5	4
13.	Wegagen	4	3
14.	Zemen	4	3
15.	Addis	3	2
16.	Dehub Global	4	3
17.	Enat	4	3
18.	ZamZam	3	2
	<b>TOTAL</b>	<b>107</b>	<b>84</b>

### **3.3. Type of data and tools /Instruments of data collection**

The information required for the study was collected through a standardized questionnaire and interview, which means the researcher used primary data collection method. Respondents as listed the above table-1; one government bank and seventeen private banks, were requested to provide specific information through the questionnaire which had both open ended and close ended questions. There was use of the Likert scale, short responses and check boxes accordingly. There was two parts in the questionnaire: the first part was for the respondents' background information and the second part was about causes of fraud, types of fraud, and effect of fraud on the performance of banking industry. In addition to this the researcher collected data through interview from the NBE. In order to enhance the response rate, respondents were assured of strict confidentiality of the information they share with the researcher and that the information was to be used solely for research purposes.

### **3.4. Data Collection Procedures**

The data collection process was conducted as follows. First, participants were given an overview of the research, informed consent forms, and institutional release forms in order to ensure that all data collected could be used in accordance with the requirements of human subjects' research. The researcher was collected the distributed survey from the participants by hand. The researcher logged the responses from each respondent as they were returned, with the researcher logging each response and entering 84 it into the data set. The researcher followed up with non-responding participants at two weeks intervals. In total number of respondents were 84. As indicated earlier the estimated sample size for the quantitative survey was 84 respondents. The response rate for the survey was therefore 100%. Standardized questionnaires were delivered with the assistance of firm workers who work in risk management and internal control departments of the sampled banks, and took an interview from NBE.

### **3.5. Data Analysis Methods**

Descriptive analysis was used to analyze the data. Descriptive analysis entails describing the results of several methods using percentages, means, standard deviations, and score ranges Creswell (2009). The data analysis process was performed in SPSS Vs 25. The data analysis

included descriptive statistics created in SPSS (Statistical Package for Social Sciences) vs.25 for each variable. This was performed for two reasons. First, a respondent profile was created in order to describe the conditions under which the survey was constructed. Second, a complete descriptive statistical run was performed in order to understand the relative commonality of the responses.

### **3.6. Reliability and Validity**

To confirm the response's reliability, a reliability test was obtained from each bank's risk management and internal control department of each bank in Ethiopia; selected target group responses was calculated using Cronbach's alpha using SPSS. This method examines the internal consistency of the research instrument, such as interview questions, to establish dependability (items). The most important criterion is validity, which reveals how well an instrument measures what it claims to measure Kothari (2004). The researcher considers the input of the advisor, as well as valuable comments from the advisor, in designing and ensuring the content validity of the instrument, as well as checking on the clarity and wording of the question. Based on the feedback, some adjustments to the interview questions were made.

Reliability is used to evaluate the questionnaire which is a sign of the variables or constructs. Questioner said to be reliable or reliable if answer a person to the questions are consistent or stabilized over time. In conducting the reliability test using STATA version 25 for windows, The researcher calculated Cronbach's alpha values for the items in each construct. The coefficients were evaluated using the guidelines suggested by George and Mallery (2010), where values 0.9 or higher indicate excellent reliability, values starting from 0.8 to .89 indicate good reliability, values starting from 0.7 to .79 indicate acceptable reliability, values starting from 0.6 to .69 indicate questionable reliability, values starting from 0.5 to .59 indicate poor reliability, and values less than 0.5 indicate unacceptable reliability. As indicated below in Table 2, the value for Cronbach 's Alpha ( $\alpha$ ) was 0.871 for all items which exceed 0.70 the accepted value for Cronbach 's Alpha George and Mallery (2010). In short, the responses generated for all of the variables utilized in this research was reliable enough for data analysis. This value was acceptable based on the rule of George and Mallery (2010). Validity was improved by asking risk management and internal control departments of the selected bank workers to express their

view on the words that are used in the questionnaire by supported the National Bank of Ethiopia employee's interview.

*Table 2: All Variables Case-Processing Summary for Validity Test*

Cronbach's Alpha	No of Items
0.871	31

*Source: SPSS Version 25 output (September, 2022)*

### **3.7. Ethical Considerations**

At the beginning a letter was obtained from Accounting and Finance, of Addis Ababa University to get the necessary support and cooperation in the process of data collection. To ensure confidentiality of questionnaire response, the respondents name was not mentioned. Respondents were informed that the data they provide will be used only for academic purpose. Every participant of the study also aware of that they have the right to know and understand the topic, significance and purpose of the study. In addition, every participant involvement on the study is based on willingness.

## **CHAPTER-FOUR**

### **DATA ANALYSIS AND DISCUSSION**

#### **4.1. Introduction**

This chapter discusses the results and analysis of the survey that was conducted. The main purpose of the survey was to collect information that would give a detail idea of the type, causes and effects of fraud in the Ethiopian banking industry. The survey consisted of 84 quantitative questions, using a variety of question types including rankings, and descriptive questions. And also, the interview questions were focused in three areas, including identification of the types, causes, and effects of fraud in the banking industry.

In this study, the analysis of the data gathered through survey was based on simple descriptive analysis of frequency distribution of relevant statistical information supplemented by tables and charts. This is because of its simplicity and relevance to the data obtained through questionnaire administration. It is noted that a simple frequency distribution tables and number of responses were translated into percentages and analyzed the data.

Mainly, this chapter was designed to enable the researcher in identifying the prominent financial fraud in banks of Ethiopia, in determining means employed when defrauding banks and their frequency of particular fraudulent acts as well as in determining the main characteristics of fraudulent acts in the banking sector hold. These in turn provide the opportunity to find the means of minimizing the incidence of fraud in the banking business of the country. As a result, the chapter deals with the presentation of the data collected from the survey questionnaire, the analysis of data obtained for the purpose of this study and presentation of the findings and observations made thereof. The major source of data collected (84 respondents) was from primary sources, (the use of questionnaire administered) to the risk management and internal control department of seventeen private and one government owned commercial banks in the country.

However, at this point, the questionnaire completion dead line has been met and the researcher had all of the respondents' data. Now the researcher comes to the assignment of pulling data together to make observation, conduct analysis, make interpretation and finally draw conclusion.

