



ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

**THE EFFECT OF INTERNAL CONTROL ON PREVENTING
AND DETECTING FRAUD IN BANKS: THE CASE OF ABAY
BANK S.C ADDIS ABABA BRANCHES**

BY:

ESKINDIR FIKRU

(SGS/0497/2013A)

JUNE, 2022

ADDIS ABABA, ETHIOPIA

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**A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY, SCHOOL OF
GRADUATE STUDIES IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTERS OF BUSINESS
ADMINISTRATION (MBA)**

**JUNE, 2022
ADDIS ABABA, ETHIOPIA**

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Habtamu Abebaw (Ph.D). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Eskindir Fikru

Signature _____ **June. 2022**

St. Mary's University, Addis Ababa

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ACKNOWLEDGEMENTS

I would like to thank God, for letting me through all the difficulties. I would like to acknowledge and give my warmest thanks to my advisor HabtamuAbebaw (Ph.D)who made this paper possible. His guidance and advice carried me through all the stages of writing my paper. I would also like to thank my examiners for their brilliant comments and suggestions, thanks to you.Finally,I would also like to give special thanks to my wifeand my family as a whole for their continuous support and understanding when undertaking my research and writing my project. Your prayer for me was what sustained me this far.

Table of Contents

ACKNOWLEDGEMENTS	I
LIST OF TABLES	V
LIST OF FIGURES	VI
LIST OF ACRONYMS/ABBREVIATIONS	VII
ABSTRACT	VIII
CHAPTER ONE	1
INTRODUCTION	1
1.1 BACKGROUND OF THE STUDY.....	1
1.2 STATEMENT OF THE PROBLEM	2
1.3 OBJECTIVE OF THE STUDY	3
1.3.1 GENERAL OBJECTIVE	3
1.3.2 SPECIFIC OBJECTIVES	3
1.4 RESEARCH QUESTIONS	4
1.5 RESEARCH HYPOTHESES.....	4
1.6 SCOPE OF THE STUDY	4
1.7 SIGNIFICANCE OF THE STUDY.....	5
1.8 LIMITATIONS OF THE STUDY	5
1.9 ORGANIZATION OF THE PAPER	5
1.10 OPERATIONAL DEFINITION OF KEY TERMS	6
CHAPTER TWO	7
LITRATURE REVIEW	7
2.1 THEORETICAL REVIEW	7
2.1.1 <i>Concepts of Internal Control</i>	7
2.1.2 <i>Objectives of the Internal Control</i>	8
2.1.3 <i>Components of Internal Control System</i>	9
2.1.4 <i>Functions of Internal Controls</i>	10
2.1.5 <i>Types of Internal control Activities</i>	11
2.1.6 <i>Limitations of Internal Control</i>	12
2.1.7 <i>Concepts of Fraud</i>	13
2.1.8 <i>Types of Fraud in Banks</i>	13
2.1.9 <i>Reasons for Fraud</i>	16
2.1.10 <i>Methods of Preventing Fraud</i>	17
2.2 REVIEW OF EMPIRICAL STUDIES	18
2.3 RESEARCH GAP ANALYSIS	20
2.4 CONCEPTUAL FRAMEWORK.....	20

CHAPTER THREE	21
RESEACH METHODOLOGY	21
2.1 RESEARCH APPROACH.....	21
2.2 RESEARCH DESIGN.....	21
2.3 TYPES AND SOURCES OF DATA.....	21
2.4 TARGET POPULATION OF THE STUDY.....	22
2.5 SAMPLE SIZE AND SAMPLING TECHNIQUE.....	22
2.6 DATA COLLECTION PROCEDURES.....	23
2.7 VALIDITY AND RELIABILITY TEST.....	23
2.7.1 <i>Reliability</i>	23
2.7.2 <i>Validity</i>	24
2.8 DATA ANALYSIS METHOD.....	25
2.9 MODEL SPECIFICATION.....	25
2.10 MEASUREMENT OF VARIABLES.....	25
2.11 ETHICAL CONSIDERATIONS.....	26
CHAPTER FOUR	27
PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS	27
4.1 RESPONSE RATE OF RESPONDENTS.....	27
4.2 DEMOGRAPHIC PROFILE OF RESPONDENTS:.....	28
4.2.1 <i>Gender Distribution of Respondents</i>	28
4.2.2 <i>Age Distribution of Respondents</i>	29
4.2.3 <i>Education Qualification of Respondents</i>	29
4.2.4 <i>Position Held by Respondents</i>	29
4.2.5 <i>Job Tenure of Respondents</i>	29
4.3 THE EXTENT OF THE EXISTING IC PRACTICES IN ABAY BANK.....	30
4.3.1 <i>Control Environment</i>	30
4.3.2 <i>Risk Assessment</i>	31
4.3.3 <i>Control Activities</i>	31
4.3.4 <i>Information and Communication</i>	32
4.3.5 <i>Monitoring Activities</i>	33
4.4 THE LEVEL OF FRAUD PREVENTION AND DETECTION IN AB.....	34
4.5 THE RELATIONSHIP BETWEEN INTERNAL CONTROL AND FRAUD PREVENTION AND DETECTION.....	34
4.5.1 <i>Correlation Analysis</i>	34
4.6 THE EFFECT OF IC ON FRAUD PREVENTION AND DETECTION IN AB.....	38
4.6.1 <i>Assumptions Tests</i>	38
4.6.2 <i>Regression Analysis and Hypothesis Testing</i>	40

4.7	CHALLENGES OF INTERNAL CONTROL	44
CHAPTER FIVE	.....	46
SUMMARY, CONCLUSION AND RECOMMENDATION	.....	46
5.1	SUMMARY OF MAJOR FINDINGS	46
5.2	CONCLUSION.....	47
5.3	RECOMMENDATION.....	48
5.4	SUGGESTION FOR FURTHER STUDY	49
REFERENCES	.....	50
APPENDICES	.....	57
APPENDIX I: QUESTIONNAIRE	.....	57

LIST OF TABLES

Table 3. 1: Internal Consistence Results of Composite Reliability	23
Table 3. 2: Content Validity for questionnaire.....	24
Table 4. 1: Response Rate.....	27
Table 4.2: Demographic Profile of Respondents	28
Table 4. 3: Control Environment in fraud prevention and detection	30
Table 4. 4: Risk Assessment in fraud prevention and detection	31
Table 4. 5: Control Activities in fraud prevention and detection.....	31
Table 4. 6: Information and Communication in fraud prevention and detection.....	32
Table 4. 7: Monitoring Activities in fraud prevention and detection.....	33
Table 4. 8: The level of fraud prevention and detection	34
Table 4. 9 : Pearson Correlation Matrix between IC components and Fraud Prevention and Detection...	35
Table 4. 10: Summary of Skewness and Kurtosis Statistic.....	38
Table 4.11: Multicollinearity of Determinant Factors	39
Table 4. 12: Model Summary	40
Table 4.13: ANOVA Result for Regression Model.....	41
Table 4.14: Multiple Regressions of Internal Control Elements on Fraud Prevention and Detection.....	41
Table 4.15: Challenges of Internal Control in Preventing and Detecting Fraud in AB	44

LIST OF FIGURES

<i>Figure 2. 1 : Fraud Triangle</i>	17
<i>Figure 2. 2: The Conceptual Framework of Internal Control in fraud prevention and detection</i>	20

LIST OF ACRONYMS/ABBREVIATIONS

AB	Abay Bank S.C
ACFE	Association of Certified Fraud Examiners
ATM	Automated Teller Machine
BOD	Board of Directors
CIMA	Chartered Institute of Management Accountants
CA	Control Activities
CE	Control Environment
COSO	Committee of Sponsoring Organizations of the Treadway Commission
FCIB	Federal crime investigation bureau
IIA	Institute of Internal Auditors
INTOSAI	International Standards of Supreme Audit Institutions
IPPF	International Professional Practice Framework
IC	Information and Communication
ICAEW	Institute of Chartered Accountants in England and Wales
ISA	International Standard on Auditing
MA	Monitoring Activities
NBE	National Bank of Ethiopia
RA	Risk Assessment

ABSTRACT

This study aims to determine the effect of internal control on fraud detection and prevention in Abay Bank. The factors tested in this study are internal control as an independent variable and fraud prevention and detection as dependent variables. The research method used in this research is descriptive and explanatory research methods. The type of data used in this study is primary data with data collection using a questionnaire instrument. The population in this study is both managerial and non-managerial employees of Addis Ababa city branches, with 273 respondents using random sampling technique. The analytical methods used in this study are both descriptive and inferential. Data processing using Statistical Package for Social Sciences (SPSS) Ver.26.0. The results of the study showed that internal control has a significant effect on fraud prevention and detection. The study revealed that all the five internal control components have positively and significantly affect the fraud prevention and detection practices in Abay Bank. There observed a positive relationship between the independent variables (the five components of internal control) and the dependent variable (fraud prevention and detection). This means an increase in one component of internal control system will bring an increment on fraud prevention and detection. Moreover, collusion between internal or internal and external parties, human judgment under pressure, system error, override by management and breakdowns imply the presence challenges in the proper implementation of internal control System in preventing and detecting fraud in AB. So as to make the control system brought the required fraud prevention and detection, the management of the bank should communicate the employees objectives of IC and what is expected of them, identifying and assessing risks of fraud occurring on an on-going basis, establish channels of communication to report suspected breach of laws and regulations and monitor the effective application of policies on an on-going basis. The level of fraud prevention and detection is must be enhanced by effectively utilizing vigorous fraud hotline so that both internal and external stakeholders of the bank reported actual and suspected fraudulent activities within the bank. Lastly, as no internal control system gives absolute assurance regarding fraud prevention and detection, challenges on proper implementation of internal control should be given important emphasis by management of the bank.

