



**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**ASSESSMENT OF FRAUD CONTROL PRACTICE:
A CASE STUDY OF DASHEN BANK S.C, ADDIS ABABA
BRANCHES**

BY
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ID: SGS/0046/2008A

JUNE, 2017
ADDIS ABABA, ETHIOPIA

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**A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY SCHOOL OF
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REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS
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BY

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DECLARATION

I, Kalkidan Letta, declare that the thesis entitled “Assessment of Fraud Control Practice: The Case of Dashen Bank Share Company, Addis Ababa Branches” is my original work. I have carried out the present study independently with the guidance and support of the research advisor, Elias Nour (PhD), and all source of materials used for the thesis have been duly acknowledged.

Moreover, this study has not been submitted for the award of any Degree Program in this or any other Institution.

KALKIDAN LETTA

Signature

Date

St. Mary's University, Addis Ababa

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

Elias Nour (PhD)

Advisor

St. Mary's University, Addis Ababa

Signature

June, 2017

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LIST OF ACRONYMS

ACL	Access Control Lists
ACFE	Association of Certified Fraud Examiners
AICPA	American Institute of Certified Public Accountants
ANAO	Australian National Audit Office
APA	Auditor of Public Accounts
ATM	Automate Teller Machine
CIMA	Chartered Institute of Management Accountants
COSO	Committee of Sponsoring Organizations
CPO	Cash Payment Order
DB	Dashen Bank
GAO	General Accounting Office
HR	Human Resource
IIA	Institute of Internal Audit
IPPF	International Professional Practice Framework
KYC	Known Your Customer
KYE	Known Your Employees
LACPA	Lebanese Association of Certified public Accountants
MLRO	Money laundering Reporting Officer
NBE	National Bank of Ethiopia
NSF	None-Sufficient Fund
POS	Point of Sale
SOX	Sarbanes-Oxley Act
UV	Ultra Violate

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ABSTRACT

In Ethiopia, recently the banking industry has grown fast at the same time different problems related to fraud and other criminal cases have increased in the bank sector. Internal control plays a key role to detect fraudulent activities and to overcome the different fraud problems. 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 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. The findings show that the bank does not use job rotation, there is lack of segregation of duties, most branches and ATM stations have not security camera, and customers' information is not updated. Generally the outcome of the research confirmed that the fraud control practice of Dashen Bank S.C. has problems and weaknesses that need to be improved. In view of these deficiencies, major recommendations proposed include bank should apply strong controlling mechanism such as, UV light, forged cheque, foreign and local cash detection machine, upgrade customer information, install security camera in ATM stations and branches, management should control dormant accounts separately, HR should verify new employees background, there should be segregation of duty and responsibility and periodic job rotation, enhance awareness of all employees about anti-fraud policy and control procedures and effectively implement control components to prevent fraud cases.

Keywords: bank fraud, fraud, effectiveness, internal control

CHAPTER ONE

INTRODUCTION

1.1. Background of the study

Banks provide their services by “dealing with public’s money” and their “employees should exercise due care and diligence in handling the transactions in banks” because the current “rise in bank frauds calls for tightening of security mechanism” (Ashu and Bindu2009:2). The most common form of fraudulent act that occurs in day to day bank operation involves cash stolen by employees by presenting false invoices, transfer amount from dormant accounts that are not activated for over six months, forged cheque and money, credit card, ATM, false identification frauds and Loan frauds. A strong system of internal control is the most effective way of fraud prevention. The banks should increase their efforts to raise the level of security awareness in their organizations to combat frauds”. According to Draz (2011) “even the strongest internal controls do not make an organization immune from fraud, therefore, managers need to understand that the detection and prevention of fraud needs to be examined with the relation to internal control.” Thus, according to the explanations of the scholars creating valuable controlling system and increasing the knowledge of stakeholders about the security system in the organization helps to easily detect and prevent the fraudulent activities from the organization.

Fraud can be perpetrated by any employee within an organization or by those from the outside. “Fraud detection in banking is a critical activity that can span a series of fraud schemes and fraudulent activity from bank employees and customers alike.” ACL (2014, P.4) Banks are a financial institution that operates monetary and related activities, related to their operation there is a complaint from inside the organization and customer. Subsequently to prevent the complain banks should create a safeguarding mechanism that deter falsified and criminal action.

Fraud eventually affects the bank's financial activity and its relations with the customer. Banking fraud damages the image (reputation) of the banks. As a result, the bank and employees incur costs by refunding customers, and fraudulent acts can entail decline in customer trust and confidence on their bank. Currently, there is a high competition in banking industry in Ethiopia, there is need to build-up strong anti-fraud strategies (controlling mechanisms) in the bank to safeguard customer, employees and the bank itself from financial losses and bad image. The controlling mechanisms created by the involvement of management, board of directors and employees help the management and employees to have understanding on the different fraudulent activities and the controlling procedure used by the bank. When there is full awareness within the organization, the occurrence of the fraudulent act will decrease thereby safeguarding the bank from monetary and related losses and enhancing the organization's future success. Therefore, it is important to assess and explore the fraudulent activities and controlling mechanisms employed by the bank which is the focus of this research. In general this chapter is used to address the cause for the study or the problem and the objective to be achieved as a result of this work. The other components of this chapter are structured as; Overview of Dashen Bank (Section 1.2) Statement of the Problem (Section 1.3), Research Question (Section 1.4), Objectives of the Study (Section 1.5), Definition of terms (Section 1.6), Significance of the Study (Section 1.7), Scope of the Study (Section 1.8), Structure of the Study (Section 1.9) And Suggestions for Further Research (Section 1.9).

1.2. Background of Dashen Bank S.C.

Dashen Bank is a privately owned company established in 1995 as a share company in accordance with the Commercial Code of Ethiopia 1960 and the Licensing and Supervision of Banking Business Proclamation No 84/1994 of Ethiopia to undertake commercial banking activities. The Bank obtained its license from the National Bank of Ethiopia on 20 September 1995 and started normal business activities on the first of January 1996. The first foundation members were 11-business man and professionals that agreed to combine their financial resources and expertise (Dashen Bank 2015/2016).

Headquartered in Addis Ababa, the Bank is the biggest private bank in Ethiopia. It operates through a network of 220 area banks, 9 dedicated Forex Bureaus, 220 ATMs and 953 plus Point-of-Sale (POS) terminals spread across the length and breadth of the nation. It has established correspondent banking relationship with 462 banks covering 70 countries and 170 cities across the world.

The Mission of Dashen Bank is “to provide efficient and customer focused domestic and international banking services by overcoming the continuous challenges for excellence through the application of appropriate technology” (Dashen Bank, 2015/16). Accordingly, Dashen Bank has been playing a significant role in economic development of the country since it is the largest private bank in Ethiopia. Government and Private Banks operate different financial activities to satisfy customer needs.

Dashen Bank S.C. provides various banking services in Ethiopia. The company offers deposit products, including current, savings, hybrid, saving plus, youth, student, interest plus, and salary accounts; and loan products, such as overdraft, term loans, letter of credit facility, advance on import bills, revolving overdraft, merchandise loans, trade bills discounted, export credit guarantee schemes, and letter of guarantee, as well as agriculture, manufacturing, import/export, trade and services, building and construction, and transport loans. Dashen has high reputation in the domestic banking market; a reputation earned through consistent delivery of values and preeminence. The Bank also works in partnership with leading brands in the electronic payments industry (VISA, MasterCard, Union Pay & American Xpress) and prominent money transfer operators (Western Union, MoneyGram, Xpress Money, Dahabshiil, TransFast, EzRemit, Dawit and Ria).

1.3. Statement of the problem

According to Addis fortune (2016) “Inefficiency in controlling direct costs and employee processing error, losses due to employee and customer theft and fraud, business interruptions from damage to assets, facilities, systems; transaction processing.” In response to computation in banking industry, banks used different technologies, systems and methods, as well as employing competent experts, in order to keep their existent in the market. Even if they operate their business by coordinating technology and experts, they cannot stop the

occurrence of fraudulent acts. The most common risks of fraud on the bank operation is issuing of Cash Payment Order (CPO) without securing sufficient funds from customers, releasing import documents before receiving full funds, transferring funds out of dormant accounts, putting counterfeit signatures on special clearance forms by bank messengers so that a customer account is credited, outright theft by tellers and approving None-Sufficient Fund (NSF) cheques, and using false identity.

As mentioned by Tom Keatinge, (2014), over the last years the emergence of private banks and their expansions has increased rapidly, and the expansion of their services and new bank products can be accompanied by an increase indifferent type of fraudulent acts. Therefore, controlling fraud is the first task of the banks.

According to GAO Internal control should be designed to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisition, use, or disposition of an assets. As stated by ACFE (2008) Fraud impacts organizations in several areas including financial, operational, and psychological. While the monetary loss owing to fraud is significant, the full impact of fraud on an organization can be staggering. The losses to reputation, goodwill, and customer relations can be devastating. In addition Olaoye C.O, (2009) state Bank Frauds are now becoming a global phenomenon. Fraud in general, inflicts untold hardship on bank and customers, as most bank failures are associated with large scale frauds. Therefore the lack of an effective control is the major cause of bank frauds.

Ethiopian banks also vulnerable to different frauds, According to Bob Koigi (2016) Commercial bank of Ethiopia affected by different bank fraud in different period, in December 2012, the bank lost more than \$314,000 at its headquarter, in March 2016, \$852,000 transferred from customer account to fake account that deliberately created. This frauds committed by using other co-works user name and password by the bank employees and employees collaborate with outsider customers. Currently there are rare studies related to fraud and its control in Ethiopia. Based on this the purpose of this research is to assess fraud practices and the controlling mechanisms used by Dashen Bank.

1.4. Research Questions

In order to assess fraud control practices at Dashen Bank SC, the following research questions were examined.

1. Whether there is Anti-fraud Policy and controlling mechanism to protect the bank from fraud
2. What types of bank fraud are experienced in Dashen Bank?
3. How effective is the controlling system of the bank?
4. What is the awareness of employee's about fraud and its controlling mechanisms?

1.5. Objectives of the study

At the end of this study the researcher has planned to achieve the following general and specific objectives.

1.5.1. General objective of the study

The general objective of the study is to assess fraud control practices at Dashen Bank SC.

1.5.2. Specific objectives of the study

The specific objectives of the study were:

1. to identify the existence of Anti-fraud policy and controlling mechanism to protect the bank from fraud;
2. to find out the types of fraud experienced in the Dashen Bank;
3. to assess the effectiveness of the controlling system of the Bank;
4. to evaluate the awareness of employees about fraud and its controlling mechanisms.

1.6. Definition of Terms

1.6.1. Conceptual definition of terms

Internal control: “it is a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations” (Draz 2011).

Fraud: according to (IPPF) (cited in ACL 2014)“fraud is any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property or services, to avoid payment or loss of services or to secure personal or business advantage”.

1.6.2 Operational definition of terms

Managerial employees – are employees of the bank that work on the position that starts from assistant branch manager, branch manager, department manager up to the president.

Clerical employees- are employees of the bank that work starting from grade V(five) like typists, junior trainee tellers, secretaries and clerks up to positions below assistant branch managers.

Non clerical employees- are employees of the bank that work on positions from grade I-IV(one up-to four) like cleaner, messengers, securities, cash office(cash Aid) etc.