## 4.2. Response Rate

*Table 3: All Variables Case-Processing Summary for Validity Test*

SPSS output for all respondents		N	%
Cases	Valid	84	100
	Excluded	0	0
	Total	84	100.00

*Source: SPSS Version 25 output (September, 2022)*

## 4.3. Respondent's Profile

For the profile of the respondents, the questionnaire asked for the participants' Level of education, work experience before joining the current institution and in the current institution. The table below summarizes the gathered values for each respondent's profile category.

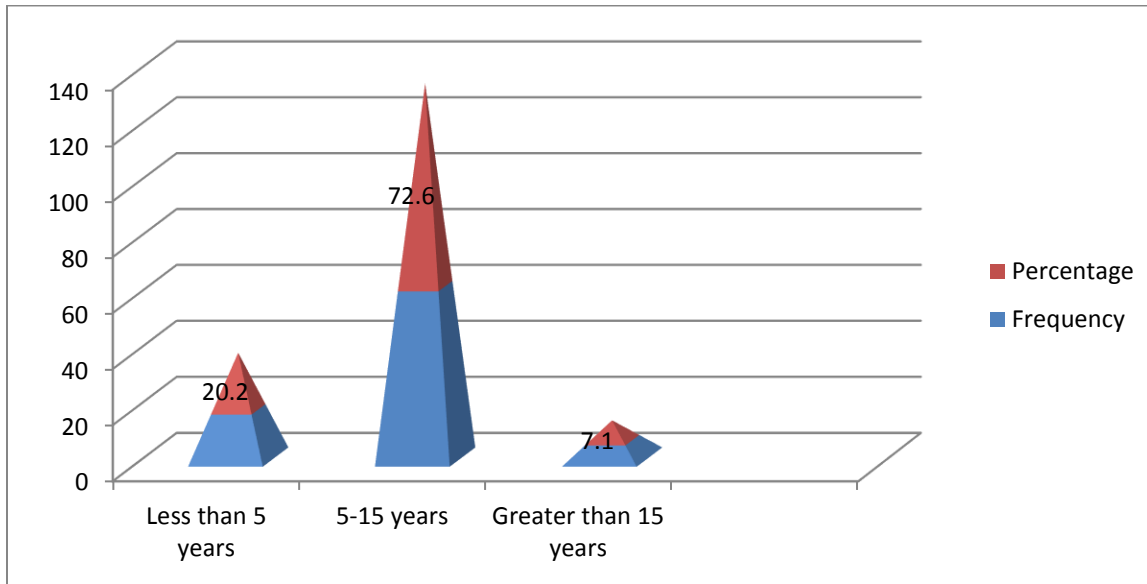
*Table 4: The distribution of the respondents according to their profile category*

		Frequency	percent	Valid percent	Cumulative percent
<b>Level of education</b>	Diploma	1	1.2	1.2	1.2
	Bachelor Degree	54	64.3	64.3	65.5
	Master's Degree	29	34.5	34.5	65.5
	PhD and above	0	0	0	100
	Total	84	100	100	
<b>Work experience before joining the current bank</b>	Zero-year experience	25	29.8	29.8	29.8
	Less than five years	43	51.2	51.2	81.0
	5-15 years	16	19.0	19.0	100
	Greater than 15 years	0	0	0	
	Total	84	100	100	

*Source: Survey data, April 2022*

As described in the table 4 above, the survey was completed by 84 respondents of whom 64.3 percent were Bachelor degree, 34.5 percent Master's degree, while the remaining 1.2 percent was Diploma holders', and no one were a PhD and above holder.

**Figure 2: Work experience in the current Bank**



**Source: Survey data, April 2022**

While analyzing the working experience of respondents' status, it was identified that the highest percentage 72.6 percent were between 5-15 years of working experience in the current bank, and the lowest work experience greater than 15 years and the remaining 20.2 percent were less than five years.

In the other way, 51.2 percent of the respondents' have less than five years of experience before joining the current bank, and the remaining 29.80 percent and 19.0 percent were doesn't have experience and have 5-15 years of experience respectively.

To sum up, table 4 in the above, indicates that all the respondents have a minimum educational Qualification of diploma degree (1.2 percent) or bachelor degree of 64.3 percent or 34.5 percent Master's. The table also shows that from the total respondents, those held a current bank working experience range from 5 to 15 years contribute the majority (72.6 percent) of the total response rate and as the same time 51.2 percent of the respondents' have experiences of other than current bank.

As a result of these wide distributions of respondents, those have a high level of educational qualification, and prominent working experience in the sector; they might have adequate or reasonable knowledge of fraud and its control in the banking industry. Hence, they might possess

the capability to provide richer insights in to the issues investigated in the study. This in turn might be also the fate for the banking industry since respondents well experienced and educated means easily identify the loopholes in the operational system of the sector which provide the opportunity for fraud acts.

Supporting this idea, the study undertaken by Nabhan (2009) indicate that, there is a relationship between working experience, educational level and familiarity with internal control system, reporting fraud, receiving awareness sessions about fraud, the availability of written policy and procedures, types of fraud, departments were fraud frequently occurs, effective procedures in discovering fraud, types of controls and how to deal with fraud.

#### **4.4. Types of Bank Fraud in the Banking Sector**

In this sub section various types of bank fraud committed in the banking sector are treated in detail, such as unauthorized withdrawals, fraudulent money transfer, unauthorized use of debit card (ATM), theft & embezzlement (like cash, cheque, ...), falsifying loan documents, account opening fraud, money laundering, have been discussed in detail.

**Table 5: Basic types of frauds committed in Ethiopian Banking Industry**

No	Items	F/P	Level of agreement					Total
			Non frequent	Rarely frequent	Less frequent	Frequent	Highly frequent	
1	Unauthorized Withdrawals	F	-	-	10	47	27	84
		%	-	-	11.90	56.00	32.10	100
2	Fraudulent money transfer	F	-	-	2	37	45	84
		%	-	-	2.40	44.00	53.6	100
3	Unauthorized use of debit card (ATM)	F	-	3	28	42	11	84
		%	-	3.60	33.30	50.00	13.10	100
4	Theft and Embezzlement (like cash, cheque, ...)	F	-	-	16	52	16	84
		%	-	-	19.05	61.90	19.05	100
5	Falsifying loan documents	F	1	38	30	11	4	84
		%	1.20	45.20	35.70	13.10	4.80	100
6	Account opening fraud	F	4	48	20	12	-	84
		%	4.80	57.10	23.80	14.30	-	100

**Source: Survey data, April 2022**

The respondents to the survey questionnaire were asked to answer basic types of frauds committed in Ethiopian banking industry using a rating scale of non-frequent, rarely frequent, less frequent, frequent, highly frequent.