Key Words: Internal Control System, Fraud Prevention and Detection

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

According to Putra and Kansil (2020), banking is a business entity that collects funds from the public in the form of savings and distributes them to the public in the form of credit and or other forms in order to improve the standard of living of the people at large. Therefore, bank management must strive to maintain public trust in order to gain sympathy from potential customers as public trust is the main factor in the banking business (Sapariyah, Choerudin, Setyorini, & Khristiana, 2017). One of them is by obeying the rules and not making mistakes that can lead to irregularities and fraud. Fraud that occurs within the company, whether committed by the employees themselves, collusion by several employees, or by people outside the company will not only cause financial losses but will reduce the good name/reputation of the company. Fraud acts can be reduced through prevention or deterrence, detection, and investigation measures. (Reding et al., 2013).

Fraud is a global phenomenon and is a broad term that affects all sectors of economy. It is defined by National Bank of Ethiopia (2014), as “an act or omission by shareholders, directors, employees, customers committed with intention of gaining dishonest or unlawful advantage for the party committing fraud or for other parties”. 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”. According to Chartered Institute of Management Accountants (CIMA, 2008), though there is no single reason behind fraud, it is necessary to take account of motivation of potential offenders, conditions under which offenders can rationalise their prospective crimes away, opportunities to commit crime, perceived suitability, technical ability of the fraudster, expected and actual risk of discovery, expectations of consequences of discovery and actual consequences of discovery.

As Idowu et al (2013) stated, the cost of fraud to a business is difficult to estimate because not all fraud and abuse is discovered, not all uncovered fraud is reported, and civil or criminal action is not always pursued. According to internal report, Abay Bank S.C has lost a lot of money to fraudulent practices.

The necessity of an effective internal control system in the banking sector cannot be undermined as all activities of the economy rely heavily on the strength and stability of this sector (Gamage, Lock & Fernando, 2014). Internal control is a broad term with a wide coverage encompassing the whole management system that helps the business of the enterprise in an orderly and efficient way by developing an automatic check and balance overall the transaction. Existence of properly designed and consistently enforced internal controls are the foundation for safe and sound banking organization and it helps a bank's board of directors and management to safeguard the bank's resources, produces reliable financial reports, and complies with laws and regulations (Kumuthinidevi, 2016).

Internal controls should have the following as its integrated components: control environment, risk assessment, control activities, information and communication and monitoring activities (COSO, 2012). According to Ayodele et.al (2021), there are many studies which emphasises the necessity and importance of internal control system in the banking system. A deficient internal control system often causes an inability to detect fraudulent activities and a decrease in the performance of the bank.

Therefore, the main thrust of this study is to examine whether the internal control system in Abay Bank has an effect in fraud prevention and detection or not.

1.2 Statement of the Problem

Fraud is a complex global problem affecting organizations through loss of funds and can erode customers' confidence on the organizations and waste time to investigate it (Chelangat, 2014). Although banks make every effort to prevent and detect fraud, there are still criminals out there taking consumer money by circumventing all preventive measures (Olatunji, 2009)

According to an estimate report from the Association of Certified Fraud Examiners (ACFE, 2020), organisations are losing around 5 percent of their annual revenues to fraudulent activity and also lack of appropriate internal controls contributed to 1/3 of the perpetrated fraud.

Bank fraud in Ethiopia has increased and will continue to increase because it is a part of everyday life. According to Bob koig(2016), the Commercial Bank of Ethiopia has lost more than \$314,000 to a bank fraud perpetrated at its headquarters in December 2012 and in March

2016 \$852,000 was transferred from the Ethiopian Shipping Lines & Logistics Services Enterprise's (ESLSE) account at the Commercial Bank of Ethiopia to the account of a fake company. Moreover, data from NBE and FCIB states that fraudsters have stolen lost birr 326,343,280 from Ethiopian banks.

Over the years Abay Bank S.C has been losing a lot of money and resources to fraudulent practices. According to March 31, 2022 report, the bank has fraud outstanding balance of birr 33.4 million and birr 3.6 million provision kept for same. Embezzlement, cheating on withdrawal and forgeries are the main types of fraud prevailing in the bank (Internal Report, 2022)

According to Kalkidan (2017), reasons for frauds are; poor ethics and moral standards, lack of online auditing, lack of background check in recruitment process lack of risk assessment by risk and compliance department, existence of weak information and communication system, weakness in the controlling and monitoring activities also play a major role in the occurrence of fraud. Therefore, emphasis should be given to improving the internal controls so as to tackle frauds.

According to the review of the issues behind these losses, they could very certainly have been averted had the banks maintained efficient internal control system. In Ethiopia, little or no research on the influence of internal control on fraud prevention and detection in the banking industry has been conducted. Thus, this study examines the effect of internal control on fraud prevention and detection on AbayBank S.C.

1.3 Objective of the study

1.3.1 General objective

The general objective of the study is identifying the effect of internal controls on fraud detection and prevention at AbayBank.

1.3.2 Specific objectives

The specific objectives of the study were to:

1. To identify the extent of the existing internal control practices in AB in preventing and detecting fraud
2. To assess level of fraud prevention and detection in AB

3. To identify the relationship between IC and fraud prevention and detection in Abay Bank
4. To identify the effect of IC on fraud prevention and detection in Abay Bank
5. To identify the challenges to the effective implementation of internal control system in detecting and preventing fraud in AB.

1.4 Research Questions

This research tried to answer the following questions: “Does internal control has significant effect on fraud prevention and detection in Abay Bank S.C?”

1.5 Research Hypotheses

Based on the conceptual framework, we formed the following hypotheses:

H₁: Control environment has a significant effect on fraud prevention and detection in Abay Bank

H₂: Risk Assessment has a significant effect on fraud prevention and detection in Abay Bank

H₃: Control Activities has a significant effect on fraud prevention and detection in Abay Bank.

H₄: Information and communication has a significant effect on fraud prevention and detection in AbayBank.

H₅: Monitoring Activities has a significant effect on fraud prevention and detection in Abay Bank.

1.6 Scope of the study

Even though it is very important to cover all 332 branches of the bank across the country, due to the wide geographical dispersion of branches as well as time and money constraints, the study was conducted in Abay Bank S.C branches located in Addis Ababa. The total numbers of respondents of the research were employees in 102 branches located in Addis Ababa city. The study focused on respondents from both managerial and clerical staff. Due to time and resource limitation only questionnaires were used as data collection tool on the study. The study was undertaken in 2022. In this study the independent variable (Internal control system) was

examined in terms of the effect of the five components of internal control system which are Control Environment, Risk Assessment, and Control Activities, Information and communication and monitoring. The dependent variable (fraudulent prevention and detection) was examined in terms of the extent of the existing internal control practice, the level of fraud prevention and detection, the relationship between internal control and fraud prevention and detection, the challenges to effective implementation of internal control system in detecting and preventing fraud in Abay Bank.

1.7 Significance of the study

The result of this study helps the government through the NBE to formulate policies on fraud risk management and internal control systems. The study has a huge significance to the Board of Director (BOD) and management of Abay Bank to maintain an enhanced controlled environment. The research also helps operating personnel for effecting internal control for evaluating whether appropriate controls have been implemented and whether the internal controls are functioning as intended. Finally, for the academic world, the study increase body of knowledge to scholars and academicians on the selected topic. The study suggests areas for further research studies so that future scholars in the field of business can undertake new research issues.

1.8 Limitations of the study

The study mainly focused on Abay Bank Addis Ababa city branches. In spite of the fact that other operating units, like Head Office and district offices are existing, the researcher conducted his research on branches as it is the core process area of the bank. Moreover, as branches outside of Addis Ababa are sparsely located in different regional states of the country and far from Addis Ababa had not been incorporate in the study, as a result of time and resource constraints. The researcher has been conducted the study within the limitations mentioned achieved the objectives.

1.9 Organization of the paper

The study structured under five chapters. The first chapter concerned with introduction which in turn contains background of the study, statement of the problem, Research question, objectives of the study, Scope of the study, and so forth. Chapter two presents and elaborates theoretical literatures, empirical review, research gaps and conceptual framework. Whereas, chapter three

introduces the research methodologies to be applied. Chapter four presents the results and discussions of the study. And finally, chapter five presents the summary, conclusions and recommendations based on the study findings.

1.10 Operational definition of key terms

Monitoring: Monitoring can be regarded as the continue assessment of internal **Fraud:** Fraud is any act, expression, omission, or concealment calculated to deceive another to his or her disadvantage, specifically, a misrepresentation or concealment with reference to some fact material to a transaction that is made with knowledge of its falsity.

Internal control system: For the purposes of this study internal control system may be regarded as Control Environment, Risk Assessment, Information and Communication, Control Activities, and Monitoring put in place by the board of directors, management and other personnel to prevent and detected fraud.

Control Environment: control environment refers to the management attitudes toward control, integrity and ethical values, commitment to competence, management's philosophy and operational.

Control activities: Control activities refer to the policies, procedures and directives by the management of an entity to ensure achievement of organizational goals.

Risk assessment: Risk assessment is an on-going process of management's identification and analysis of relevant risk of fraud occurring and the risk to preparation of financial statements and achievement of organisation objective that are critical to internal control system.

Information and communication: Refer to the process of recognizing, capturing, analyzing classify, summary and communicating of relevant information timely and appropriately in order to achieve the financial reporting objectives.