1.7. Significance of the study

The competition among banks has become stiff these days to attract and retain customers. In order to do that Dashen Bank needs to implement effective controlling mechanism to protect the customers and the Bank from frauds. The study will be significant to the banking sector in general, and specifically to Dashen Bank in identifying the kinds of frauds that are encountered in their operations. The findings of the study are also significant in identifying the gaps in the existing controlling mechanisms, and can be useful in the pursuits of banks toward reducing the rising cases of frauds in the banking sector. Finally, the study will also help as reference to other researchers who will be interested to conduct a research related to the subject matter.

1.8. Scope of the study

The scope of the study was delimited to employees of Dashen Bank, Addis Ababa Branches. Even though it is very important to cover all the area banks across the country, due to the wide geographical dispersion of area banks as well as time and money constraints upcountry branches were not included. The study included only area banks based in Addis Ababa. The study only focused on respondents from clerical, up to managerial level. Non clerical employees like security guards, cleaners or messengers are not included. Other data collection tools like focus group discussion would also have given more insight into this matter; but due to time and resource limitation only questionnaires were used as data collection tool on the study.

1.9. Organization of the Study

This study is organized in to five chapters. The first chapter presents the introduction which includes background of the study, background of the organization, statement of the problem, basic research questions, objective of the study, significance of the study, scope of the study. The second chapter shows the literature review while the third chapter contains brief description of the research design. The fourth chapter presents and analyzes the results. Finally, chapter five presents the conclusions and recommendation of the study.

1.10. Suggestion for Further Research

The direct focus of this investigation was only the banking sector and strictly on Dashen bank, Addis Ababa branches because of the limitation of resources like finance and most importantly time, the study is not representative of the banking industries. The researcher suggests areas for further studies on impact of fraud in employee's commitment and bank profitability and it would be interesting to extend this study to upcountry branches and conduct industry wide study.

CHAPTER TWO

LITERATURE REVIEW

This chapter reviews the existing theoretical and empirical literature on the study area of bank fraud and the internal control system. The theoretical literature review in Sections 2.1, 2.2 and 2.3 deal with the definition of the concepts in fraud and internal controls, control objectives, key control system, types of bank fraud, reason for fraud and awareness. Section 2.4 reviews the bank documents and Section 2.5 of this chapter briefly presents empirical review based on literature.

2.1. Theoretical Literature Review on Fraud

2.1.1. Definition of terms

Fraud: According to NBE (2014), “Fraud means an act or omission by shareholders, directors, employees and customers committed with the intention of gaining dishonest or unlawful advantage for the party committing fraud or for other parties”. According to CIMA (2009) fraud is defined as “using deception to make a personal gain dishonestly for oneself and/or create a loss for another. Any person is capable of committing fraud; defrauding an organization is not an accident but rather a calculated and deliberate act of deception. Fraud does not only involve theft of money but also confidential information and assets.” The Institute of Internal Auditors (IIA’s) IPPF (2009) defines frauds as “an intentional act by one or more individuals among management, those charged with governance, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage”. Aderibigbe and Dada (2007) define fraud as a deliberate deceit planned and executed with the intent to deprive another person of his property or rights directly or indirectly, regardless of whether the perpetrator benefits from his/her actions.

Pollick (2006) regards fraud as a “deliberate misrepresentation, which causes one to suffer damages, usually monetary losses”. Albrecht et al (cited in Allyne and Howard 2005:287) classified fraud into employee embezzlement, management fraud, investment scams, vendor fraud, customer fraud, and miscellaneous fraud. Fraud also involves complicated financial transactions conducted by white collar criminals, business professionals with specialized knowledge and criminal intent (Pollick 2006).

Internal Control: Institute of Internal Audit(IIA, 2017) defined Internal Control as “a process effected by organizational structure, work and authority, flows, people and management information system, designed to help the organization accomplish specific goals or objectives It is a means by which an organization’s resources are directed, monitored and measured.” Internal control has a vital role in decreasing the pace and ways of fraudulent activities and helps the organization to protect its resource such as property, machinery, staff and its brand ad reputations.

Committee of Sponsoring Organizations (COSO, 1992) defines internal control as a process, effected by an entity's board of directors , management and other personnel, designed to provide reasonable assurance regarding the achievement of organizations objectives in the effectiveness and efficiency of operations, reliability of financial and management reporting, compliance with applicable laws and regulations and protect the organization’s reputation.

According to Jack J. (2013)

Internal control is a system that processes functions, activities, subsystems, procedures, and organization of human resources that provide reasonable assurance that the goals and objectives of the organization are achieved and ensure that risk is reduced to an acceptable level based on operating, reporting, compliance, safeguarding. (P.245)

Internal control system is very importance for every organization to attain its objectives. Internal control system allows banks to anticipate potential problems which may cause financial losses and thereby prevent or minimize any future losses. In spite of the sources, most likely all have related point about definition of internal control, thus their points are referred to as the purpose or functions of internal control. Accordingly internal control is intended and operated to safeguard asset, devote to policies and directive, and promoting organizational efficiency to achieve the desired objectives.

2.1.2. Control Objective

COSO defines internal controls as “a process, affected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives” in the following categories

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

According to AICPA (2015) control objectives described:

Control objectives ordinarily address the risks that the controls are intended to mitigate. In the context of internal control, a control objective generally relates to a relevant assertion for a significant account or disclosure and addresses the risk that the controls in a specific area will not provide reasonable assurance that a misstatement or omission in that relevant assertion is prevented, or detected and corrected on a timely basis. (p.1398)

Control objectives are essential statements of aim by the management to make sure that each department develops their plans to accomplish the organization’s strategic plans are carried out effectively and efficiently. These statements of organization aim represent the plan of organization and structure established by management to safeguard assets, efficiency of operational, check the accuracy and reliability of financial data, proper use of resource, and encourage effective implementation of policies.

2.1.3. Key Controls System

Each control objective is met by one or more control techniques. These techniques are the way and means that management controls the operation. Millchamp and Taylor (2008) states the types of internal control techniques for the purposes of controlling: they are the activities which are in the form of policies, procedures and structural to achieve organizational objectives.

The techniques are: well-established organization structure, segregation of duties that help reduce errors by increasing involvement of people in duties, use physical custody and dual control over restrict areas and resources, employees should be supervised to make sure works done in accordance with standards, assign authorizer and approval to authorize transaction made in the organization with in their limit and management control over all day to day activities such as performance review of the organization, review reports and developed manual, policy and procedure that help the organization to achieve its objective.

2.1.4. Types of Bank fraud

There are two types of fraud; they are internal and external fraud. Chartered Institute of Management Accountants (CIMA, 2008) and the Australian National Audit Office (ANAO, 2009) fraud survey they list different internal and external fraudulent activities:

a) *Internal Fraud*

It is a type of fraud committed by managers, employees, and board of directors. The fraud committed alone or in groups or collaborated with outside parties.

Cheque fraud: this type of fraud made by employees who prepared the cheques book to delivery for the customer, they steal one or two cheques leaves from the cheques book then convert the cheque to cash.

Fund transfers: dishonest employees transfer money from dormant accounts containing huge sums of money to other accounts that were created to this purpose.¹

Theft of confidential information and abuse of computer systems & processes: Employees who have full access steal customer's confidential information and by collusion with third party they prepare additional passbook in the name of customer and access the victims account.

Fund Diversion: In this case, bank staff divert customers' deposits and loan repayment for their personal use.

¹According to DB current and saving account manual dormant account is "accounts which remain dormant for a period of six consecutive months are transferred to Inactive Accounts by the computer system."

b) External Fraud

External fraud is committed by outsiders who have strong relation with the bank or by new customers such as competitors, suppliers, waking customers and sister company employees. The various types of external fraud are:

Loan and Letter of Credit Fraud: Loan fraud occurs loans are granted on false collaterals that do not exist, over-valued, stolen or counterfeited, in addition after fraudsters get the loan they pay loan repayment for consecutive months or years then they stop the payment. LC fraud made by customer they process this facility to get foreign currency instead of import and export purpose.

Forged Cash, cheques\ Steal cheques: Fraudster brings forged cheque, local and foreign cash note by combining with good notes in the bank and cheated the teller and cashers. Company employees who have access steal cheques that have already been signed and prepared for delivery then they cashed it themselves or transfer it for third person.

Identity theft and use of stolen or lost documents: This is the most common financial crime in bank industry. Fraudster obtain personal detail information from different source in order to impersonate and defraud the victim.

Use Stolen ATM Cards: fraudster withdraw customer's money by using stolen or lost ATM card, other ATM fraud is customer purposely use their ATM when the system is offline because at the time of offline, the system give money to customers who have a zero balance or not deduct from their balance.

Money laundering: "Money laundering is the means used to convert funds that proceed from illegal activities such as sale of drugs into financial uses that involve legal instruments, for example bank deposits, investments in stocks or real estate" (Grosse2001).

Account Opening Fraud: Person new to the bank asks to open different account products with false identification with good quality forged instruments and use the account for illegal activities.

Money Transfer Fraud: money transfer fraud made by changing the beneficiary name, account and amount, prepare fake instruments like letter, bank transfer forms and imitating the accountholder signature with a minimum amount that do not require confirmation and request money transfer.

2.1.5. Reason for fraud

Fraudulent acts performed by employees within the organization or outsiders for different personal interest (reason) according to Akelelo (2012):

Trusted persons become trust violators when they conceive of themselves as having a financial problem which is non-shareable, are aware this problem can be secretly resolved by violation of the position of financial trust, and are able to apply to their own conduct in that situation verbalizations which enable them to adjust their conceptions of themselves as trusted persons with their conceptions of themselves as users of the entrusted funds or property.

According to LACPA 2009, CIMA 2008 and APA 2011 the reason of committed fraud described in the form of Fraud triangle: perceived pressure, opportunity, and rationalization.

2.1.5.1. Perceived pressure

Pressure is factors that motivation employee's to committee fraud in order to meet personal financial demands. Ruankaew (2013) Pressure develops from personal conditions to get money to satisfy financial problem. In addition to Ruankaew explanation pressure can be financial and non-financial. Financial pressures that can motivate fraud such as: personal financial losses, family problem, debt, or need to meet short term financial crisis. Non-financial pressure arises from frustration in work, lack of personal discipline and greediness this pressers provide the motive to perpetrate fraud.

2.1.5.2. Opportunity

Opportunity is established by ineffective control or poor designed structure that leads employees to participate in unethical behavior or to commit fraud. Lebanese Association of Certified Public Accountants (LACPA, 2009) states Opportunity is created by organization and used by employees to commit fraud. Every employee has access in their working area and it makes easy to commit fraud. If the organization internal control is weak and give the employees free access they use their access of information, financial record and resources to commit fraud.

Rabi'u A. & Noorhayati M. (2015) explain opportunity as “the ability to override fraud controls, and also the ability and power of an employee to realize the weaknesses of the organizational system and taking advantage of it by making fraud possible” the above explanation implies that employees who have unethical behavior use the organization gap easily participate in unethical activities. Organization that has no adequate procedures to detect fraudulent activity increases the opportunities frauds to occur in the organization. Auditor of Public Accounts (APA, 2011) state people motivated to commit fraud raises due to poor internal control, management negligence, lack of clear procedure and policies and supervision activities.