In relation to item 1 of the above table 5, the majority of the respondents (88.1%) replied that unauthorized withdrawal of money in a frequent and highly frequent manner; 11.9%, of the respondents are less frequent. None of the respondents replied as non-frequent and rarely frequent.

Therefore, the majority of the respondents (88.1%) replied that unauthorized withdrawal of money practiced in a frequent & highly frequent manner. This implies that unauthorized withdrawal of money is one of the major forms of fraud which is highly observed in the banking sectors; which has a paramount effect on the development/profit making of the banking sectors as planned in the long term and short-term plan of banks.

With respect to item 2 of the above table 5, the majority of the respondents (97.6%) replied that fraudulent money transfer is frequent and highly frequent manner; whereas 2.40% of the respondents replied as less frequent. None of the respondents replied as non-frequent and rarely frequent.

Therefore, the majority of the respondents (97.6%) replied that fraudulent money transfer is frequent and highly frequent manner. This implies that in the banks which are under study there a very high rate of the existence of fraudulent money transfer; which has laid obstacle for the development and growth of the banking sectors of the banks under study.

In relation to item 3 of the given table above the majority of the respondents (63.1%) replied that unauthorized use of debit card (ATM) frequent and highly frequent manner; whereas 33.30% of the respondents replied less frequent and 3.60% of study participants replied as rarely frequent. None of the respondents replied as non-frequent.

Therefore, the majority of the respondents (63.1%) replied that unauthorized use of debit card (ATM) frequent and highly frequent manner. This implies that in the topic under study i.e. fraud in the banking sector unauthorized use of debit card (ATM) found to be one of the contributory factors for theft in the financial sector especially in banks. This will in turn hinder or blocked the overall development of the banking sector and it affected the growth of banks as far as their establishment time is concerned.

With respect to item 4 of the same table above the majority of the respondents (81.4%) replied that theft and embezzlement (like cash, cheque,...) frequent and highly frequent manner; whereas 19.05% of participant of the study replied as less frequent. None of the respondents replied as non-frequent and rarely frequent.

Therefore, the majority of the respondents (81.4%) replied that theft and embezzlement (like cash, cheque,...) frequent and highly frequent manner. This implies that in the topic under study i.e. fraud in the banking sector theft and embezzlement (like cash, cheque,...) is one of the factors that contributed for the prevalence of fraud which hampered the growth and development of the banking sector in the country under discussion.

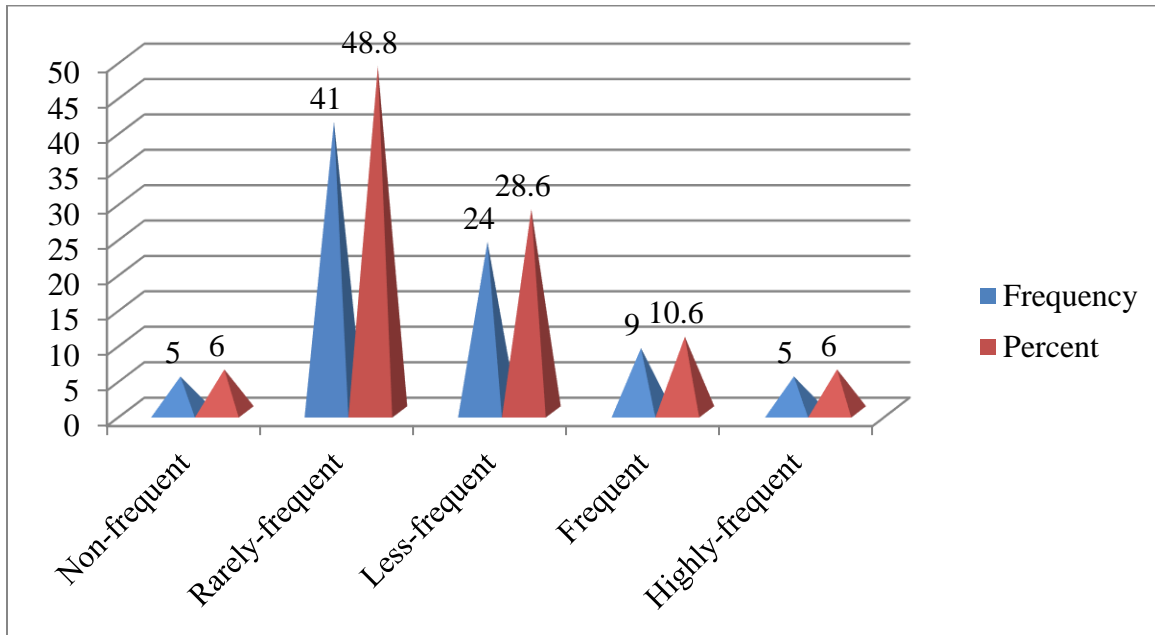
According to the table given above of item 5 the majority of the respondents (77%) replied that falsifying loan documents constitute (45.20%) and (35.70%) i.e., rarely frequent and less frequent respectively. Whereas, 13.10% replied as frequent and 4.80% responded as highly frequent. Only 1.20% of the respondents replied as non-frequent.

Therefore, the majority 77% of the respondents replied that falsifying loan documents constitute (45.20%) and (35.70%) i.e., rarely frequent and less frequent respectively. This implies that fraud due to manipulating and preparing falsifying loan documents constitute a large proportional share of respondents even if the level frequency of happening differs as rarely frequent and less frequent. This in turn has a negative implication on the overall development, trust and image of the bank by customers & the governing government body of banks i.e., the Ethiopian National Bank.

In relation to item 6 of table 5, the majority of the respondents (80.9%) replied that fraud due to account opening fraud constitute (57.1%) and (23.8%) i.e., rarely frequent and less frequent respectively. Whereas, 14.3% replied as frequent. Only 4.8% of the respondents replied as non-frequent.

Therefore, the majority of the respondents (80.9%) replied that fraud due to account opening fraud constitute (57.1%) and (23.8%) i.e., rarely frequent and less frequent respectively. This implies that fraud due to account opening is seen in huge proportion even if the level frequency of happening differs as rarely frequent and less frequent. This in turn has a significant negative contribution for the acceptance of the bank in terms of attracting new customers as well as the existing ones. In addition, customers will not have full confidence for the money that they have deposited in the respective bank.