CHAPTER TWO

LITRATURE REVIEW

This chapter explores the literature that constructs a theoretical framework regarding banking internal control and its effect on the prevention and detection of fraud provides a discussion focused on the research questions. The chapter commence by reviewing the theories relevant to the study. It then presents the empirical studies that discuss the link between internal control system, detection and prevention of fraud. Lastly, the chapters review the research gaps that the researcher identified and the conceptual frameworks also are presented in this chapter.

2.1 Theoretical Review

2.1.1 Concepts of Internal Control

It is the responsibility of management in every financial institution to put in place measures that insures effective internal control system. If a bank fails to put in place a proper policies and procedures, it may not be in a position to prevent or minimize the occurrence of fraud. Therefore, a bank must put in place an effective internal control system (AgyemangJ., 2020). DiNapoli (2016), emphasized that internal control is focused on the achievement of the organization's mission. Even though, existence of good internal control cannot guarantee organizational success, its presence will provide "reasonable assurance" that goals and objectives are met. However, if there exists poor internal control, goals and objectives are much less likely to be achieved.

According to DiNapoli (2016), the standards and guidelines on internal control have been published by different groups and organizations and they defined it in various ways. Each of those definitions has captured the basic concept of internal control using different words. Those definitions find common ground in recognizing the extensive scope of internal control, its connection to an organization's mission, and its dependence on the people in the organization.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued Internal Control – Integrated Framework 1992, which define 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 objectives relating to operations, reporting,

and compliance” (COSO, 1992). As per COSO’s (1992) definition, internal control is seen as: a system geared toward objective achievement; a continuous activity with no definite end; achieved by the various persons or parties involved and not solely policies, forms and documents; acknowledges that the implemented internal control cannot give absolute assurance that the business’s goals will be accomplished rather it provides reasonable assurance; and the system is flexible in application.

The ICAEW (1999) define internal control as: the policies, procedures, tasks, behaviors, and other aspects that facilitate the effective and efficient operations by enabling the company to respond appropriately to the different risks; ensuring the quality of both internal and external reporting; and ensuring adherence to applicable laws and regulations, and other internal laws of the company.

2.1.2 Objectives of the Internal Control

According to Basle (1998), internal control is not solely a procedure or policy that is performed at a certain point in time, but rather it is continually operating at all levels and effected by the board of directors, senior management and all levels of personnel within the bank. The responsibility of facilitating the establishing the appropriate culture to of internal control rests on board of directors and senior management; however, each individual within an organisation must participate in the process.

According to Basle, the main objectives of the internal control process can be:

- efficiency and effectiveness of activities (performance objectives);
- reliability, completeness and timeliness of financial and management information (information objectives); and
- compliance with applicable laws and regulations (compliance objectives).

2.1.3 Components of Internal Control System

COSO (1992) identifies that there are five interrelated components make up the internal control system: the control environment, the entity's risk assessment process, control activities (internal controls), information and communication, control activities, and the monitoring of controls.

1. Control Environment

The Control Environment also referred to as the internal environment of an organization is the most vital component of the internal control system that addresses the condition of the company, affecting the control consciousness of its people, Romney & Steinbart (2009, as cited on Agyapong, 2017). The vital constituents of an effective control environment include: the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, organizes and develops its people; and the attention and direction provided by the board of directors (COSO, 2012).

2. Risk Assessment

In order to minimize errors and irregularities management assesses risks as part of designing and operating internal control system and risk assessment should be done for all components of internal control elements, from control environment to monitoring (Hayes et.al, 2005). Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Mechanisms should be placed to identify and deal with risk since economic, industry, regulatory and operating conditions will continue to change (COSO, 1992).

3. Control Activities

Control Activities are policies and procedures established and executed to ensure that actions identified by management are necessary to mitigate risks. More specifically, control activities are the policies and procedures that help ensure that the management directives are carried properly and in a timely manner. Necessary actions are taken to manage, reduce and to address risks towards the achievement of the entity's objectives (COSO, 1992)

4. Information and Communication

Information is a compulsory for the organization to perform internal control responsibilities so that it supports the achievement of its objectives. Internal and external communication provides the organization with the information necessary to perform its day-to-day internal control activities (COSO, 2012). Agyapong (2017) stated that Information and Communication component are systems or processes that identify, capture, and exchange information in a form that enables people carry out their day-to-day responsibilities. The control structure of a company should be such that enable it to assure that information can be identified, captured, and exchanged within the company and with external parties. And the information communicated should be timely, accurate and reliable so that it achieves its intended purpose.

5. Monitoring

Whittington &Pany, (2009, as cited on Agyapong ,2017) monitoring of internal controls assess the quality of internal control performance over time and is necessary to monitor whether the functioning of internal control as expected or not and whether changes are needed to improve its functioning. Organization can achieve internal control monitoring through ongoing activities such as conducting regular supervision.

2.1.4 Functions of Internal Controls

Different writers have come out with different types of Internal and the most commonly known are grouped into preventive, detective and corrective control. These types of internal controls are explained below.

1. Preventive Controls

These are controls designed to deter the occurrence of an undesirable event. The development of these controls involves anticipating potential problems before they occur and implementing ways to avoid them (DiNapoli, 2016).

2. Detective Controls

These are controls which are aimed at detecting and uncovering problems such as fraud, irregularities and errors after they have been committed. Although, detection is necessary

prevention is more desirable. These controls are in the form of post-audits, exception reports and validation. They provide evidence that a loss has occurred but do not prevent a loss from occurring. Examples of detective controls are reviews, analyses, variance analyses, reconciliation, physical inventories and audits. However, detective controls play critical role in providing evidence that the preventive controls are functioning and preventing losses (Wells A., 2006).

3. Corrective Controls

The corrective controls are put in place to address anything which is foreign and every problem that has occurred in the system. Examples of corrective control are system redesign, follow-ups, post audits and application of punishments by management for wrong doing (Simmos, 1995).

2.1.5 Types of Internal control Activities

According to Hayes, (2005) Control activities (sometimes called “control procedures”) are policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to the achievement of the entity’s objectives for operations, financial reporting, or compliance.

The categories of control activities given in ISA 315 and Basle (1998) are:

- **Top level reviews** – Presentation of periodic performance report to the Boards of directors and senior management enable them to review the bank’s progress toward its goals and detect problems such as control weaknesses, errors in financial reporting or fraudulent activities.
- **Activity controls** – Management at department or division level receives and reviews standard performance and exception reports on a daily, weekly or monthly basis. Whereas functional reviews occur more frequently than top-level reviews and usually are more detailed..
- **Physical controls** - Physical controls generally focus on restricting access to tangible assets, including cash and securities, physical limitations, dual custody, and periodic inventories.

- **Compliance with exposure limits** – it is the establishment of prudent limits on risk exposures is an important aspect of risk management.
- **Approvals and authorisations**- Requiring approval and authorization for transactions over certain limits ensure that an appropriate level of management is aware of the transaction or situation, and helps to establish accountability.
- **Verifications and reconciliations** - Verifications of transaction details and activities and the output of risk management models used by the bank are important control activities. Periodic reconciliations, such as those comparing cash flows to account records and statements, may identify activities and records that need correction.
- **Segregation of duties**. Assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets and it is intended to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of the person's duties.

2.1.6 Limitations of Internal Control

No matter how well conceived and operated, an effective internal control system can provide only reasonable – not absolute – assurance to management about the achievement of an entity's objectives or its survival.

INTOSAI (2004), ISA 315, and COSO describes factors (amongst others) that will limit the effectiveness internal control as:

- The effectiveness of the internal control system depends on the competency and dependability of the people using it. The human factor plays a role in design, mistakes and errors of judgment/interpretation, collusion or abuse of internal control, and therefore errors are more likely to occur;
- Challenges in the work flow may result in the breakdown of internal control;
- Employees in pressurised environments may circumvent normal work processes, thereby compromising internal control and
- In most instances, management can easily override internal control procedures

2.1.7 Concepts of Fraud

Fraud is an irregularities and illegal acts which are done intentionally for certain purposes such as deceive or providing a misleading image to other parties. It is designed to takeun honest advantage over others, which directly or indirectly harm other parties. Albrecht et al. (2009), states that though most people and even most researchers believe that fraud is increasing both in size and frequency, it is difficult to get statistics about how much fraud is occurring, what percentage of fraud perpetrators are caught, whether all frauds eventually discovered. However, all signs indicate that fraud is increasing both in frequency and amount.

Although there are many formal definitions of fraud, probably the most common are the following:

National Bank of Ethiopia (2014), defines fraud as “an act or omission by shareholders, directors, employees, customers committed with intention of gaining dishonest or unlawful advantage for the party committing fraud or for other parties”. Whereas, the Institute of Internal Auditors’ (IIA’s) IPPF (2009), defines fraud as “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”.

It is evidence from various definitions given by different institutions and different authors that the word fraud is universal. They share the same view that fraud an unlawful behaviour which the management, employees and stakeholders of an organization use deliberately dishonesty methods for profit gain.

From the above definitions one can reach to a conclusion that fraud is an act of deceitful for a personal gain and it is committed by the management, employees and third parties.

2.1.8 Types of Fraud in Banks

Ovuakporie (2004, as cited on Oraka et.al, 2016), identify that fraud is perpetrated in many forms and guises, and usually have insiders (staff) and outsiders conniving together to

successfully implement the act. The following, though not completely exhaustive, are the most common types of bank frauds;

1. Theft and Embezzlement

This is a form of fraud which involves the unlawful collection of monetary items such as cash, traveler's cheque and foreign currencies. It could also involve the deceitful collection of bank assets such as motor vehicles, computers, stationeries, equipment, and different types of electronics owned by the bank.