2.1.5.3. Rationalization

Rationalization is different in the fraudster's interpretation or mind setup. LACPA (2013) “Rationalization is a means of fraudster justifies their dishonest action in acceptable to internal moral compass”. Rationalization involves a person's unification of their behavior with the normally accepted ideas of courtesy and trust. The person who has unethical behavior they easily rationalize their fraud. For those who are trustful and who have a moral standard it is hard to rationalize for unethical activities.

2.2. Theoretical Literature Review on Control Systems

2.2.1 Internal Control System

An internal control system is a requirement for each organization to accomplish their objective effectively and efficiently. The components of internal control are closely similar in many sources. Some sources refer them the elements or frameworks while some other refer it standards of internal control. The Committee of Sponsoring Organizations (COSO,1994), American Institute of Certified Public Accountants (AICPA, 2002) and General Accounting Office (GAO, 2001) claim effective internal control system should primarily have five elements such as; control environment, risk assessment, control activities, information and communication, and monitoring. Each of the elements discussed as follows

2.2.1.1. Control Environment

Control environment as the culture of an organization and the way they operate their duties through their actions and words. According to IPPF (2011) control environment defines “the control environment is considered as the tone at the top of an organization, influencing the control consciousness of its employees.” This explanation implies that establishment of a good atmosphere in which people can conduct their activities and carry out their control responsibilities effectively.

Washington University (2015) states that control environment should provide guidelines related to ethical business practices and integrity values that should be owned by the member of entity, commitment to competence, participation or the board of director and audit committee, philosophy and management style, job description of each personnel, and policy and procedure of human resources.

Likewise, COSO (2004) looks at the ethical environment of an organization “to encompass aspects of upper management’s tone in achieving organizational objectives, their value judgments and management styles”. COSO argue control environment is the foundation for all other components of internal control, providing both discipline and structure to the organization.

2.2.1.2. Risk assessment

Risk assessment entails to identification and prioritization of objectives, the identification of risks and assessment of their likelihood and impact. Therefore Risk assessment is the component related to the identification of risk, analysis of risk and management of risk. Risks can relate to financial statement fraud or to the misappropriation of assets. According to Ayşe H. et al. (2012) “Risk Assessment is recognition of potential errors and problem areas, and implements control policies and procedures in order to reveal those errors and prevent them. Mostly organizations establish warning system to find out the areas that have high or low risk probability, and take the necessary actions to remove or minimize such risks.” As explained above risks are identifies based on the organization usual working activities and about external environments with collaborate with client to overcome potential risks.

2.2.1.3. Control activity

COSO (1992) “Control activities are the policies, procedures, and practices established to help ensure that an organization's personnel carry out board and management directives at every business level through the organization. Control activities are the most visible element of internal control and arguably the most important in preventing wrong actions from occurring”.

According to Walker (1999) the control activities describe:

Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. He provided some control activities such as, Management of human capital, Controls over information processing, Physical controls over vulnerable assets, including cash and securities, dual custody, and periodic inventories; Establishment and review of performance measures and indicators, Segregation of duties, Proper authorization of transactions, Accurate and timely recording of transactions and events, and Independent checks on performance and proper valuation of recorded amounts. (1999, p.12)

Therefore it shows that organization independent their activities and make sure those activities carry out in according with procedures. Well established controlling activities can also used to minimize the deceitful behavior of the person in charge and prevent the incidence of fraud.

2.2.1.4. Information and communication

According to Jack J. (2013) “information system is a process that helps organization to determine whether controls adequately protect the computer software and data in an organization against unauthorized access and accidental or intentional destruction or alteration”. Information and communication is essential for organization to transfer data, preparing financial report, operate usual duties and gathered current external events in accurately and timely format. Adequate information and effective communication are

important to the effectiveness of internal control system. Without communication, information is worthless, therefore there should be adequate flow of information about procedures, policies and other events through upward, downward and across the workers and external stakeholders in order to avoid interferences to business, potential losses and to create awareness.

2.2.1.5. Monitoring

Jones (2008) refers monitoring is a process of evaluating overall all organization operation and make sure the controlling activities apply in accordance with organization policy and procedures. In the time of monitoring if there is any deficiency in organization actual performance there should be take a corrective action and improve the controlling system. According to Coffin (2003) monitoring involves the activities and standard to evaluate the success of internal control system in accomplishing the organization objectives. Organizations perform the monitoring activity continuously or monthly bases. Therefore it helps to examine different situation faced in the organization and ensure the operation performed based on standard policy and procedure. COSO (2004) states “the accomplishment of the monitoring activities is through ongoing monitoring activities, periodic evaluations or a combination of the two”

According to the above explanation it shows that monitoring is the plan that is created to execute periodic reviews of systems, transactions, processes and resources to make sure proper internal controls are in place to reduce risk of fraud. This plan offers a means for the organization to be proactive in identifying weakness rather than reactive.

2.2.2. Effective Internal Control System

COSO (1992) provided criteria's against which effectiveness of internal controls can be assessed. Internal control can be judged effective if the entity's operations objectives are being achieved; published financial statements are being prepared, reliable and applicable laws and regulations are being complied with.

While internal control is a process, its effectiveness is a state or condition of the process at a point of time. Accordingly, the effective functioning of components of internal control provides a reasonable assurance regarding achievement of one or more of the stated

categories of objectives to ensure high levels of organizational performance. Aren (2007) “Efficiency and effectiveness of operations have been taken to mean efficiencies and effective use of its resources including personnel, accurate information for decision making and safeguarding of assets and records.”

As stated in internal control framework of COSO (1994) an effective internal control should majorly include the five elements the control. In addition, effective internal control must assure three basic conditions:

The first one is it must be appropriate it implies that the right control in the right place and commensurate to the risk involved. Secondly it must function consistently as planned throughout the period which means be complied with carefully by all employees involved and not bypassed when key personnel are away or the workload is heavy. Finally it must be cost effective; the cost of implementing the control should not exceed the benefit.

Basel Committee on Banking supervision (1998, p. 2-5) states that in order to internal control to be effective there should be an effective and comprehensive internal audit carried out operationally independent, appropriately trained and competent staff. It is part of monitoring of internal control system. In addition Basel Committee suggested principles as a judgment to effective internal control.

The principles indicates the board of directors and senior management of the companies should have a responsibility to develop policies, strategies, and understanding possible risks, they are also responsible for promoting high ethical standards, integrity standards and establishing the culture within the organizations, the material risks that affect adversely achievement of organizational goal continuously recognized and assessed, and appropriate control structure set up at every organizational level.

In addition effective internal control requires segregation of duties that personnel’s are not assigned to conflicting responsibilities areas, potential conflicts should be identified and minimized, there should be adequate and comprehensive financial,

operational and compliance data and external information used for decision making, and internal control should be monitored ongoing basis and continuously evaluated.

2.2.3. Limitations of Internal Control Systems

Internal control can do much to protect against fraud and assure the reliability of accounts data. Deficiency of internal control is not arguable because people are involved in every part of operation that need effective internal control. However well designed internal control systems are still vulnerable. Thus the presence of internal controls is no guarantee that the objectives will be fulfilled. The following are the areas of internal control limitations based on (COSO 1992, SOX 2002).

- Abuse of authorization responsibilities
- Collusion between two or more members of staff opposing the segregation of duties
- Collusion with interests outside the entity like suppliers
- Fraud and systems which present obvious opportunities for abuse
- Failure of top management to act based on the organization of internal control systems
- Destruction of evidence by those responsible for abuses

According to Bradford (1995) “A number of deficiencies indicate poor or inadequate internal control procedures or policies. These can be categorized into three groups: deficiencies in the design of the internal control structure, in the operation of the structure, and all other deficiencies.” Internal control depend up on organization employees, because of that it affected by preparation of control plan, errors of judgment, analysis, confusion, negligence, exhaustion. Internal control going to be effective when employees are capable, enough human recourse and well designed operating system. Beside, even if the there is well designed operation and capable employees internal control system become unproductive if they do not properly understand their function in the control process.

According to Megis (cited in Samuel 2015) “the extent of internal controls adopted by a business is limited by cost considerations. It is not feasible form a cost stand point to establish a control system that provides absolute protection from fraud and waste, reasonable assure in this regards is the best that generally can be achieved.”

2.3. Conceptual Overview on Awareness

Government Accountability Office (GAO) 2001 contends that “management and employees should aware of their duties, responsibilities, reporting relationship, acceptable and unacceptable behavior to reduce the opportunity of risks for it to be occurs.” The above explanation implies within the organization there should be a clear awareness about duties in order to minimize risk, further in addition to employees the bank should aware customer to the prevention of fraud, mostly with regards to the safeguarding of their personal information such as ATM card and PINs, Account statements, ID, Passbooks and about different frauds by providing information on its website and face to face communication between trained customer service agent front officers and customers.

The American Institute of Certified public Accountants (AICPA) states about awareness:

An ongoing awareness program is a key enabler to convey fraud risk management expectations, as well as an effective preventive control. Awareness of fraud and misconduct schemes is developed through periodic assessment, training, and frequent communication. An organization’s fraud risk management program will assist the organization with fraud awareness. Documentation to support fraud awareness should define and describe fraud and fraud risks; it should also identify potential perpetrators of fraud. (P.16)

Coenen (2008) Banks should create awareness, because bank employees are the real force to prevent fraud, enforcement of any law, regulation, and business ethics, should be followed by them. Therefore employees especially those who handle transactions should aware about laws and operations, thus emphasis be given on job role oriented trainings relating to general background of bank fraud, reporting of suspicious transactions, customer identification, record keeping and internal control to employees at least once during a year.

According to Samociuk et al., (2010) organizations that create fraud awareness through communication and training the employees how to detect the fraud activities help to minimize the fraud risk. There is different ways to create awareness in the organization, the better ways creating awareness about how fraudsters make unethical activities is by using actual examples like using real cases that have occurred earlier in the Bank and by showing

forged documents and forged foreign and local cash notes that have been held in order to communicate the message and encourage employees and managers feelings toward fraud prevention. The Bank should attempt to uphold a continuous awareness, enforcing key messages through the use of mediums such as posters, articles, newsletters, and conferences. This statement explains the importance of raise awareness and training employees to be attentive by looking out for suspicious activity, documents and to make sure that they follow controls firmly.

2.4. Document Review

2.4.1. Policy and Internal Control Framework: Dashen Bank

Banks are bound by certain systems and regulations for adherence in order to strengthen their internal controls. To protect the bank from illegal activities Dashen Bank has developed different policies like, anti-fraud policy, anti- money laundry, payment card policy and procedure and different internal audit manuals.

Internal Control Department requires the bank to perform its operation in accordance with the bank policy and procedures. Its main duty is examination and evaluation of the adequacy and effectiveness of the Bank's governance, risk management process, system of internal control structure, and the quality performance in carrying out assigned responsibilities to achieve the Bank's stated goals and objectives. It includes:

- Reviewing the reliability and integrity of financial and operating information and the means used to identify measure, classify, and report such information.
- Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports and whether the bank is in compliance.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Reviewing and appraising the economy, efficiency and effectiveness with which resources are employed.
- Reviewing specific operations at the request of the Board of Directors or Top Management as appropriate.