**Figure 3: The prevalence of money laundry in the study area**



**Source: Survey data, April 2022**

In the figure-4, given above the majority of the respondents (77.4%) replied that money laundry constitutes (48.8%) and (28.6%) i.e., rarely frequent and less frequent respectively. Whereas, 10.6% replied as frequent and 6.0% responded as highly frequent. Only 6.0% of the respondents replied as non-frequent.

Therefore, the majority of the respondents (77.4%) replied that money laundry constitutes (48.8%) and (28.6%) i.e., rarely frequent and less frequent respectively. This implies that money laundry has significantly contributed to fraud in the banking sector, even if the rate is frequent and less frequent.

In addition to this, reflections of interview questions, the first question the researcher was raised “is fraud a problem of banking sector in Ethiopia?” The findings reveal that majority of the respondents’ view fraud is a major problem in Ethiopian banking industry. Followed by the first question the researcher asked “What type of fraud frequently occurred?” there is a likelihood that fraud will continue to increase in the financial sector with the banking industry likely to witness an significant increase in short and long term mainly due to economic pressure in the country specially the price of goods and services increasing exponentially with increasing unemployment

rate, Fraudulent money transfer, theft of cash, money laundering, terrorist financing and others are frequently occur. On this the first addicted is customer, but it affects all customer, employee, banks, which means a negative impact on country economy at the whole.

#### 4.5. The Prevalence Rate of Fraud Committed in the Banking Sector

In this sub section, kitting (using cheque clearance times to obtain loans), overstatement of revenues, claiming of unearned bonuses and allowances, understatement of expenses, overstatement of assets, forgery of customers signature, misrepresentation and impersonation, understatement of liabilities, computer frauds, misappropriate of banks assets, use of forged documents and counterfeits, cheque fraud, will be discussed and analyzed in detail.

**Table 6: The prevalence of fraud committed in the banking sector**

No	Items	F/P	Level of agreement				Total
			No effect	Low	Average	High	
1	Kitting (using cheque clearance times to obtain loans)	F	-	32	50	2	84
		%	-	38.10	59.50	2.40	100
2	Overstatement of revenues	F	-	22	50	12	84
		%	-	26.20	59.50	14.30	100
3	Claiming of unearned bonuses and allowances	F	1	45	37	1	84
		%	1.20	53.60	44.00	1.20	100
4	Understatement of expenses	F	2	38	36	8	84
		%	2.40	45.20	42.90	9.50	100
5	Overstatement of assets	F	3	34	36	11	84
		%	3.60	40.50	42.90	13.10	100
6	Forgery of customers signature	F	1	9	38	36	84
		%	1.20	10.70	45.20	42.90	100
7	Misrepresentation and impersonation	F	2	29	45	8	84

		%	2.40	34.50	53.60	9.50	100
8	Understatement of liabilities	F	3	40	33	8	84
		%	3.6	47.60	39.30	9.50	100
9	Computer frauds	F	1	25	46	12	84
		%	1.20	29.80	54.80	14.30	100
10	Misappropriate of banks assets	F	-	27	46	11	84
		%	-	32.10	54.80	13.10	100
11	Use of forged documents and counterfeits	F	-	16	44	24	84
		%	-	19.00	52.40	28.60	100
12	Cheque fraud		-	10	44	30	84
			-	11.90	52.40	35.70	100

*Source: Survey data, April 2022*

The respondents to the survey questionnaire were asked to answer the prevalence rate of frauds committed in Ethiopian banking industry using a rating scale of no effect, low, average and high.

In relation to item 1 of table 6, the majority of the respondents (97.6%) replied that fraud kitting (using cheque clearance times to obtain loans) constitute (38.1%) and (59.5%) i.e., low and average respectively. Whereas, 2.4% replied as high. None of the respondents replied as no effect.

Therefore, the majority of the respondents (97.6%) replied that fraud kitting (using cheque clearance times to obtain loans) constitute (38.1%) and (59.5%) i.e., low and average respectively. This implies that kitting as a type of fraud has great impact on the overall performance and it became a hindrance for the bank in hindering the success of the bank.

Regarding Table 6's Item 1, The majority of respondents (97.6%) indicated that fraud kitting—using check clearance times to secure loans—constitutes, respectively, low (38.1%) and average

(59.5%). 2.4% of respondents, however, indicated that they were high. No one who responded indicated no effect.

Accordingly, the majority of respondents (97.6%) indicated that fraud kitting—using check clearance times to obtain loans—constitutes, respectively, low (38.1%) and average (59.5%) rates. This means that kitting as a type of fraud has considerable impact on the entire performance and it became a burden for the bank in impeding the success of the bank.

In relation to item 3 of the above table the majority of the respondents (93.6%) replied that claiming of unearned bonuses and allowances constitute (53.6%) and (44.0%) i.e., low and average respectively. Whereas, 1.2% replied as high. Only 1.2% of the respondents replied as no effect.

Therefore, the majority of the respondents (93.6%) replied that claiming of unearned bonuses and allowances constitute (53.6%) and (44.0%) i.e., low and average respectively. This implies that the level of fraud in terms of claiming of unearned bonuses and allowances found to be in low and average level. Even if the level is in low and average it indicates this type of fraud is prevalent in banks, which has its own unwanted effect on the performance of the banks.

With respect to item 4 of the same table the majority of the respondents (83.4%) replied that understatement of expenses constitutes (45.2%) and (42.9%) i.e., low and average respectively. Whereas, 9.5% replied as high. Only 2.4% of the respondents replied as no effect.

Therefore, the majority of the respondents (88.0%) replied that claiming of understatement of expenses constitute (45.2%) and (42.9%) i.e., low and average respectively. This implies that understatement of expenses can be taken as one of the frauds which greatly hampered the growth of the banking sector and the deter the development of the growth of the national economy of the state/the nation.

The majority of respondents (88.0%) indicated that overestimate of asset constitutes (40.5%) and (42.9%), i.e., low and average, respectively, in response to item 5 of the same table. 13.1% of respondents, however, indicated high. Only 3.6% of those polled indicated that there was no effect.

As a result, the majority of respondents (88.0%) stated that low and average, or 40.5% and 42.9%, respectively, overestimate of asset. This suggests that one reason why frauds are so common in the banking industry could be attributed to asset overstatement. This kind of fraud is prevalent in banks and has a significant impact on how productive banks are in the financial sector.