2. Defalcation

This involves the embezzlement of money that is held in trust by bankers on behalf of their customers. Defalcation of customers deposits either by conversion or fraudulent alteration of deposit vouchers by either the bank teller or customer is a common form of bank fraud. Other forms of defalcation involves colluding with a customer's agent when he/she pays into the customer's account and when tellers steal some notes from the money which are billed to be paid to unsuspecting customers/clients.

3. Forgeries

Forgeries involve the fraudulent copying and use of customer's signature to draw huge amounts of money from the customer's account without prior consent of the customer. Such forgeries may be targeted at savings accounts, deposit accounts, current accounts or transfer instruments such as drafts. Experience has shown that most of such forgeries are perpetrated by internal staff or by outsiders who act in collusion with employees of the bank who usually are the ones who release the specimen signatures being forged (Oraka et.al, 2016).

4. Unofficial Borrowing

In some instances, bank employees borrow from the vaults and teller tills informally. Such unofficial borrowings are done in exchange of the staff post-dated cheque or even nothing.

5. Foreign Exchange Malpractices

This involves the falsification of foreign exchange documents and diversion of foreign exchange that has been officially allocated to the bank, to meet customer's needs and demand, to the black market using some 'ghost customers' as fronts.

6. Impersonation

Impersonation involves assuming the role of another person with the intent of deceitfully committing fraud. Impersonation by third parties to fraudulently obtain new cheque books which are consequently utilized to commit fraud is another popular dimension of bank fraud. Cases of impersonation have been known to be particularly successful when done with conniving bank employees, who can readily make available, the specimen signatures and passport photograph of the unsuspecting customers (Oraka et.al, 2016).

7. Manipulation of Vouchers

This type of fraud involves the substitution or conversion of entries of one account to another account being used to commit the fraud. This account would naturally be a fictitious account into which the funds of unsuspecting clients of the banks are transferred. The amounts taken are usually in small sums so that it will not easily be noticed by top management or other unsuspecting staff of the bank. Manipulation of vouchers can thrive in a banking system saddled with inadequate checks and balances such as poor job segregation and lack of detailed daily examination of vouchers and all bank records (Ravisankar, et al 2016).

8. Falsification of Status Report

A common type of fraud is falsification of status report and/or doctoring of status report. This is usually done with the intent of giving undeserved recommendation and opinion to unsuspecting clients who deal with the bank customers. Some clients for example will only award contracts to a bank customer if he/she provides evidence that he/she can do the work and that they are on a sound footing financially. Such a fraudulent customer connives with the bank staff to beef up the account all with the aim of portraying himself not only as being capable but also as a persons who will not abscond once the proceeds of the contracts has been paid. The inflation of statistical data of a customer's account performance to give deceptive impression to unsuspecting third

parties (which is very common in Nigeria), for whatever reasons, is a fraudulent behaviour (Ovuakporie, 2004).

9. Money Laundering

This involves the deceitful act of legitimizing money obtained from criminal activity by saving them in the bank for the criminals or helping them transfer it to foreign banks, or investing it in legitimate businesses (Oraka, et.al, 2016).

10. Fake Payments

It involves the teller introducing a spurious cheque into his/her cage. It is done with or without the collaboration of other members of staff or bank customers. This type of fraud is however easy to detect if the bank has a policy of thoroughly examining all vouchers, checks, and withdrawal slips and payments on a daily basis (Oraka, et.al, 2016).

11. Computer Frauds

This involves the fraudulent manipulation of the bank's computer either at the data collection stage, the input processing stage or even the data dissemination stage. Computer frauds could also occur due to improper input system, virus, program manipulations, transaction manipulations and cyber thefts. In this epoch of massive utilization of ATMs and online real time e-banking and commerce; computer frauds arising from cyber thefts and crimes has assumed a very threatening dimension.

2.1.9 Reasons for Fraud

According to CIMA (2008), there is no single reason behind fraud and any explanation of it needs to take account of various factors. Looking from the fraudster's perspective, it is necessary to take account of:

- motivation of potential offenders
- conditions under which people can rationalise their prospective crimes away
- opportunities to commit crime(s)
- perceived suitability of targets for fraud

- technical ability of the fraudster
- expected and actual risk of discovery after the fraud has been carried out
- expectations of consequences of discovery (including non-penal consequences such as job loss and family stigma, proceeds of crime confiscation, and traditional criminal sanctions)
- actual consequences of discovery.

A common model that brings together a number of these aspects is the Fraud Triangle. This model is built on the premise that fraud is likely to result from a combination of three factors: Perceived Pressure/motivation, opportunity and rationalisation (IIA's IPPF, 2009, CIMA, 2009 Alberecht et.al, 2009).

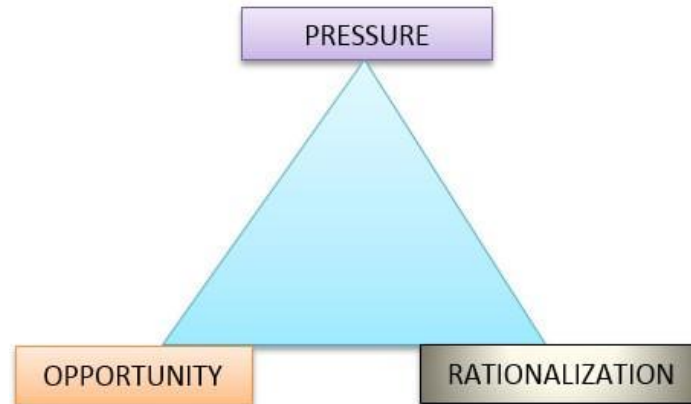


Figure 2.1 : Fraud Triangle

Source: Wells J.T.(2005)

- **Perceived Pressure/Motivation-** the need the fraudster is trying to satisfy by committing the fraud
- **Perceived Opportunity-** the fraudster's ability to commit the fraud.
- **Rationalization-** the fraudster's ability to justify the fraud in his or her mind.

2.1.10 Methods of Preventing Fraud

Fraud prevention eliminates opportunities to commit fraud by developing and implementing risk management (especially fraud risk management), internal control and honest corporate

governance (Priantara, 2013). According to Priantara (2013) states that fraud that may occur must be prevented, among others, by the following methods:

- **Build a good internal control structure.** The more a company develops, the task of management to control the company's operations becomes increasingly heavy. So that the goals set by top management can be achieved, the security of company assets is guaranteed, so that the management needs to establish a good as well as effective internal control structure to prevent fraud can be carried out efficiently and effectively.
- **Making the control activities effective.** Making effective control activities can be done by reviewing employee performance, processing information to become information that has accuracy and completeness, physical control of assets by adequate safeguarding facilities that are protected from access to assets, and segregation of duties is useful to give responsibilities to people different in order to avoid double duty and authority.
- **Improve organizational culture.** Improving organizational culture is done by implementing the principles of the GCG (Good Corporate Governance) principle that are interrelated to encourage the organization resources' performance to work efficiently
- **Making the internal audit function effective.** Although the internal auditor cannot guarantee that fraud will not occur, he must use the proficiency of his position carefully so that fraud detection is expected and be able to provide useful suggestions to management to prevent fraud.

2.2 Review of Empirical Studies

Wubalem (2021) sought to investigate effectiveness of internal control on fraud prevention with focus on selected commercial banks in Ethiopia. The study was guided by the following specific objectives, that is, effectiveness of internal control measures on fraud detection and prevention, effectiveness of preventive measures on fraud mitigation, causes of fraud in Ethiopian banking industry and challenges to implementing effective internal control system to detect and prevent fraud. The target population of this study was 9 (nine) commercial banks in Kenya. The study adopted simple random sampling with the sample been drawn from the senior internal control

department staffs. The study used primary data. Both qualitative and quantitative analysis was carried out.

The study concluded that, fraud has been committed by integration of employee with customer of the banks. The study also concluded that fraud protection systems were not updated on a timely basis, in different private banking sector despite the fact that fraudulent transactions are becoming more complex and focused on technological innovation. Based on the result of the study, though, the components of the internal control system (Control environment, risk assessment, control activities, information and communication and monitoring activities) are effective in addressing or alleviating and preventing the frequent occurrence of fraud in different private banks of Ethiopia, still in some aspects of the control system it needs re arrangement and implementing a clear polices to minimize the effects of fraud on financial growth of the private banking sectors.

Kalkidan (2017), assessed fraud control practice with focus on selected branches Dashen Bank S.C. The study was guided by the following specific objectives, that is, identify the existence of anti-fraud policy and controlling mechanism to protect the bank from fraud, the types of fraud experienced in the Dashen Bank, assess the effectiveness of the controlling system of the Bank, to evaluate the awareness of employees about fraud and its controlling mechanisms. The target population of this study was 9 (nine) commercial banks in Kenya. The study adopted simple random sampling with the sample been drawn from the senior internal control department staffs. The study used primary data. Both qualitative and quantitative analysis was carried out. The study concluded that, the control control system components are inadequate with regard to effectiveness.

Hussaini et.al (2021) revealed that there is a significant positive effect of information and communication on fraud prevention and detection in deposit money banks in Nigeria. In addition, it also revealed that quality of information, effectiveness of communication, fraud investigation, and monitoring and fraud disclosure were the effective information and communication on fraud prevention and detection in Deposit money banks in Nigeria.