- Monitoring and evaluating the effectiveness of the bank's risk management system.
- Reviewing the internal control statement by senior management and the related opinion by the attest auditor for audit planning.

Barlington (1997) states that “as a bank’s policy banking commence from customer identification to create a good business relationship and this is the most important norm of know your customer concept (KYC)”. This concept is very important because once followed, one is able to prevent frauds, identify money laundering and suspicious activities. KYC is need to work beyond introduction of existing account holders and this for instance involves knowing customers identity which includes information about one’s name, permanent address, occupation, photograph, passport, identity card, driver license all these should have satisfactory evidence.

A Know Your Customer (KYC) and Know Your Employee (KYE) policy is adhered by DB. The Bank promotes the policy because it helps detect suspicious activity in a timely manner, promotes safe and sound banking practices and compliance with all banking laws, minimizes the risk that the bank will be used for illicit activities, Reduces the risk of government seizure & forfeiting advances made when the customer is involved in money laundering and terrorist financing activities and protects the bank's good reputation.

Dashen Bank internal audit function is a key participant in antifraud activities, supporting managements approach to preventing, detecting, and responding to fraud and misconduct. These could be confirmed through looking in details of saving and current account like certificate of incorporation and business registration, memorandum and articles of association, board resolution, search of file at registrar of companies, satisfactory identity of principal shareholders

Another policy that is used by internal audit to prevent and control fraud is observing and monitoring suspicious transactions and report them to the regulatory authority through identified compliance officer of the bank commonly known as Money laundering Reporting Officer (MLRO). Suspicious transaction is characterized by substantial increase in turnover showing no normal business related activities, large cash withdrawals from dormant or inoperative account or from an account which has just received exceptionally large credit

from abroad, transfer of cash deposits to destination not normally associated with customer, frequent requests for drafts, large money transfers in cash, customers who deposit counterfeit notes or forged instruments, multiple accounts under the same name.

2.4.2. Fraud Control Activities in Banks

According to DB anti-fraud policy (2015) the responsibility for the prevention and detection of errors and irregularities rests with board of director, management, control department and employees. This responsibility arises out of a contractual duty of care by directors and managers and also because directors and other managers act in a stewardship capacity with regard to the property entrusted to them by the shareholders or other owners.

According to Chartered Institute of Management Accountants (CIMA, 2008), General Accounting office (GAO, 2015) and Dashen Bank policy general procedures for the control activity should normally involve prevention, detection and response.

Fraud Prevention

The aim of preventative controls is to reduce opportunity and remove temptation from potential offenders. Prevention techniques include the introduction of policies, procedures and controls, and activities such as training and fraud awareness to stop fraud from occurring.

Ekechi (2000) stated that measures aimed at fraud prevention include dual control, operational manual, graduated limits of authority, lending units, reporting systems, establishment of inspectorate units, referencing on presentation of document of value, segregation of duties, verification of signatures, controls of dormant accounts, detection of passport sized photos, close watch on the lifestyle of staff and coding/decoding and testing of telex messages.

Fraud Detection

A fraud detection strategy should involve use of analytical and other procedures to highlight irregularity, and the introduction of reporting mechanisms that provide for communication of suspected fraudulent acts. Key elements of a comprehensive fraud detection system would

include exception reporting, data mining, trend analysis and ongoing risk assessment. According to DB anti-fraud policy (2015) the Auditing (an evaluation of past events) and monitoring (an evaluation conducted real-time) systems that are reasonably designed to detect fraud are important tools that management can use to determine whether the Banks controls are working as intended. The Bank shall conduct Auditing and Monitoring that are designed to uncover fraud and misconduct when it occurs. Fraud detection include checking of cashiers, call-over, reconciliation and balancing of accounts at branches, interbank at head office levels, periodical submission of statement of accounts, stock taking of security items and cash in the vaults and inspection by bank inspectors.

Managing/response fraud

According to DB anti-fraud policy (2015) it is the duty of employees to report any incidents. They should also be informed how these incidents are escalated and investigated. A Fraud response Plan ensures that “incidents are handled in a systematic and efficient manner, not only to secure a successful investigation, but also to show that the organization acted in a prudent and lawful manner.” Once a fraud is discovered, Control Department conducts a comprehensive and objective internal investigation cooperated with others. The purpose of such an investigation is to gather facts leading to a credible assessment of the suspected violation, so management can decide on a sound course of action.

2.5. Empirical Literature Review

Several investigations were made in world to evaluate fraud related to internal control of public organization and banks. Accordingly Mahdi, Mahmoud, Shiri and Fatemeh (2011) investigated the effectiveness of internal control in the Iranian banking sector with special reference to Bank Mellat. The study used questions that needed to be answered in the study are: (1) Does an internal control system in Bank Mellat has proper power in preventing fraud and error? (2) Is there a significant relationship between the weakness of internal control system components and the occurrence of error and fraud? To test the validity of the questions, hypotheses are postulated relating frequency of fraud reported as failure of internal control with the questionnaire answered on the relationship between the fraud and components of internal control. The paper evaluated the effect of control environment, control activities, risk assessment, information and communication and continuous

monitoring on failure of internal control quantified as reported errors and fraud. The empirical evaluation found out that all the elements of the internal control have significant effect on occurrence of errors and fraud, though the magnitudes are different. Accordingly, Weakness of internal control system in an incident of error and fraud is effective. Therefore, the more the increase in the weakness of a control system in Bank Mellat, the more is the incident of error and fraud.

Oguda Ndege, Odhiambo Albert and John Byaruhanga (2015) investigated the Effect of Internal Control on Fraud Detection and Prevention in District Treasuries of Kakamega County. The study propose hypothesis to test the relationship between internal controls 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 of 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. Accordingly, an improvement in internal control strategies results in improved fraud detection and prevention.

Olaoye (2009) investigated impact of internal control system in banking sector in Nigeria, the specific objectives of the study is to highlight the major causes of fraud and actors that contribute to the incidence of frauds in banks and to determine the problem of fraud and how to control the fraud by testify hypothesis of (1) Banks with internal control systems can prevent the menace of fraud (2) The lack of a good internal control is a major cause of fraud in banks. The survey instruments on 50 branches of Wema Bank Plc in Nigeria were conducted using questionnaires and interview staff and management. The result analyzed through descriptive and inferential statistical methods. Accordingly the study result shows that the lack of a good internal control system is a major cause of fraud in banks and banks with effective internal control system can prevent and stand against the menace of fraud.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This chapter presents the activities and processes that were used to gather data for the research work. It gives full details of how data was collected and processed for this research work. The discussion include the following: Research design, sample and sampling techniques, sources of data, research instruments, and method of data analysis.

3.1. Research Design

A research design is a mechanism of attaining research objective. It also deals the situation for collection and analysis of data that related significance to the research purpose with economic and standard procedures (Kothari 2004, P.31). Since the objective of the study is to assess fraud controlling practice in Dashen Bank S.C, Addis Ababa Branches the appropriate type of research to achieve this objective is descriptive research. As stated by Kothari (2004) "the major purpose of descriptive research is description of the state of affairs as it exists at present and concerned with describing the characteristics of a particular individual, or of a group and help to describe and assess a certain issue in detail." Therefore, this study was conducted by using descriptive research design and used a type of design called qualitative and quantitative approach. The qualitative and quantitative data was gathered through open ended and close ended questionnaires.

3.2. Sample and sampling techniques

Sampling is used for variety of reasons some of them are; sample study is usually less expensive than census and produce result in relatively faster speed, sampling remain only option when the population contains substantially many members (Kothari 2004).

According to the bank annual report as of October 2016, the Bank has 220 existing branches and 64 new branches, branch offices where 111 up country branches and 109 branches are located in the major towns of the country. The bank has a total population of 5630 permanent and short term contract employees. There is approximately 2331 employees are employed in Addis Ababa. As the geographic area and the number of employees that can be used for the study is very large, it is impossible for the researcher economically and timely,

to cover this population in to this research. Accordingly to facilitate easier in timely and cost effective way of collection of data, the target population were reduced to 1978 managerial and clerical employees that are working at Addis Ababa branches. For this study purposive sampling was used.

Purposive sampling refers to a non-probability sampling in which units or people are obtained through conveniently or easily accessible (Saunders 2007). Non probability sampling was employed to select area banks. To undertake this research the researcher was selected area banks deliberately from a list of 109 area banks based in Addis Ababa, on the bases of their length of service and number of customer they serve.

In addition researcher used simple random sampling to select respondents from branches. The researcher used this sampling method because employees are available and this sampling technique gives equal chance for all respondents to be included in the sample. A total of 185 employees were randomly selected from area banks. The researcher randomly selected managerial and clerical staffs working at selected area banks and distributed questionnaire for those staffs. The study were conducted on every employee from clerical to managerial position except Non-clericals employees like cleaner, security guard and messenger and employee working at upcountry branches was excluded.

Table 3.1. Sample size determination

Size of population	Sample Size (n) for Precision (e) of:				Size of population	Sample Size (n) for Precision (e) of:			
	±3%	±5%	±7%	±10%		±3%	±5%	±7%	±10%
500	A	222	145	83	7,000	959	378	198	99
600	A	240	152	86	8,000	976	381	199	99
700	A	255	158	88	9,000	989	383	200	99
800	A	267	163	89	10,000	1000	385	200	99
900	A	277	166	90	15,000	1034	390	201	99
1,000	A	286	169	91	20,000	1053	392	204	100
2,000	714	333	185	95	25,000	1064	394	204	100
3,000	811	353	191	97	50,000	1087	397	204	100
4,000	870	364	194	98	100,000	1099	398	204	100
5,000	909	370	196	98	> 100,000	714	400	204	100
6,000	938	375	197	98	Source: (Yamane T. 1967)				

In order to determine the sample size of the study, Yamane T.(1967) sample size determining table was used at 95% confidence level, degree of variability=0.5 and level of precision/sampling error $\pm 7\%$.

$$n=N/(1+Ne^2)$$

$$n=1,978/(1+1,978(0.07)^2)$$

$$n=184.99 = 185$$

Where n is the sample size, N is the population size, and e is the level of precision.

By using the above formula from the total study population of 1,978 participants, 185 were selected as a sample.

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

In order to collect sufficient data that can answer the research questions, the researcher used both primary and secondary data collection method. Primary data were collected to obtain firsthand information on the specific research questions. And secondary data were collected to support the facts acquired through primary, as for primary data questionnaire was used.

Close ended questionnaire was used in order to reach wide range of respondents. Both open ended and closed ended questions distributed to employees by self-developed questionnaire based on literature review and mainly adopted from Dana, Nathaniel and Jason (2012) and guideline of ACFE(Association of Certified Fraud examiners). Dana, Nathaniel and Jason have conducted researches to answer how effective are organizations' internal controls insights into specific internal control elements, and ACFE practice guidelines focus on managing the business risk of fraud. Closed ended questions were used since it is easier to generate statistical analysis on a larger number of participants. For fraud related questionnaire close ended questions used, for the rest questionnaire the instruments of a 5 point Likerts scale used from strongly agree to strongly disagree (strong agree 5, agree 4, neutral 3, disagree 2, and strongly disagree 1).

Secondary data was collected to complement the primary data through different theoretical, empirical literature and books relevant to the study, company website, DB manuals, policies and procedures; other related Journals and Articles and available sources are referred and cited on the study.