According to item 6 of the above table 6, the majority of the respondents (88.1%) replied that forgery of customers signature constitutes (45.2%) and (42.9%) i.e., average and high respectively. Whereas, 1.2% replied as no effect. Only 3.6% of the respondents replied as low.

Therefore, the majority of the respondents (88.1%) replied that forgery of customers signature constitutes (45.2%) and (42.9%) i.e., average and high respectively. This implies that the banking sector is susceptible to fraud due to the simulation of signature.

As like the above interpretation, generally use of forged documents and counterfeits, and cheque frauds are visible in the bank highly and averagely. Management fraud which was the least common was manifested in the form of overstatement of revenues. Other managerial level frauds occurring though at a reduced frequency include: understatement of expenses, understatement of liabilities and overstatement of assets. However, these cases of management fraud were very rarely identified. This could be attributed to stringent reporting rules and regulations imposed on the bank by the Central Bank of Ethiopia and the International Financial Reporting and Accounting regulations.

## 4.6. Causes of Bank Fraud in Ethiopia

*Table 7: Causes of Fraud*

No	Items	F/P	Level of agreement					Total
			Highly agree	Agree	Indifferent	Disagree	Highly disagree	
1	Economic pressure (Recession)	F	37	36	9	2	-	84
		%	44.00	42.90	10.70	2.40	-	100
2	Changing society values	F	24	51	6	3	-	84
		%	28.60	60.70	7.10	3.60	-	100
3	Socio-cultural factors like ethics, crime rates, education, unemployment, etc.	F	15	38	24	6	1	84
		%	17.90	45.20	28.60	7.10	1.20	100
4	More sophisticated criminals	F	11	16	43	12	2	84
		%	13.10	19.00	51.20	14.30	2.40	100
5	Political factors	F	19	23	29	12	1	84
		%	22.60	27.40	34.50	14.30	1.20	100
6	Advanced computer technologies	F	8	17	38	19	2	84
		%	9.50	20.20	45.20	22.60	2.40	100
7	Poor management practices	F	36	29	15	4	-	84
		%	42.90	34.50	17.90	4.80	-	100
8	Lack of fraud training	F	35	35	9	4	1	84
		%	41.70	41.70	10.70	4.80	1.20	100

*Source: Survey data, April 2022*

On a scale of highly agree, agree, indifferent, disagree, and highly disagree, the survey respondents were asked to rate the causes of frauds committed in the Ethiopian banking industry.

The majority of respondents (86.9%) indicated that economic pressure (Recession), means unemployment rates are higher than usual, constitutes (44.0%) and (42.9%), or highly agree and agree, respectively, in response to item 1 of table 6. In contrast, the respondents indicated they were unsure (10.3%) and disagreed (2.4%). None of the respondents strongly disagreed in their response.

In light of this, the majority of respondents (86.9%) indicated that economic pressure is (44.0%) and (42.9%), i.e., highly agree and agree. This suggests that economic pressure is a major contributor to deception.

The majority of respondents (89.3%) said in response to table 7's item 2, which is marked as very agree and agree, respectively, that society is evolving. As opposed to neutral (7.1%) and disagree (3.6%). None of the respondents indicated that they strongly disagreed.

In light of this, the majority of respondents (89.3%) indicated that changing society values (28.6%) and (60.7%), i.e., highly agree and agree. This suggests that the main reason for bank fraud is shifting societal values.

In relation to item 3, from the total respondents (53.1%) revealed that socio-cultural factors like ethics, crime rate, and education constitutes (17.9%), and (45.2%), i.e., highly agree and agree respectively. Whereas, indifferent (28.60), disagree (7.1%) and highly disagree (1.2%).

Therefore, 53.1% of the respondents revealed that socio-cultural factors like ethics, crime rate, unemployment, and education constitute (17.9%), and (45.2%), i.e., highly agree and agree respectively. This implies socio-cultural factors like ethics, crime rate, unemployment, and education found in causes of bank fraud, even if level of cause is less comparing with others, but it is one of the causes of fraud.

With respect to item 4 of the same table, the majority of the respondents (67.9%) replied that more sophisticated criminals constitute (51.2%), (14.3%), and (2.4%), i.e., indifferent, disagree, and highly disagree respectively. Whereas, 19% replied as agree. Only 13.1% of the respondents replied as highly agree.

Therefore, the majority of the respondents (67.9%) replied that more sophisticated criminals constitute (51.2%), (14.3%), and (2.4%), i.e., indifferent, disagree, and highly disagree

respectively. This implies that more sophisticated criminals have less level in causes of fraud, not mean that more sophisticated criminals have completely not causes of bank fraud, but the level is less.

Out of all respondents (51.0%), those who responded to item 5 of the same table said that political issues account for (22.6%) and (27.4%), or highly agree and agree, respectively. In contrast, disagree (14.3%), indifferent (34.5%), and strongly disagree (1.2%).

Because of this, the majority of respondents (51.0%) indicated that political issues account for (22.6%) and (27.4%), or highly agree and agree, respectively. This suggests that one possible explanation for fraud in the financial sector is political influences.

The majority of respondents (70.2%) said in response to item 6 of the aforementioned table 7 that modern computer technologies represent (45.2%), (22.6%), and (2.4%), respectively, indifferent, disagree, and highly disagree. While 20.2% of respondents indicated that they agreed. Only 9.5% of respondents indicated they strongly agreed.

Therefore, the majority of the respondents (70.2%) replied that advanced computer technology forgery of constitutes (45.2%), (22.6%) and (2.4%) i.e., indifferent, disagree and highly disagree respectively. This implies that, it is less level of causes of bank fraud.

With respect to item 7 and 8 of the same table, the majority of the respondents (77.4%) replied that poor management practice constitutes (42.9%) and (34.5%), i.e., highly agree and agree respectively, and 83.4% replied that lack of fraud training constitutes (41.7%) and (41.7%) highly agree and agree.

Therefore, the majority of the respondents (77.4%) replied that poor management practice constitutes (42.9%) and (34.5%), i.e., highly agree and agree respectively, and also, 83.4% replied that lack of fraud training constitutes (41.7%) and (41.7%) highly agree and agree. Which implied that poor management practice and lack of fraud training are the main cause of bank fraud in Ethiopia.