2.3 Research Gap Analysis

Most of the literature reviewed will be adopted from countries whose strategic approach and financial footing differs from the Ethiopian perspective. For example; Hussaini et.al (2021) did a study in Nigerian banking sector, Ayodele (2021) did a study on Nigerian Banking sector, Kashona (2019) did a study on Namibian banking sector, Nyakarimiet.al (2020) did a study on Kenyan banking industry and Samuel et.al (2021) did a study on Kenyan banks.

Thus, the researcher believes that there is a research gap on the subject matter in the Ethiopian banking sector. Therefore, this study sought to fill this gap by establishing the effect of internal control system (control environment, risk assessment, control activities,

2.4 Conceptual Framework

The purpose of the framework is to show the relationship between prevention and detection of fraud in AB in by implementing effective internal control components (Control environment, risk assessment, control activities, information and communication and Monitoring activities).

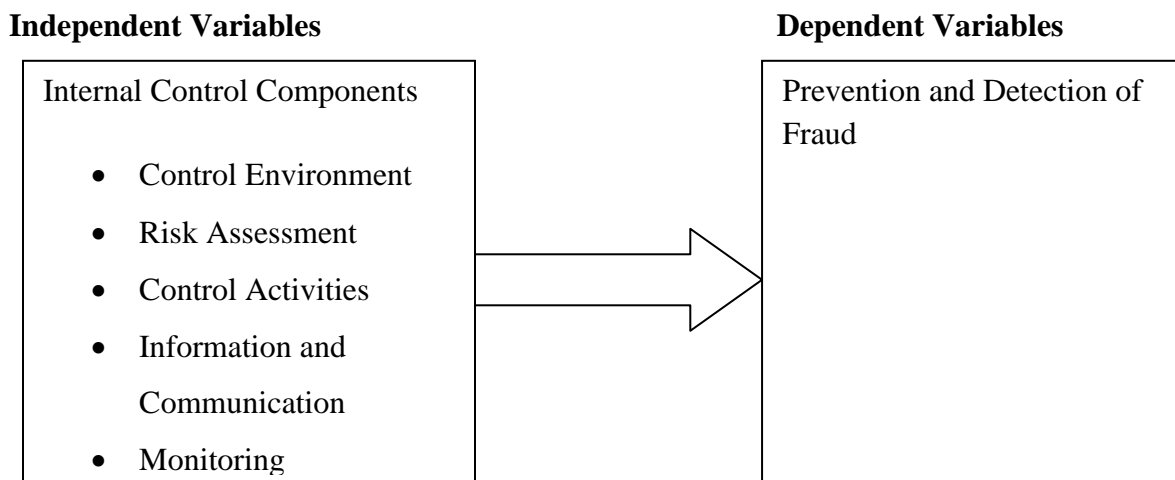


Figure 2.2: *The Conceptual Framework of Internal Control in fraud prevention and detection*

CHAPTER THREE

RESEACH METHODOLOGY

This chapter discusses the methods that will be used in the collection and analysis of data to the basic questions of the study. It explains the research approach, types and sources of data, sampling techniques and data collection methods used; and describe how data collected from the research has been analyzed.

2.1 Research Approach

According to Cresswell J. (2014), research approaches are plans and procedures for research that spend the step from broad assumptions to detailed methods of data collection, analysis and interpretation. This study used quantitative approaches only as this approach is useful for testing objective theories by examining the relationship among variables. These variables, in turn, can be measured, typically on instruments, so that numbered data can be analyzed using statistical procedures.

2.2 Research Design

The research design is a framework specifying the study's variables and it starts with a plan for selecting the sources and types of information used to answer the research question (Saunders et.al, 2009). The research designs employed are both explanatory and descriptive study design. Explanatory study designs are important in answering the "how" questions. Such designs seek to explain how one variable affects another. Explanatory study design was utilized because the study needs to establish the effect of internal control system on the detection and prevention of fraud in Abay Bank. Whereas, descriptive study design was utilized to describe the characteristics of respondents, ICS, and fraud prevention and detection in AB.

2.3 Types and Sources of Data

The study used primary data. These are data collected specifically for the purpose of the research work or could be described as those data that were observed and recorded for the first time. The research used primary data obtained by undertaking self-administered questionnaire to branch staffs. The research obtained primary data by undertaking self-administered questionnaire to selected branch staffs.

The questionnaire employed for this study was mostly closed ended where answer was provided for the respondent from which they were required to tick the appropriate one (s).

2.4 Target Population of the Study

According to Mugenda and Mugenda (2003), a population is a complete set of individuals, cases or objects with some common observable characteristics. The target population of the study was 860 employees of 102 Addis Ababa city branches. The population was obtained from Human Capital Management Department as at 28th February 2022. Of the 860 employees, 116 are managerial and the rest 744 are clerical employees.

2.5 Sample Size and Sampling Technique

The sample that is used for this study constitutes managerial and non-managerial (clerical) employees that are working at Addis Ababa branches. Simple random sampling was used to select the respondents at 102 Addis Ababa city branches. Simple random sampling was used to select the managerial level and other employees. This was to ensure that employees at all level are well represented in the study and all of them were given equal chance of being selected to participate in the study as respondents.

Accordingly, using Yamane T.(1967) sample size determining formula at 95% confidence level, degree of variability=0.5 and level of precision/sampling error $\pm 5\%$, 273 respondents from 102 branches were administered through questionnaire to undertake this research the researcher will select Addis Ababa city branches bases of their length of service and number of customer they serve using to select respondents for the questionnaire.

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n= Sample size = 273

N= Population size = 860

e= Acceptable sampling error = 0.05

2.6 Data collection procedures

The researcher randomly selected managerial and non-managerial staffs working at selected branches and distributed the structured questionnaire for those staffs. Employees were randomly selected from city branches. For the purpose of this research study self-administered instruments was designed. Pre-testing of the questionnaire was conducted to get accurate and relevant information in advance from the participant of the research.

2.7 Validity and Reliability Test

2.7.1 Reliability

To ensure reliability of instruments, the measurement variables were taken from other associated researches and modified to suit the purpose of the study the survey was conducted as follows: i) a pilot survey was conducted to ensure the reliability of the questionnaire. Accordingly, the researcher distributed ten (10) copies of the questionnaire to AB staffs who are not part of the sample; ii) the reliability of the instrument was tested using Cronbach's Alpha (α) test, where values 0.9 or higher indicate excellent reliability, values starting from 0.8 to .89 indicate good reliability, values starting from 0.7 to .79 indicate acceptable reliability, values starting from 0.6 to .69 indicate questionable reliability, values starting from 0.5 to .59 indicate poor reliability, George and Mallery (2010). With the aid of SPSS 26, CronbachAlpha (α) test was conducted on all the constructs with multiple items to see if the benchmark of 0.70 was adhered to. The table below displayed the result:

Table 3.1: Internal Consistency Results of Composite Reliability

Construct	No of Items	Cronbach Alpha (α)	Internal Reliability
Control Environment	5	0.808	Good
Risk Assessment	5	0.756	Acceptable
Control Activities	5	0.749	Acceptable
Information and Communication	5	0.883	Good
Monitoring Activities	5	0.754	Acceptable
Detection and Prevention of fraud	5	0.745	Acceptable

Source: Computation from survey data (2022)

Table 3.1 shows that all the Cronbach's Alpha (α) values exceeded the recommended value of 0.70 indicating an acceptable internal consistency. Thus, the items on each construct of the study were reliable.

2.7.2 Validity

Whereas validity refers to the degree to which a data collection instrument measures what it is expected to measure. The test instrument used in this study was questionnaire. A questionnaire is said to be valid if it collects the information the researcher intends to obtain from the respondents. To ensure the validity of the survey instrument, it was pilot tested before use in actual data collection. The survey instrument was pilot tested and the results used in removing ambiguities, refining, and improving the data collection instruments in order to increase the level of instrument validity.

Copies of questionnaire were given to two experts to judge the validity of the questions according to the objectives. After the assessment of the questionnaires, necessary adjustments were made bearing in mind the objectives of the study. A content validity index (CVI) was computed using the following formula,

$$CVI = \text{No of questions declared valid} / \text{Total no of questions in the questionnaire}$$

Table 3.2: Content Validity for questionnaire

Construct	Expert 1	Expert 2	Average
Control Environment	0.8	1.0	0.9
Risk Assessment	0.8	0.8	0.8
Control Activities	1.0	0.8	0.9
Information and Communication	1.0	1.0	1.00
Monitoring	0.8	0.8	0.8
Detection and Prevention of Fraud	0.8	1.0	0.9
Average	.86	0.9	.88

Source: Computation from survey data (2022)

From table 3.7.1 CVI 0.85 which is greater than 0.70 the research instrument is considered Valid

2.8 Data Analysis Method

The researcher used both descriptive and inferential statistics method to analyze the data collected through questionnaire. The particular descriptive statistics were mean scores, frequencies and standard deviations. Whereas, the particular inferential statistics were regression analysis. The researcher used SPSS version 26 software to analyze the questionnaires and describe the result.

2.9 Model Specification

This study applied a multiple regression model to establish the relationship between the dependent variable (detection and prevention of fraud) and the independent variables (components of internal control). The model took the following format:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Where Y – dependent variable (level of fraud prevention and detection)

X_1 – control environment

X_2 – risk assessment

X_3 – control activities

X_4 – monitoring activities

X_5 – information and communication

β_0 = the intercept term- constant which would be equal to the mean if all slope coefficients are 0.

$\beta_1, \beta_2, \beta_3, \beta_4,$ and β_5 are the coefficients associated with each independent variable which measures the change in the mean value of Y, per unit change in their respective independent variables.