3.4. Data collection procedures

Structured questionnaires were administered with the help of the company's employees that are found in different area banks across Addis Ababa by making the appropriate follow up. The developed questionnaire was distributed to 185 sampled employees working at purposely sampled area banks.

3.5. Data analysis methods

The data was analyzed by using descriptive analysis. Descriptive analysis includes describing the result found from different method through percentage, means, standard deviations and range of scores (Creswell 2009). Descriptive analysis provides as data in the profile, characteristics and composition on the subject of the study (Kothari 2004). The researcher was used SPSS software to analyze the questionnaires and describe the result.

3.6. Reliability and Validity

To ensure the reliability of the response reliability test was done to 40 selected target group respondents by calculating Cronbach's alpha using SPSS. This method determines reliability through examining the internal consistency of the research instrument such as questions (items) in the questionnaire, which are normally presented. As a result the Cronbach's alpha of the questionnaire revealed 0.892. As per Lee Cronbach (1951) recommendation a minimum level of Cronbach's alpha should be 70%. Validity is the most critical criterion and indicates the degree to which an instrument measures what it is supposed to measure (Kothari 2004). In designing & ensure the content validity of the instrument and also to check on the clarity and wording of the question, the researcher considered the input of the advisor, valuable comment was given from the advisor based on the feedback some adjustment on the questionnaire was made.

Table 3.2. Reliability Statistics

Cronbach's Alpha	N of Items
.892	29

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter deals with analysis and presentation of the data collected through questionnaire. Descriptive statistics like frequencies, percentage and mean were used to analyze the data. Interpretations were made based on the percentage and mean of the data. The findings from the questionnaires were analyzed by using SPSS (version 20). The results from the study are presented in the form of frequency table. The chapter is organized into two sections. Section 4.1 presents Survey result and Section 4.2 presents analysis

4.1. Survey Result

As stated on the research methodology, 185 questionnaires were distributed to 27 different branches that were selected from Dashen Bank which are found in Addis Ababa. Out of the total 185 questionnaires only 183 were fully filled and returned. The first part of the questionnaire consists of the demographic information of the participants related to personal and professional characteristics. Whereas the second part intended to obtain respondent's opinion and perception regarding fraud and the controlling practice of the bank. For all questions a positive mean response more than 3 statistically suggests agreement with the statement/question, a positive mean response less than 3 implies disagreement and a mean response close to 3 indicates indifferent. A positive mean response of 4 and greater display that there is effective fraud control practice in the bank if not it need an improvement.

4.1.1. Respondent Profile

This part presents respondent's information related to their personal and professional characteristics in order to give information regarding the composition of the sample.

The demographic data for gender shows that out of 183 respondents there were 52.5% female and 47.5% male. Though the ratio of the respondents are closely proportional both category of gender were participated in the survey.

Table 4.1. Demographic characteristics of the respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Gender	Male	87	47.5	47.5	47.5
	Female	96	52.5	52.5	100.0
	Total	183	100.0	100.0	
Age Category	20-25	37	20.2	20.2	20.2
	26-30	55	30.1	30.1	50.3
	31-35	37	20.2	20.2	70.5
	36-40	28	15.3	15.3	85.8
	41-45	14	7.7	7.7	93.4
	46 and above	12	6.6	6.6	100.0
	Total	183	100.0	100.0	
Marital Status	Single	80	43.7	43.7	43.7
	Divorced	12	6.6	6.6	50.3
	Married	86	47.0	47.0	97.3
	Widowed	5	2.7	2.7	100.0
	Total	183	100.0	100.0	
Educational Status	Diploma	11	6.0	6.0	6.0
	Degree	132	72.1	72.1	78.1
	Master's	40	21.9	21.9	100.0
	Total	183	100.0	100.0	
Current position of Employment	Managerial	13	7.1	7.1	7.1
	Professional	71	38.8	38.8	45.9
	Clerical	99	54.1	54.1	100.0
	Total	183	100.0	100.0	

Source; Case Study 2017

The data reveals that the majority of the respondents **age category** 30.1% of them are composed of age group 26-30, 20.2% of them are within the age range of 20-25 similarly 20.2 % are between the age of 31-35, 15.3% of them are between the age of 36-40, 7.7% of them are between the age of 41-45 and the remaining 6.6% are above the age of 45. This implies that most the respondents 70.5% are below age 35. This indicates the bank has more young man power that performs the banks operations. When we come to **marital status** of respondents 43.7% are single, 47.0% of them are married, 6.6% are divorced and the remaining 2.7% are widowed.

In terms of the **education level** of respondent in the different branches, the survey indicates that majority of the respondents 72.1% have education level of degree while 21.9% had education level of Master's and the remaining 6% of respondents had education level of college diploma. This indicates that most of the employees have education level above diploma. This implies the level of literacy and competence and ability of employees help to understand the concept of controls and fraud at their place of work. These further reinforce reliability of their responses.

Regarding the respondents' **current position** in the bank as described in the above table, the composition of respondents is found to be 54.1%, 38.8% and 7.1% are found to be Clerical position, Professional and Management position holders respectively. The position of the respondent indicated that they had at least the theoretical education on the concept of internal control.

In general the respondents profile indicates that the respondents were good enough to respond to the questionnaire and they had the knowledge and experiences to understand internal control system in the Bank.

4.1.2. Examining Fraud in the Bank

This section designed to have 7 questions that intended to investigate whether fraud exist in the bank, which parties committed fraud and reasons of committed fraud in the bank.

As shown in the table, employees were asked to answer the frequency of fraud cases in DB in their experience, according to the result 58.5%, 36.6% and 4.9% of respondent responses that the rate of fraud cases in the bank are low, moderate and highly respectively. The result shows that there is low fraud cases exist in the bank.

The other question that was presented to respondents was to find out if employees come across fraud cases. The result showed that most of the respondents 74.3% of them never got fraud case and the rest 25.7% said that they have got fraud case.

Table 4.2. Frauds in the bank

Questions		Frequency	Percent	Valid	Cumulative Percent
1. In your experience in DB, how is the frequency of cases related to fraud	Highly	9	4.9	4.9	4.9
	Moderate	67	36.6	36.6	41.5
	Low	107	58.5	58.5	100.0
	Total	183	100.0	100.0	
2. Have you come across fraud cases	Yes	47	25.7	25.7	25.7
	No	136	74.3	74.3	100.0
	Total	183	100.0	100.0	
3. What type of fraud repeatedly committed in DB	Customer denial on cash withdrawal they made	73	18.2	18.2	18.2
	Identity Theft	65	16.2	16.2	34.4
	Forged cheque, foreign and local cash Fraud	49	12.2	12.2	46.6
	ATM and Credit Card Fraud	42	10.5	10.5	57.1
	Money Laundering	38	9.5	9.5	66.6
	Accessing Dormant Account	37	9.2	9.2	75.8
	Money Transfer Fraud	29	7.2	7.2	83.0
	Loan and Letter of Credit	29	7.2	7.2	90.2
	Preparing Falsify Thickets	25	6.3	6.3	96.5
	Account Opening Fraud	14	3.5	3.5	100.0
	Total	401*	100.0	100.0	
4. By which parties is fraud mostly committed in DB	Employees	41	22.4	22.4	22.4
	Customer	83	45.4	45.4	67.8
	Employees with customer	59	32.2	32.2	100.0
	Total	183	100.0	100.0	
5. In which position do you believe the fraudsters are mostly found	Customer service agent	121	46.2	46.2	46.2
	Casher	43	16.4	16.4	62.6
	Management	47	17.9	17.9	80.5
	Supervisor/accountant	51	19.5	19.5	100.0
	Total	262*	100.0	100.0	
6. How is fraud recognized in the bank	By Accident	18	9.8	9.8	9.8
	Internal Audit	78	42.6	42.6	52.5
	By Customer Compliance	87	47.5	47.5	100.0
	Total	183	100.0	100.0	

Questions		Frequency	Percent	Valid	Cumulative Percent
7. What are the reasons to commit fraud	Poor Ethics and Moral	77	19.3	19.3	19.3
	Lack of Online Auditing	65	16.3	16.3	35.6
	Lack of Background check in Recruitment Process	61	15.3	15.3	50.9
	Poor Internal Control	53	13.3	13.3	64.2
	System Inefficiency	53	13.3	13.3	77.5
	Easy Opportunities exist to commit Fraud	52	13	13	90.5
	Encouraged by other Colleague	22	5.5	5.5	96
	There are Penalties but just not enforced	16	4.00	4.00	100.0
	Total	399*	100.0	100.0	

Source; Case Study, 2017

* Figures 401, 262, 399 for question no 3, 5 and 7 respectively represent response of employees of the bank. The researcher gives a chance to respondents to choose more than one response from the list of options for the respective questions.

Table 4.2 item no 3 seeks to identify the types of fraud committed in the bank. The result shows that the respondents ranked customer denial on cash withdrawal they made is the most common type of fraud committed within the bank with a frequency of 73 respondents. The least common type of fraud committed was account opening fraud ranked 8th with a frequency of 14 respondents. Based on the results identity theft fraud occupied the second most common type of fraud committed with a frequency of 65 respondents. 49 (Forty nine) respondents indicated that forged cheque, foreign and local cash fraud ranks as the third highest type of fraud committed within the bank.

As indicated in above table item no 4, respondent replies fraud mostly committed by customer 45.4%, employees integrated with customer 32.2% while by employees 22.4%. The result indicates not only customer's committed fraud the employees also participate in fraud with alone and integrated with customers.

For the question which parties committed fraud mostly in DB, the result indicates respondents perceived that customer service agents, Supervisor/Accountant, Cashier and Management positions where fraudsters are likely to be found which take first up to fourth rank. In percentile, 46.2%, 19.5%, 17.9% and 16.4% respectively.

As indicated in above table item no 6, respondent replies majorly 47.5% fraud recognized by customer compliance, 42.6% by internal auditor and the least 9.8% respondent responses fraud recognized by accident. The result indicates that internal auditors work in identified fraud cases but based on the result mostly fraud recognized when the customer complains.

Participants were also asked to answer the reason of fraud committed in the bank. Based on the frequency the reasons rank from the highest to the lowest respondents. Poor ethics and moral is the leading reason of fraud in the DB with a frequency of 19.3% respondents. The second and third reasons of fraud are Lack of online auditing, Lack of Background check in recruitment process which has 16.3%, 15.3% respondent respectively. The least reason of fraud exist in the bank was there are penalties but just not enforced with a frequency of 4% respondents. 45.1% takes the remaining reasons to commit fraud.

4.1.3. Effectiveness of internal control in terms of internal control components

4.1.3.1. Effectiveness of Control Environment

Control environment indicates the common atmosphere of internal control which includes management commitment in ethics and integrity, reporting structure, competence of HRM and discharging responsibility and others. The survey made is based on those components of control environment and the result is scaled as follows.