#### 4.7. Effects of Fraud on Financial Performance of Banks in Ethiopia

*Table 8: Effect of fraud on financial performance*

No	Items	F/P	Level of agreement					Total
			Very great extent	Great extent	Moderate extent	Lower extent	Very low extent	
1	Loss of money by the organization	F	18	27	32	7	-	84
		%	21.40	32.10	38.10	8.40	-	100
2	Loss of money by the customers	F	28	31	23	2	-	84
		%	33.30	36.90	27.40	2.40	-	100
3	Reputational/goodwill loss	F	32	32	20	-	-	84
		%	38.10	38.10	23.80	-	-	100
4	Shifting customers	F	35	20	26	3	-	84
		%	41.70	23.70	31.00	3.60	-	100

*Source: Survey data, April 2022*

The respondents to the survey questionnaire were asked to answer the effects of fraud on the financial performance of banking industry in Ethiopia using a rating scale of very great extent, great extent, moderate extent, lower extent and very low extent.

In relation to item 1 of table 8, the majority of the respondents (91.6%) replied that loss of money by the organization constitutes (21.4%), (32.1%) and (38.1%) i.e., very great extent, great extent, and moderate extent respectively. Whereas, the respondent replied lower extent (8.4%). None of the respondents replied as very lower extent.

Therefore, the majority of the respondents (91.6%) replied that loss of money by the customer constitutes (21.4%), (32.1%) and (38.1%) i.e., very great extent, great extent, and moderate extent respectively. This implies that, fraud has a great impact on the financial performance of the banking industry.

The majority of respondents (97.6%) indicated that the customer's financial loss is to a very great extent (33.3%), great extent (36.9%), and moderate extent (27.4%), respectively, in response to item 2 of table 8. In contrast, the response rate was lower (2.4%). Nobody who responded indicated a very low extent.

As a result, the majority of respondents (97.6%) indicated that the customer's financial loss was to a very great extent (33.3%), big extent (36.9%), and moderate extent (27.4%), respectively. This statement was supported by interview question with NBE employees, those respond that some fraudulent Bank employees mostly transfer customers balance to other account knowingly without the permission of the owner especially the accounts are dormant (inactive accounts). This suggests that major fraud has caused clients to lose money.

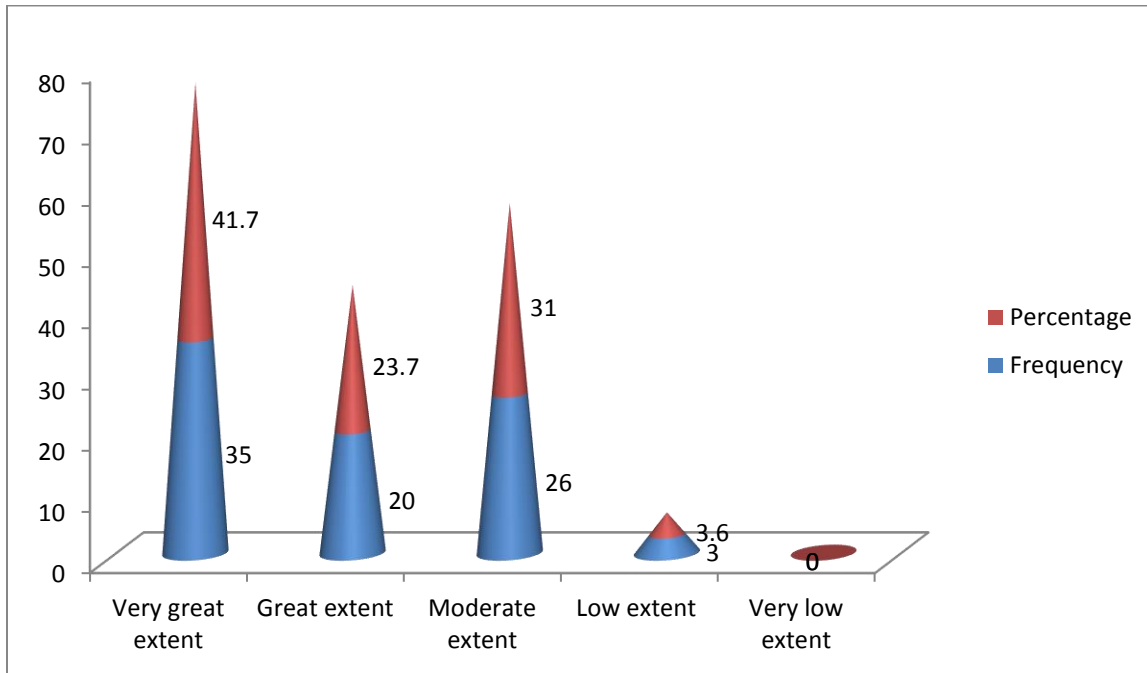
In relation to item 3 of table 8, all respondents (100%) replied that loss of goodwill constitutes (38.1%), (38.1%) and (23.8%) i.e., very great extent, great extent, and moderate extent respectively. Whereas, none of the respondents replied as lower extent and very lower extent.

Therefore, all respondents (100%) replied that loss of goodwill constitutes (38.1%), (38.1%) and (23.8%) i.e., very great extent, great extent, and moderate extent respectively. This implies that, when fraud occurs frequently on the banks, the bank has made a bad image on the customer and loss its goodwill. So, it is indirectly affecting the financial performance of banks negatively.

The fourth question sought to find out the type of damage caused by the actual fraud to the bank, is shifting customers. Figure 5 below shows that, 96.4% of the respondents said that very great extent (41.7%), great extent (23.7%), and moderate extent (23.8%). While, 3.6% of the respondent said that lower extent, and none of the respondents replied very lower extent.

Therefore, 96.4% of the respondents said that very great extent (41.7%), great extent (23.7%), and moderate extent (23.8%). This implied that, fraud is one of the impacts of shifting customers from one bank to other. This indirectly, a great effect on the performance of banking industry.

**Figure 4: Customer Shifting Impacts on Financial Performance of Banks**



**Source: Survey data, April 2022**

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1. INTRODUCTION**

The purpose of this study was to enhance knowledge and understanding of fraud in the Ethiopian banking sector. It is important to reduce the prevalence of fraud in private and government-owned commercial banks in Ethiopia in order to understand this. The researcher's primary research interests were the most prevalent fraud schemes, their root causes, as well as how fraud affected Ethiopia's private and public banks' bottom lines. The research that was covered in this report included a variety of topics linked to fraud in the Ethiopian banking system in considerable depth. However, this only presents a limited picture of the extent of fraud in the Ethiopian banking sector. This discussion, which has primarily addressed the banking practice components of fraud, causes of fraud, and effects of fraud on Ethiopian banking industry. This chapter summarizes the key findings in relation to the research questions and examines the theoretical and practical contributions made in this study, discussing contributions to knowledge, theory, and literature, discussing policy implications and recommendations, and discussing limitations of the study and areas for further research.