ε – is the error term which is assumed to be normally distributed with mean zero and constant variance

2.10 Measurement of Variables

The independent variables of this study are components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring activities) and the dependent variable is the detection and prevention of fraud

2.11 Ethical considerations

To ensure confidentiality of the information provided by the respondents and to ascertain the ethical coded and practice in this study, the researcher implemented the following activities:

The researcher tried to avoid personality identification questions of the respondents rather the respondents were coded and presented in a generalized manner.

The researcher duly and appropriately informed the respondents of the purpose of the study, why and how they were chosen to participate in the study and assured them of their confidentiality in their responses which are unanimous.

Authors quoted and cited are duly acknowledged in this study through referencing. Findings from this study were presented in a generalized manner.

Honesty was maintained in the course the study by ensuring that data collected, presented, analyzed and interpreted were strictly based on the findings

In the course of data management, quantitative results were reported in aggregated form using such measures as percentage, means, correlations and regression coefficients.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

This chapter discusses the results and analysis of the survey that was conducted. The main aim of the survey was to collect data that would give a wider picture of the effect of internal control in fraud prevention and detection in AB. The data was analyzed and presented in the form of frequencies, percentages, and tables and charts. Data was collected from managerial and clerical staffs. The questions were focused in five areas, including background of the respondent, types and causes of fraud, effectiveness of internal control components in fraud prevention and detection, employee awareness with regard to effectiveness of the bank in detecting and preventing fraud and finally challenges or limitations of internal control in fraud prevention and detection.

All tables as well as graphs in the analysis were generated from survey data using the statistical package SPSS 26 after being coded.

4.1 Response Rate of Respondents

Table 4.1: Response Rate

Questionnaire	Frequency	Percentage
Returned	209	76.56
Not Returned	64	23.44
Total	273	100

Source: Computation from survey data (2022)

As the above table shows out of 273 copies of questionnaire administered to various branch staffs of Addis Ababa city branches, 209 copies of questionnaire were fully filled and returned which represent 76.56% while the remaining 64 copies of questionnaire which represent 23.44% were not returned to the researcher. According to Mugenda and Mugenda, (2003), this response rate was excellent as it represents and conforms a response rate of 50% is adequate for analysis; a response rate of 60% is good and a response rate of 70% and over is excellent.

4.2 Demographic Profile of Respondents:

Table 4.2:Demographic Profile of Respondents

Profile	Category	Frequency	Percent
Gender	Male	142	67.9
	Female	67	32.10
Age	25 and below	54	25.8
	26-35 years	135	64.6
	36-45 years	20	9.6
Educational Background	Diploma	1	0.5
	1 st Degree	169	80.9
	2 nd Degree	39	18.6
Job position	Manager	36	17.2
	Assistant Manager	8	3.8
	Accountant	22	10.5
	Auditor	49	23.4
	Credit Officer	13	6.2
	Cashier	7	3.3
	CSO	74	35.4
Job tenure (experience)	1-3 years	77	36.8
	4-6 years	82	39.2
	7-9 years	49	23.4
	10 years and above	1	0.5

Source: Computation from survey data (2022)

4.2.1 Gender Distribution of Respondents

Regarding the gender distribution of the employees of the selected Addis Ababa city branches included in the study, more than half of the respondents, 67%(140out of 209) were males and the remaining proportion,33 % (69 out of 209) representing females respondents. This may imply that male respondents were slightly more willing to respond to the questionnaire than female respondents.

4.2.2 Age Distribution of Respondents

Concerning the age distribution of the respondents of the bank, more than half of the respondent, 64.6% (135 out of 209) were within the age group of 26-35 years, 25.8% (54 out of 209) of the respondents were within the age group of 25 and below years and 9.6% (20 out of 209) of the total valid respondents were within the age group of 36-45 years. No respondent was found to be 46 and above years. This implied that most of the respondents in the study are adult and energetic, within the active labour age.

4.2.3 Education Qualification of Respondents

Regarding the educational background of the respondents, majority, 90% (188 out of 209) of the respondents had first degree qualification, 0.5% (1 out of 209) respondent had diploma qualification and the remaining 9.5% (20 out of 209) of respondents who were found to have master's degree qualification. However, no respondent was found with Ph.D qualification. This implies that the respondents were capable of understanding the issues and respond the questionnaire.

4.2.4 Position Held by Respondents

With regards to the position held by respondents in the bank, 16.3% (34 out of 209) were managers, 3.8% (8 out of 209) were assistant managers, 10.5% (22 out of 209) were accountants, 23.4% (49 out of 209) were auditors, 6.2% (13 out of 209) were credit officers, ...% (..... out of 209) and the remaining 3.3% (7 out of 209) and 36.4% (76 out of 209) were cashiers and CSOs respectively. The results confirm that most of the respondents were in their adulthood and had a sound academic background.

4.2.5 Job Tenure of Respondents

Concerning the duration of work of the respondents in the bank, 36.8% (77 out of 209) had between 1-3 years working experience with the bank, 39.2% (82 out of 209) had between 4-6 years of working experience with bank, 23.4% (49 out of 209) of the respondents had been working with the bank for 7-9 years, and finally the remaining 0.5% (1 out of 209) was found to have been working with the bank for 10 years and above. On the average, all the respondents had

at least 1.88 years working experience with the bank. The results of the survey shows that the respondents have the essential experience to provide the required answers to the questionnaire

4.3 The extent of the existing IC practices in Abay Bank

The first objective of the study was to highlight the extent of the existing internal control practices on preventing and detecting fraud in AbayBank as perceived by the employees.

4.3.1 Control Environment

Table 4.3: Control Environment in fraud prevention and detection

No	Item	Mean	SD	Mean Interpretation
1	The bank has clear objectives	3.87	1.066	Agree
2	The management communicate the objectives so as to provide effective direction to employees	3.21	1.229	Neutral
3	There is significant compliance in operational and financial rules and regulations	3.63	1.106	Agree
4	The bank has a culture, code of conduct that reward performance systems that support the business objectives	3.55	1.118	Agree
5	The management demonstrate, through its actions and policies the commitment to competence, integrity and trust	3.31	1.245	Neutral
	Average Mean	3.51		Agree

Source: Researcher Computation, (2022)

As illustrated in Table 4.3 respondents agree with “the bank has clear objectives “with mean of 3.87 and SD of 1.066; “compliance to operational and financial rules and regulations”with mean of 3.63 and SD of 1.106; similarly on culture and code of conduct the result shows employee agreement with the mean of 3.55 and SD of 1.118; finally respondents are neutral on “the management demonstrate through its actions and policies the commitment to competence, integrity and trust” with mean of 3.31 and SD of 1.245 and the communication of objectives to employees the result also shows neutral with mean 3.21 and SD of 1.229

Therefore the construct Control Environment has an overall average mean 3.51 which was rated as agreement, implying that the bank’s overall control environment is generally good.

4.3.2 Risk Assessment

Table 4.4: Risk Assessment in fraud prevention and detection

No	Item	Mean	SD	Mean Interpretation
1	The Board has clear strategies for dealing with the significant risks of frauds occurring	3.67	1.051	Agree
2	There are policies on how to manage these risks	3.20	1.224	Neutral
3	Risks of frauds occurring are identified and assessed on an on-going basis	3.00	1.246	Neutral
4	Authority, responsibility and accountability are clearly defined in the bank	3.64	1.123	Agree
5	The management have the knowledge, skills and tools to effectively manage risks to the achievement of their objective	3.81	1.177	Agree
	Average Mean	3.46		Agree

Source: Researcher Computation, (2022)

Table 4.4 shows that on “the management has the knowledge, skills and tools to effectively manage risks the result indicated respondents’ agreement with a mean of 3.81 and SD of 1.177; similarly respondents agree on “the board has clear strategies for dealing with risks of fraud occurring” with the mean of 3.67 and SD of 1.051; and on “authority, responsibility and accountability are clearly defined in the bank” with the mean of 3.64 and SD of 1.123; finally on the on-going basis of assessing Risks of frauds occurring and policies to manage risks the results indicated neutral with mean of 3.20 and SD of 1.224 and mean 3.00 and SD of 1.246 respectively. In general Risk Assessment was rated well with an overall average mean of 3.46, implying that risk assessment of fraudulent practices in the bank is good in the bank.

4.3.3 Control Activities

Table 4.5: Control Activities in fraud prevention and detection

No	Item	Mean	SD	Mean Interpretation
1	The bank communicate to its employees what is expected of them and the scope of their freedom to act	3.90	.993	Agree
2	The management follow the bank rules, regulations, procedures in recruitment of employees	4.05	.894	Agree
3	The employees in the bank have the knowledge, skills and	4.12	.840	Agree

	tools to support the achievement of the bank objectives			
4	There is proper segregations of duties	4.10	.811	Agree
5	There is proper authorization and approval of transactions	3.96	.932	Agree
	Average Mean	4.03		Agree

Source: Researcher Computation, (2022)

Regarding Control activities which help to ensure that employee follow lay down procedures; Table 4.5 indicates that respondents agree on the employees' knowledge and skills with mean of 4.12 and SD of .840 implying the bank has high skill personnel; proper segregations of duties towards control the results indicated agreement with a mean of 4.10 and SD of .811. Similarly, management follows the bank rules, regulations, procedures results indicate agreement with a mean of 4.05 and SD of .894. Finally, respondents agree on proper authorization and approval of transactions and on the communication of what is expected of employees with the mean of 3.96 and SD of .932 and mean of 3.9 and SD of .993 respectively. Control activities construct indicated that the rating was generally well with the overall mean of 4.03, hence, implying that management emphasis the necessity of following the lay down procedure.