Table 4.3. Control Environment

Questions	Response Rate	Level of Agreement					Total	Mean	Std. Devi.
		SD	D	N	A	SA			
1. Top management's commitment to ethics and integrity is effectively communicated throughout the organization	Frequency	14	93	34	32	10	183	2.62	1.035
	Percent	7.7	50.8	18.6	17.5	5.5	100.0		
2. The bank has organizational structure with clear reporting lines and authority	Frequency	1	30	11	128	13	183	3.67	0.854
	Percent	.5	16.4	6.0	69.9	7.1	100.0		
3. Roles and responsibilities are clearly stated for all employees	Frequency	10	29	12	109	23	183	3.58	1.071
	Percent	5.5	15.8	6.6	59.6	12.6	100.0		
4. Human resources department conducts background investigations about new employees and use reference	Frequency	41	74	46	21	1	183	2.27	0.956
	Percent	22.4	40.4	25.1	11.5	.5	100.0		

Source; Case Study, 2017

As indicated in the above table the mean value of the response computed based on Likert scale implies the average agreement of respondents on existence and practice of each element of control environment. The highest mean 3.67 indicates that majority of respondents agreed that the bank has organizational structure with clear reporting lines and authority. To help ensure an organization's fraud control effective, it is vital to understand the roles and responsibilities that personnel at all levels of the organization with respect to fraud control. The result of the survey is also supported the statement which is indicated by mean value of 3.58. This means majority of the respondents agreed that Role sand responsibilities are clearly stated for all employees.

The above table also indicated two areas; where the control environment of the bank is not effective. The least mean 2.62 indicates that majority of the respondent's disagree that top management's commitment to ethics and integrity is effectively communicated throughout the organization. In percentiles 58.5% of respondents disagreed and strongly disagree with this statement while 23% of respondents either agree or strongly agree and the remaining undecided. Finally the mean 2.27 indicates that majority of the respondents was not agreed that HR department conducts background investigations about new employees and use reference.

4.1.3.2. Effectiveness of Risk Assessment

A risk assessment is fundamental part of internal control system. The management is responsible to identify and assess control risks. There should be identifying Risk areas and the possible corrective actions. The survey result and analysis on this issue therefore; is presented as follows.

Table 4.4. Risk Assessment

Questions	Response Rate	Level of Agreement					Total	Mean	Std. Devi.
		SD	D	N	A	SA			
5. There is risk and compliance department that assess risk, measured and announce to employees.	Frequency	9	108	24	29	13	183	2.61	1.042
	Percent	4.9	59.0	13.1	15.8	7.1	100.0		
6. Management adequately considers risks relating to information systems like adequacy of backup systems	Frequency	5	33	24	115	6	183	3.46	0.918
	Percent	2.7	18.0	13.1	62.8	3.3	100.0		
7. The bank assesses fraud risk factors that influence the possibility of someone committing a fraud, and the impact of a fraud on financial performance and the bank reputation	Frequency	8	110	23	35	7	183	2.58	0.974
	Percent	4.4	60.1	12.6	19.1	3.8	100.0		

Source; Case Study, 2017

As summarized in above table the minimum response to each standard of Risk Assessment is 1 and the maximum is 5. The respondents relatively agreed that management adequately considers risks relating to information systems like adequacy of backup systems (mean 3.46). The survey result mean (2.61) indicates that 77% of respondents strongly disagreed, disagreed or undecided; the remaining 23% agreed or strongly agreed that the bank has risk and compliance department that assess risk, measured and announce to employees

Mean 2.58 implies that majority of respondents were not agreed that the bank assesses fraud risk factors that influence the possibility of someone committing a fraud in the bank and the impact of fraud on financial performance and bank reputation.

4.1.3.3. Effectiveness of Information and Communication

Based on frameworks of an effective information and communication in an internal control system the survey result and interpretation as presented below.

Table 4.5. Information and Communication

Questions	Response Rate	Level of Agreement					Total	Mean	Std. Devi.
		SD	D	N	A	SA			
8. Management encourages free and open communication regarding ethical behavior, suspected and confirmed fraud.	Frequency	22	110	17	28	6	183	2.38	0.992
	Percent	12.0	60.1	9.3	15.3	3.3	100.0		
9. Necessary information is provided to the board, audit committee and workers in a timely manner.	Frequency	11	118	16	27	11	183	2.50	1.016
	Percent	6.0	64.5	8.7	14.8	6.0	100.0		
10. The bank communicates with the customers about fraud matter and to keep save their equipment like ATM and PIN numbers, Bankbook, cheques, ID	Frequency	11	24	14	102	32	183	3.66	1.098
	Percent	6.0	13.1	7.7	55.7	17.5	100.0		

Source; Case Study, 2017

As summarized in above table the minimum response to each standard of information and communication is 1 and the maximum is 5. The respondents relatively agreed that the bank communicate with the customer about fraud and keep their custody safely. The survey result mean (3.66) indicates that 73.2% of respondents strongly agreed, agreed; 19.1% disagreed or strongly disagreed and the remaining undecided that the bank communicated with the customer.

Management does not encourage free and open communication regarding ethics and fraud and Necessary information is not provided in a timely manner to employees (mean 2.68 and 2.86) respectively.

4.1.3.4 Effectiveness of Control Activities

Control activities include methods such as; authorization of transactions, segregation duties and responsibilities, job rotation, account reconciliation and standardize procedures. The result of the survey indicated in the table below shows that the degree of agreement ranged

from 1 to 5 by respondents in all criteria's of control activities except response in authorization limit.

From the table, it shows that was no employee strongly disagree about the authorization limit of the bank (Min 2 and Max 5). The highest mean (3.99) indicated on table 4.6 confirm that majority of respondents agree that the bank has authorization limits for approval of certain transactions. Subsequently mean of 3.68 indicated on the table also indicate that majority agree that accounts are reconciled on monthly basis.

Table 4.6. Control Activities

Questions	Response Rate	Level of Agreement					Total	Mean	Std. Devi.
		SD	D	N	A	SA			
11. The bank has authorization limits for approval of certain types and value of transactions to help prevent and detect the occurrences of fraud.	Frequency	0	18	12	106	47	183	3.99	0.848
	Percent	0	9.8	6.6	57.9	25.7	100.0		
12. Key duties and responsibilities are segregated among different employees to reduce the risk of error, waste, or fraud.	Frequency	2	109	18	33	21	183	2.79	1.115
	Percent	1.1	59.6	9.8	18.0	11.5	100.0		
13. The bank uses job rotation in every six month.	Frequency	89	60	17	13	4	183	1.81	1.015
	Percent	48.6	32.8	9.3	7.1	2.2	100.0		
14. Accounts are reconciled on monthly basis to detect errors and fraud	Frequency	8	15	25	114	21	183	3.68	0.936
	Percent	4.4	8.2	13.7	62.3	11.5	100.0		
15. The bank has standardized procedures for all operations properly applied by all branches.	Frequency	2	49	31	83	18	183	3.36	1.017
	Percent	1.1	26.8	16.9	45.4	9.8	100.0		

Source; Case Study, 2017

Additionally from the table an average (mean 3.36) agrees that the bank has standardized procedure for all operations and the procedure applied properly by branches.

The lowest mean 1.81 indicated that the bank not used job rotation. In this regard total of 81.4% disagreed and strongly disagreed while 18.6% undecided agree and disagreed on the matter. Another lower means 2.79 indicated that there are deficiencies in segregation of duties and responsibilities among employees.

4.1.3.5. Effectiveness of Monitoring

An ongoing monitoring of internal control is important to ensure whether operations performed according to standardized procedure and to take corrective action for such problems on time. The result and interpretation of the survey is presented as follows.

From the table it shows that there was no employee strongly disagree the evaluation of internal control (Min 2 and Max 5). The highest mean (3.91) indicated on table 4.7 confirm that majority of respondents agree that evaluation of internal control enables management to determine the effectiveness of internal control over fraud.

Table 4.7. Monitoring

Questions	Response Rate	Level of Agreement					Total	Mean	Std. Devi.
		SD	D	N	A	SA			
16. There is ongoing monitoring process	Frequency	8	34	72	54	15	183	3.19	0.977
	Percent	4.4	18.6	39.3	29.5	8.2	100.0		
17. Evaluation of internal control enables management to determine the effectiveness of internal control over fraud	Frequency	0	13	21	118	31	183	3.91	0.751
	Percent	0	7.1	11.5	64.5	16.9	100.0		
18. The internal auditor works independently	Frequency	8	31	23	102	19	183	3.51	1.032
	Percent	4.4	16.9	12.6	55.7	10.4	100.0		
19. The board and Management check whether deficiencies reported by internal auditor are corrected on a timely manner.	Frequency	22	99	30	18	14	183	2.47	1.073
	Percent	12.0	54.1	16.4	9.8	7.7	100.0		

Source; Case Study, 2017

Respondents relatively agree internal auditors work independently (mean 3.51) in percentile 66.1% strongly agree and agree, the remaining 12.6%, 16.9% and 4.4% undecided, disagree and strongly disagree respectively.

From the table it is also indicated that there is a doubt by the respondent's whether there is ongoing monitoring process (mean 3.19). Finally mean 2.47 implies that majority of respondents don't believe that board and management check whether the deficiencies corrected in time, about 66.1% either disagree or strongly disagree and the remaining 33.9% agreed, strongly agree and undecided.

4.1.4. Control Mechanisms/Techniques

Each control objective is met by one or more control mechanisms/techniques. These techniques are the way and means that management controls the operation.

Table 4.8. Control Mechanisms (Techniques)

Questions	Response Rate	Level of Agreement					Total	Mean	Std. Devi.
		SD	D	N	A	SA			
1. ATM Card, Cash, Cheque, spaceman signature card and other stocks are kept under safe custody and controlled dually	Frequency	5	29	10	113	26	183	3.69	0.992
	Percent	2.7	15.8	5.5	61.7	14.2	100.0		
2. Dormant accounts are separately followed by top management	Frequency	22	95	37	17	12	183	2.46	1.036
	Percent	12.0	51.9	20.2	9.3	6.6	100.0		
3. All branches have controlling mechanisms to detect fraudulent activities (e.g. systematic signature verification, UV light and different machines that detect forged cheque, foreign and local cash, checker maker structure and online audit)	Frequency	8	103	35	30	7	183	2.59	0.944
	Percent	4.4	56.3	19.1	16.4	3.8	100.0		
4. The bank has cameras in all branches and ATM stations	Frequency	54	78	25	22	4	183	2.15	1.046
	Percent	29.5	42.6	13.7	12.0	2.2	100.0		
5. Customer's information is updated in every six months and their photos upload in the system.	Frequency	56	80	17	26	4	183	2.14	1.073
	Percent	30.6	43.7	9.3	14.2	2.2	100.0		
6. The bank has automatic SMS alerts on all transaction to customer account	Frequency	6	15	13	103	46	183	3.92	0.971
	Percent	3.3	8.2	7.1	56.3	25.1	100.0		
7. The bank has 24 hours customer emergency calls centre response in case of fraudulent transactions in their account.	Frequency	19	104	27	26	7	183	2.44	0.987
	Percent	10.4	56.8	14.8	14.2	3.8	100.0		

Source; Case Study, 2017

Except two questions under control mechanism, almost all mean responses are less than 3. The highest mean (3.92) implies that majority of respondents believe that there is automatic SMS alert for transactions. The other results which have highest mean (3.69) indicate there is dual control in the bank and stocks are kept under safe custody.

The other results on control mechanisms represent deficiency in control effectiveness. Such as the lowest mean 2.14 implies that bank did not update customer information and all customer photos did not upload on the system. In percentiles 74.3% strongly disagreed or disagreed, 9.3% undecided, and only 16.4% agreed or strongly agreed. The other least mean (2.15) indicates most branches and ATM stations have no camera.