#### **5.2. SUMMARY**

With the help of 17 commercial banks and one government bank, CBE, this study aimed to evaluate fraud in the banking sector in Ethiopia. The study's goals were to define the many types of fraud, as well as their origins, effects, and consequences on Banks in Ethiopia, and to look into the different fraud schemes that have been used.

A descriptive research design was used for the investigation. The research was carried out between April and May 2022 with the help of the risk management and internal control departments of one government-owned and seventeen privately-owned banks, as well as an employee interview with the National Bank of Ethiopia. A purposive sampling technique was used to determine the sample size, which included 84 employees overall, who represented 78.5% of the populations. To check for flaws and relevancy, the questionnaire was pretested. The

collected data was examined for frequency distributions, and percentages using SPSS vs. 25. For ease of interpretation and elaboration, the analyzed data was presented using figures and tables.

The survey found that the most common fraud types, in order of prevalence, are: fraudulent money transfers, unauthorized withdrawals, theft and embezzlement, account opening fraud, money laundering, manipulating loan documents, unauthorized use of debit cards (ATM), and finally, financing of terrorism. The study's findings about the frequency of fraud in the banking industry are as follows: overvaluation of assets, undervaluation of expenses, overvaluation of revenues, and Kitting, is the practice of borrowing money by exploiting the time it takes for a check to clear. Generally, use of forged documents and counterfeits, and cheque frauds are visible in the bank highly and averagely. Management fraud which was the least common was manifested in the form of overstatement of revenues. Other managerial level frauds occurring though at a reduced frequency include: understatement of expenses, understatement of liabilities and overstatement of assets.

According to the incidence of the causes, this research showed that the following are the main factors contributing to fraud in the banking industry: shifting societal values, economic pressure, a lack of training, increasingly complex crimes, socio cultural factors like ethics, crime rates, education, unemployment, and political factors. This study generally supports the fraud triangle theory, according to which the main causes of fraud are the availability of opportunity for fraud, the justification of fraud acts, and pressure to conduct fraud.

Thirdly, this study discovered that moving customers, reputational/goodwill loss, financial loss for the organization, and loss of money for the customers are the repercussions of fraud on the financial performance of banks, in that order. Therefore, those are primarily having a negative impact on banks' performance. Generally, as this finding is similar with the annual report of Association of Certified Fraud Examiners (ACFE, 2014) which indicates that atypical organization loses 5 % of its revenue to fraud each year.

## **5.3. CONCLUSION**

In light of the available data and research from other academics, this section discusses the study's conclusions and findings.

### **5.3.1. Causes of Fraud**

According to the findings of this study, socio cultural factors like ethics, crime rates, education, unemployment, and political factors were the most important factors influencing or accelerating fraud in the Ethiopian banking industry. Other important factors included economic pressure, a lack of training, increasingly sophisticated crimes, changing society values, advanced computer technologies and poor management practice. These are a few of the reasons why fraud occurs in the financial sector in Ethiopia.

### **5.3.2. Types of Fraud**

In the financial sector in Ethiopia, there are numerous different types of fraud. Fraudulent money transfers, unlawful withdrawals, theft and embezzlement, fraudulent account opening, money laundering, fabricating loan documents, unauthorized use of debit cards (ATM), and finally, financing of terrorism are some of the frauds. Employees, managers, clients, and a mixture of all of them commit these types of fraud. Other researchers had similar conclusions or observations to those of this study, despite the fact that they did not rate the frequency of the different categories of fraud.

### **5.3.3. Effect of fraud**

As a result of client money losses, this study's conclusion about the influence of fraud on bank financial performance is that it has a negative impact on bank performance both directly and indirectly. This results in customers switching to less risky banks as a result. Despite the fact that this incident hurts banks' profits to the point nothing, it is still very bad.

## 5.4. Recommendations

Ethiopian banking institutions have recently expressed grave concern about the volume and frequency of frauds. It was noted that fraud primarily affects banks and, if unchecked or minimized, can damage banks' assets and reputations. Therefore, fraud in the banking industry has developed into a problem that requires a serious response to prevent it from harming that sector of the economy. The following steps were recommended in this context and based on the analysis of the survey data in the chapter before it in order to control and minimize fraud occurrence in Ethiopia's banking sector.

A doctor will be better able to prescribe an effective treatment and preventative measure if they are aware of the potential causes of the ailment. According to the data gathered, it was also found that the main causes of banking fraud in the country's banking industry were economic pressure (recession), lack of training, increasingly sophisticated crimes, changing society values, advanced computer technologies and poor management practice.

Therefore, it is important for the industry's participants to identify the causes and effect of fraud that will effectively detect and prevent fraud operations of the sector without leaving any gaps. Additionally, it is necessary to put in place appropriate policies and practices, a competitive wage structure, and first-rate working conditions, all of which can significantly lessen the temptation to commit fraud. In light of the damaging impact that fraud and fraudulent activities have on the Ethiopian Banking industry, the researcher generally suggests the following solutions:

- A. For banks to be able to recognize and stop fraud and other fraudulent actions, as well as to safeguard their assets and customer balance, they must provide on-the-job and off-the-job training to help them understand how detrimental fraud can be to the company. They must be able to spot the causes of fraud and know how to report it for further investigation.
- B. In order to effectively monitor and prevent the occurrence of fraud and fraudulent practices in the Ethiopian banking sector, the regulatory and supervisory organizations of banks in Ethiopia (like, NBE, ...) must strengthen their supervision using all the means at their disposal.