4.3.4 Information and Communication

Table 4.6:Information and Communication in fraud prevention and detection

No	Item	Mean	SD	Mean Interpretation
1	The management receive timely, relevant and reliable reports on progress against the bank objectives	3.53	1.165	Agree
2	The management receive timely, relevant and reliable reports on indicators of change, such as employee attitudes etc.	3.48	1.136	Agree
3	The information needs and related information systems are reassessed to meet objectives.	3.53	1.065	Agree
4	The periodic reporting procedures are effective in communicating accounts of the bank position and prospects	3.91	1.144	Agree
5	There are established channels of communication for individuals to report suspected breaches of laws or regulations	3.27	1.227	Neutral
	Average Mean	3.54		Agree

Source: Researcher Computation, (2022)

The result on table 4.6 indicated that effective communicating accounts the results show agreement with the mean of 3.91 and SD of 1.144 implying that timely report are received as

expected; similarly respondents agree ‘on the received of timely, relevant and reliable reports’ with the mean of 3.53 and SD of 1.165; information needs and related information systems the results indicated agreements with a mean of 3.53 and SD of 1.065. Similarly, on the on indicators to changes, the result shows agreement with mean 3.48 and SD of 1.136. Finally, on report of suspected breaches of laws and regulations the respondents are neutral with a mean 3.27 of SD of 1.227. The construct Information and communication overall mean 3.54 this implied that there are effective or timely communication of accounting results.

4.3.5 Monitoring Activities

Table 4.7: Monitoring Activities in fraud prevention and detection

No	Item	Mean	SD	Mean Interpretation
1	There are on-going processes, which monitor the effective application of the policies, process	3.41	1.141	Agree
2	Such processes may include control self-assessment, confirmation by personnel of compliance with policies and codes of conduct.	3.49	1.249	Agree
3	There are effective follow-up procedures to ensure that appropriate action or changes against defaulters	3.65	1.073	Agree
4	There are appropriate communication to the Board on the effectiveness of the on-going monitoring processes	3.58	1.081	Agree
5	The monitoring personnel report any significant failure or weaknesses on a timely basis.	3.99	0.925	Agree
	Average Mean	3.62		Agree

Source: Researcher Computation, (2022)

With respect to Monitoring and supervision of employee activities to improve in work process and the entire system, the results in table 4.7 indicated that respondents agree monitoring personnel report of any significant failure or weaknesses the results indicated disagreement with a mean of 3.99 and SD of .925; effective follow-up of procedures mean of 3.65 and SD of 1.075; appropriate communication to the board on the effectiveness of the on-going monitoring processes mean of 3.58 and SD of 1.081. Similarly, monitoring personnel report of any significant failure or weaknesses and on-going processes of monitoring policies and process the results indicated agreement with mean of 3.49 and SD of 1.249 and mean 3.41 and SD of

1.141. The construct monitoring overall mean indicated well rated performance with an average mean of 3.62, hence, implying that monitoring and evaluation in AB is also good.

The overall average mean of all the five constructs stood at 2.339 which is low rated implying that the internal control System of AB is weak and not effective enough prevent and detect fraudulent activities.

4.4 The level of fraud prevention and detection in AB

Table 4.8: The level of fraud prevention and detection

No	Item	Mean	SD	Mean Interpretation
1	The bank has effective internal audit	4.13	.878	Agree
2	The bank has vigorous fraud hotlines	3.74	.982	Agree
3	The bank has a structure for regulatory compliance strategies	3.92	.937	Agree
4	The bank Probe suspect financial performance	3.80	.963	Agree
5	The bank has a risk assessment culture	3.89	1.032	Agree
	Average Mean	3.90		Agree

Source: Researcher Computation, (2022)

As the above table depicts the average mean of the extent of the existing IC practices on preventing and detecting fraud is 3.90, this implying that most of the bank's existing IC practices are helpful or effective on preventing and detecting fraud.

4.5 The Relationship between Internal Control and Fraud Prevention and Detection

4.5.1 Correlation Analysis

This study employs correlation analysis, which investigates the strength of the relationships between the studied variables. Pearson correlation analysis was used to provide evidence of convergent validity. Pearson correlation coefficients reveal magnitude and direction of relationships (either positive or negative) and the intensity of the relationship (-1.0 + 1.0). Correlations are perhaps the most basic and most useful measure of association between two or more variables (Marczyk, Dematteo and Festinger, 2005).

A correlation analysis with Pearson's correlation coefficient (r) was conducted on all variables in the study to explore the relationships between Internal Control and Fraud Detection and

Prevention. To interpret the strengths of relationships between variables, the guidelines suggested by Field (2005) were followed, mainly for their simplicity. His classification of the correlation coefficient (r) is as follows: 0.1– 0.29 is weak; 0.3 – 0.49 is moderate; and > 0.5 is strong

Under this topic, the Correlation analysis was conducted to investigate the relationship between Internal Control components (CE, RA, CA, IC and MA)) with Fraud Prevention and Detection.

Table 4.9: Pearson Correlation Matrix between IC components and Fraud Prevention and Detection

		Correlations					Fraud Prevention and Detection
		CE	RA	CA	IC	MA	
CE	Pearson Correlation	1	.421**	.347**	.466**	.436**	.427**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	209	209	209	209	209	209
RA	Pearson Correlation	.421**	1	.352**	.525**	.507**	.457**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	209	209	209	209	209	209
CA	Pearson Correlation	.347**	.352**	1	.410**	.495**	.735**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	209	209	209	209	209	209
IC	Pearson Correlation	.466**	.525**	.410**	1	.734**	.509**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	209	209	209	209	209	209
MA	Pearson Correlation	.436**	.507**	.495**	.734**	1	.572**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	209	209	209	209	209	209
Fraud Prevention and Detection	Pearson Correlation	.427**	.457**	.735**	.509**	.572**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	209	209	209	209	209	209

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Researcher Computation, (2022)

1. Correlation Analysis between CE with Fraud Prevention and Detection

Hypothesis: 1

- *H₁: Control Environment has positive and significant association on fraud prevention and detection dimensions of AB.*
- *H₀: Control Environment has negative and insignificant association on fraud prevention and detection dimensions of AB.*

The result on the above table 4.9 shows that, the control environment of the bank has moderate, positive and statistically significant association ($r= 0.427$, $p<0.01$) with fraud prevention and detection. This means an increase in control environment of the Bank will bring an increment on fraud prevention and detection. Therefore, the null hypothesis (H_0) is rejected.

2. Correlation Analysis between RA with Fraud Prevention and Detection

Hypothesis: 2

- *H₁: RA has positive and significant association on fraud prevention and detection dimensions of AB.*
- *H₀: RA has negative and insignificant association on fraud prevention and detection dimensions of AB.*

As indicated in the above table 4.9, the correlation coefficient result ($r=0.457$ $p<0.01$) between RA and Fraud Prevention and Detection is moderate positive and significant association in Abay Bank S.C. This implies that, when RA increase fraud prevention and detection of the Bank also increased. Therefore, the null hypothesis (H_0) is rejected.

3. Correlation Analysis between CA with Fraud Prevention and Detection

Hypothesis: 3

- *H₁: CA has positive and significant association on fraud prevention and detection dimensions of AB.*
- *H₀: CA has negative and insignificant association on fraud prevention and detection dimensions of AB.*

From the above table 4.9, it can be seen that CA ($r=0.735$, $p<0.01$) is positively correlated with Fraud Prevention and Detection. This implies the presence of moderate positive relationship between CA and Fraud Prevention and Detection in Abay Bank S.C. This implies that, when CA increase fraud prevention and detection of the Bank also increased. Therefore, the null hypothesis (H_0) is rejected.

4. Correlation Analysis between IC with Fraud Prevention and Detection

Hypothesis: 4

- *H₁: IC has positive and significant association on fraud prevention and detection dimensions of AB.*
- *H₀: IC has negative and insignificant association on fraud prevention and detection dimensions of AB.*

The above table 4.9, it can be shows that IC ($r=0.509$, $p<0.01$) is positively correlated with Fraud Prevention and Detection. This implies the presence of moderate association between IC and fraud prevention and detection in the Bank and which is also statistically significant at 99% degree of confidence interval. Therefore, the null hypothesis (H_0) is rejected.

5. Correlation Analysis between MA and IC with Fraud Prevention and Detection

Hypothesis: 5

- *H₁: MA has positive and significant association on fraud prevention and detection dimensions of AB.*
- *H₀: MA has negative and insignificant association on fraud prevention and detection dimensions of AB.*

As indicated in the above table 4.9, the correlation coefficient result ($r=0.572$, $p<0.01$) between MA and Fraud Prevention and Detection is moderate positive and significant association in AbayBank S.C. This implies that, when MA increase fraud prevention and detection of the Bank also increased. Therefore, the null hypothesis (H_0) is rejected.

In general, the correlation analysis revealed that Internal Control Elements (CE, RA, CA, IC and MA) are positively and significantly correlated with fraud prevention and detection of the bank.

4.6 The effect of IC on Fraud Prevention and Detection in AB

4.6.1 Assumptions Tests

It is important to determine whether all the necessary model assumptions are valid before performing inference. In constructing our regression models we assumed normality, no or little multicollinearity, and no auto-correlation.

4.6.1.1 Sample Size

Different statisticians and researchers tend to give different guidelines concerning the number of cases required for multiple regressions. Tabachnick&Fidell (2001), give a formula for calculating sample size requirements, taking into account the number of independent variables to use: $N > 50 + 8m$ (where m = number of independent variables). In this study five independent variables had existed and cases were 209. Therefore, the study satisfied sample size assumption.