All branches use control mechanism to detect fraudulent activities. The mean response for this question is 2.59 which is 60.7% disagreed, 19.1% undecided, 16.4% agreed and 3.8% strongly agreed in control mechanisms. This implies that only 20.2% respondents agreed or strongly agreed that all branches have controlling mechanisms to control fraudulent activities.

The respondents are asked whether dormant accounts separately followed by the management, and the mean response 2.46 implied that 84.1% strongly disagreed, disagreed or undecided; while the remaining 15.9% of the respondents agreed or strongly agreed that dormant accounts are separately followed by managements.

Similarly for the question of bank has 24 hours customer emergency calls centre response in case of fraudulent transactions in their account, respondent responses mean is 2.44 it indicates that 82% strongly disagreed, disagreed or undecided; while the remaining 18% of the respondents agreed or strongly agreed.

4.1.5. Awareness

An ongoing awareness program is a key method to convey fraud risks, as well as an effective preventive control. Awareness of fraud is developed through periodic assessment, training, and frequent communication.

Table 4.9. Awareness

Questions	Response Rate	Level of Agreement					Total	Mean	Std. Devi.
		SD	D	N	A	SA			
1. All staffs are aware about anti-fraud policy and internal control procedure	Frequency	30	99	23	24	7	183	2.34	1.024
	Percent	16.4	54.1	12.6	13.1	3.8	100.0		
2. The bank gives ethics and fraud awareness training to employees related to their job once in a year by using actual fraud causes, showing forged cheque, foreign and local cash notes.	Frequency	30	109	19	17	8	183	2.26	0.986
	Percent	16.4	59.6	10.4	9.3	4.4	100.0		
3. The bank conducts induction on policies, procedures, manuals, ethics and fraud to new employees before they engaged in their duty.	Frequency	23	52	18	67	23	183	3.08	1.288
	Percent	12.6	28.4	9.8	36.6	12.6	100.0		

Source; Case Study, 2017

As summarized in above table the minimum response to each fraud awareness variable is 1 and the maximum is 5. The respondents relatively agreed that the bank conduct new employees about fraud and working policies and procedures. The survey result mean (3.08) indicates that 59% of respondents strongly disagreed, disagreed or undecided; the remaining 41% agreed or strongly agreed. This implies the degree of agreement varied among respondents with standard deviation of 1.288.

The lowest mean 2.26 and 2.34 which imply respondents don't believe staffs are aware about fraud policy and control procedure and fraud awareness training give to employees periodically by providing real cases happened in the bank.

4.2. Analysis

The objective of this study is examining fraud control practice in Dashen Bank, Addis Ababa Branches and identifies the areas of weaknesses. To answer these research questions the survey method were used. The descriptive statistics under the survey method were presented in the previous section. This section shows the survey result analysis part based on answering the research questions as follows.

4.2.1. Research Q1: Whether there is Anti-fraud policy and controlling mechanism to protect the bank from fraud?

a) *Anti-fraud policy*

The bank has Anti-fraud policy, the policy become effective at February 2015. The legal base of this policy is NBE fraud monitory directive no SBB/59/2014. The policy provides comprehensive guidance for preventive, detective and response of fraud related to the responsibility of board of director, management, employees and customers. It also describes, Prohibited Conduct and other irregularities, designing and implementing controls to prevent and detect potential fraud, and monitoring and evaluating to provide assurances to managers that they are effectively preventing, detecting, and responding to potential fraud.

It also indicated that suspected fraud issues must be reported immediately by providing the reporting channel, strength information technology securities. A Fraud response Plan ensures that incidents are handled in a systematic and efficient manner, not only to secure a successful investigation, but also to show that the organization acted in a practical and lawful manner. It also sends a message that the organization does not tolerate fraud.

There is also anti money laundry compliance policy and procedure. The policy is developed to investigate transactions that come from illegal and criminal sources. There is also a computer system that detects suspicious transactions that has large amount and transacted repeatedly.

Generally the policy is well constructed but it is not effectively communicated to employees and customers. In order to maintain more effective and efficient internal control system, the procedures manuals and policies available in the bank should be reviewed and conduct a continuous evaluation.

b) *Controlling mechanisms*

The bank uses different controlling mechanism/techniques to protect itself from different fraud risks. Based on the survey result (table 3.8) Dashen bank effectively apply two controlling mechanism that is ATM Card, Cash, Cheque, spaceman signature card and other stocks are kept under safe custody and controlled dually and the bank use automatic SMS alerts that announce the customer when there is any transaction made on their account (mean 3.69 and 3.92) respectively. However these were areas of deficiencies seen on the survey result is; dormant accounts are not separately followed by top management, controlling mechanisms to detect fraudulent activities such as: systematic signature verification, UV light and different machines that detect forged cheque, foreign and local cash, checker maker structure and online audit are not fully implemented in all branches, ATM stations and branches has no camera. The other deficiencies in controlling mechanism is there is lack of up to date customer information and all customers photo did not upload in the system, if customers have fraudulent cases related to their account there is no emergency call center in the bank that received their complain.

4.2.2. Research Q2: What types of bank fraud are experienced in Dashen Bank?

Based on the survey shown in table 4.2 major types of fraud that are identified in the bank include: Customer denial on cash withdrawal they made, Identity Theft, Forged cheque, foreign and local cash Fraud, ATM and Credit Card Fraud, Money Laundering, Accessing Dormant Account, Money Transfer Fraud, Loan and Letter of Credit Fraud, Preparing Falsify Thickets and Account Opening Fraud.

There are top three frauds, the first one is customer denial on cash withdrawal they made, this fraud committed by experienced and regular customer that have more information about the bank operation, they know customer basically identified by signature and they slightly

differ their signature in the withdrawal voucher and take the money. After days, they deny the withdrawal and they tell the bank their bankbook was stolen and ask the bank to investigate it and return the money. The investigation process is made based on the customer signature, if there is a difference the accountability pass to customer service agents that serve the person.

Second one is identity theft it is a fraud type, fraudsters get hold of a victim's personal information. They could obtain it from the person who has current or saving account and their friends, retrieving documents from the dumpster, stealing documents from office desks, and so on. The fraudster then uses this information to assume the victim's identity. Once the fraudster has the necessary documents then they present it to the bank to either open account and to withdraw money from the victim's account.

A fraud in the third position is Forged cheque, foreign and local cash Fraud, this type of fraud mostly committed by customer. They prepare the forged one by using different methods that help to imitating the original one. And they bring the forged combining with the original one it is difficult to easily differentiate from the original one manually without detecting machine.

The frequency of these types of fraud occurring in the bank is not so high, but their impact on the Bank is extremely high because the bank wills losses large sums of money through such fraudulent acts. According to respondent response the reason of fraud committed in the bank is Poor Ethics and Moral Standards, Lack of Online Auditing and Lack of Background check in Recruitment Process.

4.2.3. Research Q3: How effective is the controlling system of the bank?

According to COSO model, which has international recognition in respect to internal control, internal controls are effectively achieved based upon five basic components such as control environment, risk assessment, control activities, information and communication, and monitoring.

a) *Control environment*

The survey result indicated in Table 4.3 implies two areas of deficiencies in control environment with a mean less than 3. First, there is lack of management's commitment to ethics and integrity effectively communicated throughout the organization (mean 2.62), secondly there is weakness in HRM department in conducting background investigations about new employees and use reference in recruitment process (mean 2.27).

In general the control environment of the Bank cannot be sure as effective because of lack of management commitment in communication about ethics and integrity to employees and HRM does not background check the new employees in recruitment process that result in failure of an internal control to detect fraudulent activities.

b) *Risk assessment*

Risk assessment is responsibility of management. It is a process of identification, evaluation and management of risks. As presented on table 4.4 majority of respondent (mean 3.46) believe that management adequately considers risks relating to information systems like adequacy of backup systems. In an effective control activities there should be risk department that assessed risk areas in the organization and announce to employees, and assessed fraud risk factors that influence the bank. However there were area of deficiency that is; bank has risk and compliance department but the department did not sufficiently assess risk, measured and announce to employees and the bank did not assesses fraud risk factors that influence the possibility of someone committing a fraud, and the impact of a fraud on financial performance and the bank reputation (mean 2.61 and 2.58). Though the management and risk department is responsible to identify, evaluate and respond to risks, these risk assessment task were not doing in the bank.

c) *Information and communication*

Information and communication is essential for organization to provide necessary information for stakeholders, guide to operational process and help to have free communication across the organization. Result of the survey indicated that majority of the respondents response shows the bank communicates with the customers about fraud matter and to keep save their equipment like ATM and PIN numbers, Bankbook, cheques and ID. Table 4.5 also indicate problem areas: Management not encourages free and open communication regarding ethical behavior, suspected and confirmed fraud and necessary

information were not provided to the board, audit committee and workers in a timely manner (mean 2.38 and 2.50).

d) Control activities

“Control activities occur at all levels and functions of the organization. it include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation” (walker 1999). As presented on table 4.6 majority of respondents believed that the bank has authorization limits for approval of certain types and value of transactions to help prevent and detect the occurrences of fraud. Other favorable practice is that the Bank Accounts are reconciled on monthly basis to detect errors and fraud (mean 3.68) and the bank has standardized procedures and all branches properly applied it for the operation (mean 3.36).

In an effective control activities there should be job rotation and key duties and responsibilities are segregated. However these were areas of deficiencies seen on the survey result is; Key duties and responsibilities are not segregated among different employees to reduce the risk of error, waste, or fraud. The other problem is the bank does not use job rotation.

e) Monitoring

Jones (2008) refers monitoring is a process of evaluating overall organization operation and make sure the activities apply in accordance with policy and procedures. This refers monitoring will be ongoing bases and if there is a deficiency there should be take a corrective action. However the survey result (table 4.7) indicates that monitoring in the Bank is not well implemented on an ongoing basis (mean 3.19). The Bank board and management not check whether deficiencies reported by internal auditors are corrected on a timely manner (mean 2.47).

In general, with expected value for effective element of an internal control, statistically the elements is not practiced adequately and not to be judged as effective enough to make the internal control efficient and protect the bank from fraud .

4.2.3. Research Q4: What is the level of awareness of employees about fraud and its controlling mechanisms?

Government Accountability Office (GAO, 2001) contends that “management and employees should aware of their duties, responsibilities, reporting relationship, acceptable and unacceptable behavior to reduce the opportunity of risks for it to be occurs.” However the survey results (Table 4.9) particularly mean 2.34 and 2.26 imply that all staffs are not aware about anti-fraud policy and internal control procedure and training related to ethics and fraud by providing actual example did not given to employees. Respondent responses also varied highly that the bank conducts induction on policies, procedures, manuals, ethics and fraud to new employees before they engaged in their duty (mean 3.08). Generally the awareness and training practice related to fraud is weak in the bank.

The above results are also supported by some responses through open ended questionnaire that ask general idea of respondent about fraud and controlling mechanism in the bank. The responses of respondents shows their views that there is fraud risk in the bank but the rate is low, the controlling mechanism of the bank is not strong and not efficiently applied, management did not follow up the internal control system, the bank did not update its controlling mechanism and periodic revision of the information system, there is no sufficient training in ethics, moral and fraud awareness, there is no continuous risk assessment to minimize risks related to fraud.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

This section is the last chapter in this research and contains the conclusion of the research and the researcher forward the recommendation based on the result of the study.