- C. The government is must to preventing financial and other types of crime in every community. In this regard, the appropriate institutions established to combat fraud, such as the National Bank of Ethiopia, NISS, Financial Crimes Commission, the Police, the Judiciary, and other Ethiopian Organization, correspondingly work together to fight fraud like, Interpol. Using the media to provide facts those the identified fraud case to aware the society and at the same to develop the culture of the society to hate fraud.
- D. Management of banks needs to create a software that allows them to identify the login used to check both active and inactive accounts with sizable balances numerous times throughout the day to detect unauthorized money transfer. Reactivating inactive accounts with large balances should go above and beyond the generally accepted practice, and any staff members who break the regulations should face the appropriate consequences.
- E. The personnel should have had a thorough background check before being hired, and positive references should always be received. All terminated or fired bank employees shall have their name, offense, state or local government of origin, institution, and even the amount involved distributed to the other banks and published in the national daily news.
- F. The private banks and government banks should work together to detect and prevent fraud by developing a centralized fraud controlling mechanisms. This system will help the Bank build a fraud control system and boost its investigation capabilities.
- G. Effective customer and Banker's education and communications programs– helping customers and bankers recognize how to prevent fraud, but also helping them understand their own responsibilities–should go hand-in hand with sophisticated crimes and also the Ethiopian private banks should give more emphasis to update their technology and policies to minimize the ever-increasing fraud.

### **Recommendations for Future Studies**

Future studies should repeat this study's findings in all banks or financial institutions, according to the study's recommendation. The study sought to establish the cause, type, and effect of fraud on financial performance of commercial banks in Ethiopia. It only concentrated on commercial banks which are operate as an internal control and risk management departments only. However,

there are many financial institutions across the country which includes Micro Finance Institutions, Savings & Credit association and insurance companies. Therefore, other studies should focus on the effect of fraud on the whole sector in financial institution. Other research should also be conducted on the effects of fraud on financial performance of commercial banks in Ethiopia by including more variables that determine banks financial performance different from variables which are included to the current study.

The second recommendation made by this study is to conduct more research on how fraud affects bank performance. Although it is commonly considered to have a negative influence, the size or scope of the effect has not been investigated in figure, which might give literature on how fraud affects several bank performances measures.

The final recommendation made by this study is to conduct additional research on fraud causes and effect on the bank performance by taking sample from bank branches, head office, shareholders, customers, governmental organizations and other concerned bodies.

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## Appendix Questionnaire



SEEK WISDOM, ELEVATE YOUR INTELLECT AND SERVE HUMANITY!



**College of Business and Economics**

**Department of Accounting and Finance**

**Master of Science in Accounting and Finance**

### **Questionnaire for the study “Fraud Causes and Effect on the Financial Performance, a case study of Ethiopian Banking Industry”**

Dear participants, this research aims at identifying the practical frauds means of minimizing the occurrence of fraud in the Ethiopian banking industry via administering this questionnaire for risk management and internal audit departments of the selected banks. As a result, this questionnaire prepared and administered for the purpose of gathering relevant data help the researcher to identify the major frauds, magnitude and frequency of fraud, effects of fraud in banks, and finally to suggest measures of reducing the incidence of bank fraud in the country.

The researcher assures you in advance that your responses to this questionnaire will be used to develop general findings and conclusions without specific reference to institutions, clients or credits, except where information may be independently available in the public domain or where permission has been granted approval and all data will be kept confidential (secret) and will be used for academic purpose only. Finally, as your answer have direct impact on the quality of the study, the researcher kindly request you to answer all of the questions honestly and sincerely.

General Instruction: please put  $\surd$  or X mark in the space provided for your appropriate response

Thank you in advance for taking the time to read and answer this short questionnaire!!

Techalu Setarge: Tel: +251921568404

**Part I. GENERAL INFORMATION**

1. Level of your education

Diploma  Bachelor degree  Master’s degree  PhD and above

2. Work experience:

a. In the current institution:

Less than 5 years  5 years  More than 15 years

b. Before joining the current institution

Zero-year  Less than 5 years  5- 15 years

Greater than 15 years

**Part II.**

**A. TYPES OF BANK FRAUD**

1. What are your views on the following statements regarding to the types of fraud in Ethiopian Banking Industry?

Use a scale of 1 to 5 where 5= highly frequent, 4= frequent, 3= less frequent, 2= rarely frequent, 1= non frequent.

No	Types of fraud	5	4	3	2	1
1.	Unauthorized withdrawals					
2.	Fraudulent money transfer					
3.	Unauthorized use of debit card (ATM)					
4.	Theft and embezzlement (like cash, cheque...)					
5.	Falsifying loan documents					
6.	Account opening fraud					
7.	Money laundering					
8.	Any other? Please specify...					

**2. Identify the prevalence of the following types of fraud committed**

No		high	average	low	No effect
1	Kitting (using cheque clearance times to obtain loans)				
2	Overstatement of revenues				
3	Claiming of unearned bonuses and allowances				
4	Understatement of expenses				
5	Overstatement of assets				
6	Forgery of customers signature				
7	Misrepresentation and impersonation				
8	Understatement of liabilities				
9	Computer frauds				
10	Misappropriate of banks assets				
11	Use of forged documents and counterfeits				
12	Cheque fraud				

**B. CAUSES OF BANK FRAUD**

What are your views on the following causes of fraud in the Ethiopian Banking Industry?

Use a scale of 1 to 5 where 5= highly agree; 4= agree; 3= indifferent; 2= disagree; 1= high disagree.

No	Causes of fraud	5	4	3	2	1
1.	Economic pressure					
2.	Changing society values					
3.	Socio-cultural factors like ethics, crime rates, education, unemployment, etc.					
4.	More sophisticated criminals					
5.	Political factors					

6.	Advanced computer technologies					
7.	Poor management practices					
8.	Lack of fraud training					
9.	Any other? Specify...					

### C. EFFECT OF FRAUD ON FINANCIAL PERFORMANCE

What are your views on the following impacts of fraud on financial performance of Ethiopia Banking Industry?

Use 1-5 where 5= very great extent; 4= great extent; 3= moderate extent; 2= lower extent and 1= very low extent.

No		5	4	3	2	1
1.	Loss of money by the organization					
2.	Loss of money by the customer					
3.	Reputational/goodwill loss					
4.	Shifting Customer					
5.	Any other (specify...)					

## Interview Questions

1. How would you think that, fraud is the problem of banking sector in Ethiopia? (Major problem, minor problem)
2. What type of fraud frequently occurred in banking sector in Ethiopia? (With demonstration)
3. What are the major effects of Bank fraud on:
  - a. Customers
  - b. Employees
  - c. Banks (support by demonstration)
4. Do the banks share their experience about fraud at industry level?
5. What measures are banks putting in place jointly to reduce the incidence of fraud? What is your organization support?
6. Are all employees educated on anti-fraud measures and policies?
7. Which anti-fraud measures have been most effective in combating fraud? How?
8. What can be done to reduce fraud in the banking industry in Ethiopia?
9. Does your organization work with international fraud protection organizations? Why?