5.1. Conclusions and summary of findings

The study aimed to assess fraud controlling practice in Dashen Bank, Addis Ababa Branches by identifying areas of deficiency. To achieve these objectives, a descriptive method is employed by using qualitative and quantitative data. The findings and areas of deficiencies in fraud control are summarized as follows.

- a) The bank has anti-fraud and anti-money laundry policy applied in the operation to prevent fraudulent activities.
- b) There are three major types of fraud experienced in the bank: customer denial on cash withdrawal they have made, identity theft and forged cheque, foreign and local cash fraud. The reasons for these frauds are poor ethics and moral standards, lack of online auditing and lack of background check in recruitment process.
- c) The control environment of the internal control system is inadequate with regard to effectiveness. Particularly HR departments do not sufficiently conduct background investigations about new employees and use reference. Top management does not adequately communicate about ethics and integrity throughout the organization.
- d) The bank has risk and compliance department but it did not assess risk, and it did not measure and announce to employees about fraud risk factors that influence the possibility of someone committing a fraud in the bank and the impact of fraud on financial performance and bank reputation not assessed.
- e) Information and communication is the weakest of the internal control system practice in the Bank. Necessary information is not adequately communicated to all

stakeholders on time and Management did not encourage free and open communication regarding ethics and fraud.

- f) The control activity of the Bank has also deficiencies. In this regard, the bank did not use job rotation and there is lack of segregation of duties and responsibilities among employees.
- g) Monitoring is believed to help in achievement of objectives; though in the Bank the monitoring was not on continuous basis. The monitoring was also not effective because the board and Management did not check deficiencies reported by internal auditor so that they can be corrected on a timely manner.
- h) The control mechanisms/techniques of the bank has also number of deficiencies such as lack of updated customer information and uploading customer photo in the system. Dormant accounts are not separately followed by management, most branches and ATM stations have no camera, the bank does not have emergency call center that works in 24 hours to respond to fraud in case it happens in customer accounts. All branches did not apply controlling mechanism like systematic signature verification, UV light and different machines that detect forged cheque, foreign and local cash and online audit.
- i) The training and awareness practice of the Bank related to fraud is very weak. Staffs are not aware about anti-fraud policy and internal control procedure, the bank did not give ethics and fraud awareness training to employees related to their job at least once in a year by using actual fraud causes. Moreover, new employees did not get sufficient induction on policies, procedures, manuals especially about ethics and fraud before they are engaged in their duty.

5.2. Recommendations

Internal control has a vital role to minimize the incidence of fraudulent activities and helps the organization to protect its money, staff and good reputations. This requires the improvement of effectiveness in internal control through continuous monitoring, make risk assessment, developing strong control methods and with good communication in the organization. Based on the findings stated above, the following are recommendations that need emphasis in order to improve the internal control system and prevent fraud risk in the Bank.

- a) The bank should apply strong controlling mechanism to reduce major frauds such as use upgrade UV light, forged instrument detection machines and check continuously whether the machines are working properly. In this regard internal control (auditor) should be assigned for branches which do not have them, and there is the need to install camera at all ATM stations and branches, update customer information every six month and all customer photo should be upload in the system.
- b) Management should control dormant accounts, develop a computer system that follows the dormant account transaction and report to the appropriate bodies and create emergency call center that receives customer compliance related to fraud case and take a corrective actions.
- c) The human power has a key role in effectiveness of internal control. The HR department should verify new employee's background, checking for criminal records and follow-up with references provided.
- d) Internal control is a responsibility of management, employees and other stakeholders. Hence management should be committed to ethics and integrity and communicated with employees and customers about ethics and fraudulent activities.
- e) The basic operation of fraud risk management program is to assess and identify fraudulent activities. The risk and compliance department should assess risk areas, the likelihood and consequences of fraud risk. It should suggest controls and the follow-up action and also acknowledge to employees about the facts.
- f) Communicating updated information about ethics and frauds helps to prevent fraudulent activities. Accordingly there should be free and open communication

within employees and managements, necessary information should be communicated to all stakeholders

- g) Periodic job rotations and a clear segregation of duty and responsibility could help minimize ongoing fraud in the Bank. Thus the Bank should apply job rotation every six months based on others bank experience, duties and responsibilities should be segregated among employees.
- h) The control system effectiveness should be monitored continuously. It should quickly respond to deficiencies and minimize the impact of fraud. Boards and managements should thus take a corrective action on a timely manner.
- i) Awareness of potential fraud schemes through training and education can serve a preventive purpose. Therefore, the bank should enhance the awareness of all employees about anti-fraud policy, and should give ethics and fraud awareness training by providing a real cases happen previously in the bank at least once a year. These training should be given to new employees and training should also be offered to other employees on issues related to their job.
- j) Finally controlling fraud is the responsibility of all employees, management of the bank and other stakeholders. Employees and management should cooperatively work to control fraud effectively. Boards and management are also responsible for evaluating control policies and procedure, develop strong controlling systems and effectively enhance the awareness of employees about anti-fraud and other controlling policies.

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APPENDICES
APPENDIX A: QUESTIONNAIRE

**QUESTIONNAIRE FOR EVALUATION OF FRAUD CONTROL PRACTICE: THE
CASE OF DASHEN BANK**

I am a post graduate student at S't Mary University and conducting a master's research entitled as 'assessment of Fraud Control Practices: the Case of Dashen Bank S.C, Addis Ababa branches'. This questionnaire is distributed among employees of Dashen Bank to enable the researcher collect relevant information regarding the research subject. I kindly request you to respond for the given questions based on the experience you have while working in this bank. Your responses to this questionnaire will be kept strictly confidential and will be used only for the academic purpose of this study.

Thank you in advance for your great assistance and cooperation!

Notice

- No need to write your name. and put a “√” mark in the boxes for your answers

Part I: Demographic Information

- Sex: Male Female
- Age category: 20 - 25 31 – 35 41 - 45
26 – 30 36 – 40 46 and Above
- Marital Status: Single Divorced Married Widowed
- Educational Attainment
High school certificate College Diploma Bachelor's Degree
Master's Degree Doctorate Degree Other (Please Specify) _
- The position that currently you are working in Dashen Bank:
Managerial Professional
Clerical Other (Please Specify) _____

Part II. Fraud related questions

- In your experience in Dashen Bank, how is the frequency of causes related to fraud?
Highly Moderate Low
- Have you come across fraud cases?
Yes No
- What type of fraud repeatedly committed in Dashen Bank? (Multiple response is possible)
Loan and Letter of credit related fraud Money Transfer Identity Theft
Forged cheque, foreign and local cash Accessing Dormant account
Money Laundering Account opening fraud ATM and Credit card fraud
Preparing falsify thickets Customer denial on cash withdrawal they made

4. By which parties is Fraud mostly committed in Dashen bank?
 Employees Customer Employees Integrated with customer
5. In which position do you believe the fraudsters are mostly found? (Multiple response is possible)
 Customer Service agents Management
 Cashier Supervisor/Accountant
6. How is Fraud recognized in the Bank?
 By accident Internal Audit by customer compliance
7. What are the reasons to commit fraud? (Multiple response is possible)
 Poor internal control Easy opportunities exist to commit fraud
 Lack of online auditing Lack of background check in recruitment process
 There are penalties but just not enforced Poor ethics and moral
 System inefficiency Encouraged by other colleague

Please give your responses for your causes by putting a tick mark (√) in the corresponding spaces under each number in front of each situation based on your agreement level. The numbers are decoded in the following manner. Strongly Agree 5 Agree 4 Not sure 3 Disagree 2 Strongly Disagree 1

Part II. Internal control effectiveness related to internal control components

Control environment	Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree
1. Top management's commitment to ethics and integrity is effectively communicated throughout the organization.					
2. The bank has organizational structure with clear reporting lines and authority					
3. Roles and responsibilities are clearly stated for all employees					
4. Human resources department conducts background investigations about new employees and use reference					
Risk Assessment					
5. There is risk and compliance department that assess risk, measured and announce to employees.					
6. Management adequately considers risks relating to information systems like adequacy of backup systems					
7. The bank assesses fraud risk factors that influence the possibility of someone committing a fraud, and the impact of a fraud on financial performance and the bank reputation					

Control environment	Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree
Information and communication					
8. Management encourages free and open communication regarding ethical behavior, suspected and confirmed fraud.					
9. Necessary information is provided to the board, audit committee and workers in a timely manner.					
10. The bank communicates with the customers about fraud matter and to keep save their equipment like ATM and PIN numbers, Bankbook, cheques, ID					
Control Activity					
11. The bank has authorization limits for approval of certain types and value of transactions to help prevent and detect the occurrences of fraud.					
12. Key duties and responsibilities are segregated among different employees to reduce the risk of error, waste, or fraud.					
13. The bank uses job rotation in every six month.					
14. Accounts are reconciled on monthly basis to detect errors and fraud					
15. The bank has standardized procedures for all operations properly applied by all branches.					
Monitoring					
16. There is ongoing monitoring process					
17. Evaluation of internal control enables management to determine the effectiveness of internal control over fraud					
18. The internal auditor works independently					
19. The board and Management check whether deficiencies reported by internal auditor are corrected on a timely manner.					

Part III. Questions on Control Mechanisms

Question Item	Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree
1. ATM Card, Cash, Cheque, spaceman signature card and other stocks are kept under safe custody and controlled dually					
2. Dormant accounts are separately followed by top management					
3. All branches have controlling mechanisms to detect fraudulent activities (e.g. systematic signature verification, UV light and different machines that detect forged cheque, foreign and local cash, checker maker structure and online audit)					
4. The bank has cameras in all branches and ATM stations					
5. Customer's information is updated in every six months and their photos upload in the system.					
6. The bank has automatic SMS alerts on all transaction to customer account					
7. The bank has 24 hours customer emergency calls centre response in case of fraudulent transactions in their account.					

Part IV. Employee's awareness about fraud control practices

Question Item	Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree
1. All staffs are aware about anti-fraud policy and internal control procedure					
2. The bank gives ethics and fraud awareness training to employees related to their job once in a year by using actual fraud causes, showing forged cheque, foreign and local cash notes.					
3. The bank conducts induction on policies, procedures, manuals, ethics and fraud to new employees before they engaged in their duty.					

Dear respondent, using the following space you can put your general idea about fraud and the controlling mechanisms applied by the bank _____

APPENDIX B: LIST OF SELECTED BANK BRANCHES

No	Branch Name	No	Branch Name
1.	Abakoran	15.	Sebategna
2.	Africa Andinet	16.	Tikur Anbessa
3.	Main	17.	Yerer
4.	Mexico	18.	Mebraht Hail
5.	Lideta	19.	Abakoran
6.	Balcha	20.	Megenagna
7.	Mesalemiya	21.	Bole
8.	Kera	22.	Tana
9.	Air Port	23.	Saris
10.	Lebu	24.	Golla
11.	Adewa Adebabay	25.	Piassa
12.	CMC	26.	Gurdshola
13.	Meskel Flower	27.	Lagar
14.	WuhaLimat		