4.6.1.2 Normality Assumption

The study used two methods of assessing normality numerically (Skewness and Kurtosis). Skewness and Kurtosis values greater than 1 and less than -1 are considered being abnormally distributed (Gamst, Meyers, &Guarino, 2008). Table 4.10 below summarizes the Skewness and Kurtosis values of the constructs.

The Skewness and Kurtosis values for the independent variables (C.E, R,A, C.A, I.C and M.A) and the dependent variable (Prevention and detection of fraud) were all below 1 and greater than -1 indicating that the data is normally distributed for these elements and there is no a serious violation of normality.

Table 4.10: Summary of Skewness and Kurtosis Statistic

Variables	Skewness	Kurtosis
-----------	----------	----------

	Statistic	Std. Error	Statistic	Std. Error
Control Environment	-.624	.168	.065	.335
Risk Assessment	-.304	.168	.176	.168
Control Activities	-.724	.168	.372	.168
Information and Communication	-.695	.168	.342	.168
Monitoring Activities	-.429	.168	-.104	.168
Prevention and Detection of Fraud	-.796	.168	.823	.168

Source: Computation from survey data (2022)

4.6.1.3 Multicollinearity Test

Before running regression, one should check for the problem of multicollinearity which is present if there is high correlation between some of the independent variables. The study checks this with the Variance Inflation Factor (VIF) which calculates the influence of correlation among the independent variables on the precision of regression estimates. The VIF should not exceed 10. Tolerance is an indicator of how much of the variability of the specified independent variable is not explained by the other independent variable in the model and is calculated using the formula $1-R^2$ for each variable. If this value is less than 0.1 it indicates that there is possibility of multicollinearity, but if it is greater than 0.1 it means that there is no multicollinearity problem with in the model.

The below multicollinearity statistics shows the tolerance value to be greater than 0.1 and VIF value to be significantly below 10. This shows that there is no multicollinearity problem with in the model.

Table 4.11: Multicollinearity of Determinant Factors

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Control Environment	.718	1.393
	Risk Assessment	.657	1.522
	Control Activities	.727	1.376
	Information and Communication	.415	2.410
	Monitoring Activities	.403	2.484

a. Dependent Variable: Prevention and Detection of fraud

Source: Computation from survey data (2022)

4.6.2 Regression Analysis and Hypothesis Testing

For the purposes of determining the extent to which the explanatory variables (Internal Control elements such as control environment, risk assessment, control activities, information and communication, and monitoring activities) explain the variance in the explained variable (fraud detection and prevention), regression analysis was employed after the study met the regression assumptions. The significance level of 0.05 with 95% confidence interval was used.

The combined effect of the independent variables on the dependent variable was detected using multiple regression analysis. The result has been shown in table 4.12 below.

4.6.2.1 Model Summary

Table 4.12:Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.789 ^a	.623	.613	.48351
a. Predictors: (Constant), Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities				
b. Dependent Variable: Fraud prevention and Detection				

Source: Computation from survey data (2022)

The result indicated that correlation (R) of the internal control elements (independent variables) with fraud prevention and detection (dependent variable) is 0.789. The R Square statistic tells us the proportion of variance in the dependent variable that is accounted for by the independent variables. In this case the co-efficient of determination (R^2) 0.623 which means 62.3% of the variance on fraud detection and prevention can be explained by the five internal control elements (i.e., Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities), and the rest 37.7% to be explained by other factors

4.6.2.2 ANOVA

Table 4.13: ANOVA Result for Regression Model

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	78.313	5	15.663	66.997	.000 ^b
	Residual	47.457	203	.234		
	Total	125.770	208			
a. Dependent Variable: Fraud prevention and Detection						
b. Predictors: (Constant), Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities						

Source: Computation from survey data (2022)

The above Table 4.14 showed an analysis of variance (ANOVA). F-ratio is a test of the null hypothesis that the regression coefficients are all equal to zero. For this data, F= 66.997 which is greater than 1 and $P < 0.01$; hence, which is statistically significant and rejects the null hypothesis. Therefore, the model explains the relationship between the independent variables (Internal Control Elements) and the dependent variable (Fraud Prevention and Detection). The ANOVA test table confirms the acceptability of the model.

4.6.2.3 Regression Coefficient

Table 4.14: Multiple Regressions of Internal Control Elements on Fraud Prevention and Detection

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.119	.214		.554	.580
	Control Environment	.840	.046	.088	1.729	.085
	Risk Assessment	.107	.052	.110	2.070	.040
	Control Activities	.603	.54	.564	11.148	.000
	Information and Communication	.063	.059	.071	1.067	.287
	Monitoring Activities	.132	.061	.147	2.157	.032

- | |
|---|
| <p>a. Dependent Variable: Fraud prevention and Detection</p> <p>b. Predictors: (Constant), Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities</p> |
|---|

Source: Computation from survey data (2022)

As stated earlier, this study aims to identify the most contributing, independent variable in the prediction of the dependent variable. Thus, the strength of each predictor (independent variable) influencing the criterion (dependent variable) can be investigated via standardized Beta coefficient. The beta is the amount that the dependent variable increases or decreases when the independent variable increases by one unit of standard deviation. The independent variable that has the larger value of Beta coefficient brings more support to the independent variable as it is more important determinant in predicting the dependent variable.

As it is depicted in the above table 4.14, the results of the regression analysis highlighted that not all Internal Control elements contribute equally to the fraud prevention and detection of AB. The study indicated that among the five Control Elements, Control Activities is the first with the largest β value of 0.564 followed by Monitoring Activities with β value of 0.147, Risk Assessment with β value of 0.110, Control Environment with β value of 0.088 and Information and Communication with β value of .071 respectively.

As illustrated in the above table 4.14, the Sig. values of control environment, risk assessment, control activities, information and communication, and monitoring activities are $<.005$. This test shows that the coefficients of the five predictors are statistically significant at less than 5% level of significance. Thus, all five variables were found to be significant predictors of Fraud Prevention and Detection in AB. The interpretation for this outcome can be, among the five Internal Control Elements, Control Activities relatively superior contribution for Fraud Prevention and Detection in case of AB.

The objective of the regression in this study is to find such an equation that could be used to find the impact of predictors on dependent variable. The specified regression equation takes the following form:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon$$

Y = Fraud Prevention and Detection at AB

α = Y intercept

β_1 to β_5 = regression coefficients

X_1 = Control Environment

X_2 = Risk Assessment

X_3 = Control Activities

X_4 = Information and Communication

X_5 = Monitoring activities

ϵ = Error Term

So the equation comes as:

$$\text{Fraud Prevention and Detection} = 0.119 + (0.088) X_1 + (0.110) X_2 + (0.564) X_3 + (0.071) X_4 + (0.147) X_5$$

The hypothesis test results based on standardized coefficient beta and P-value to test whether the hypothesis to reject or not reject. As shown from above Table 4.14 the Control Environment of AB, P-value is significant ($P < 0.0$) and the beta value is positive (beta = 0.088). Therefore, the result supported the initial hypothesis and infers that Control Environment has a positive effect on Fraud Prevention and Detection of AB. The finding was supported by (Gedion, 2021) investigated the effect of internal control on fraud prevention in commercial banks Ethiopia and concluded that control environment has a positive and strong impacts detection and prevention of fraud.

Regarding to Risk Assessment of AB, P-value is significant ($P < 0.05$) and the beta value is positive (beta = 0.110). Therefore, the result supported the initial hypothesis and infers that Risk Assessment has a positive effect on Fraud Prevention and Detection of AB. The finding was supported by (Wubalem, 2021) investigated the effectiveness of internal control system for detection and prevention of fraud the case of selected commercial banks in Ethiopia and concluded that Risk Assessment has a positive and strong impacts detection and prevention of fraud.

Control Activities of AB, P-value is significant ($P < 0.05$) and the beta value is positive (beta = 0.564). Therefore, the result supported the initial hypothesis and infers that Control Activities has a significant and positive effect on Fraud Prevention and Detection of AB. The finding was supported by (Gedion, 2021) investigated the effect of internal control on fraud prevention in

commercial banks Ethiopia and concluded that control activities have a positive and strong impacts detection and prevention of fraud.

The same is true for Information and Communication of AB, P-value is significant ($P < 0.05$) and the beta value is positive (beta = 0.071). Therefore, the result supported the initial hypothesis and infers that Information and Communication has a positive effect on Fraud Prevention and Detection of AB. The finding was also supported by (Wubalem, 2021) investigated the effectiveness of internal control system for detection and prevention of fraud the case of selected commercial banks in Ethiopia and concluded that information and communication has a positive and strong impacts detection and prevention of fraud.

Finally, Monitoring Activities of AB, P-value is significant ($P < 0.05$) and the beta value is positive (beta = 0.147). Therefore, the result supported the initial hypothesis and infers that Monitoring Activities has a positive effect on Fraud Prevention and Detection of AB. The finding was supported by (Wubalem, 2021) investigated the effectiveness of internal control system for detection and prevention of fraud the case of selected commercial banks in Ethiopia and concluded that monitoring activities has a positive and strong impacts detection and prevention of fraud.

4.7 Challenges of Internal Control

The last objectives of the research was to identify the challenges that can hinder the effective implementation of internal control system in detecting and preventing fraud in bank and the responses are analyzed in the table below.

Table 4.15: Challenges of Internal Control in Preventing and Detecting Fraud in AB

No	Item/Question	Mean	SD	Mean Interpretation
1	Breakdowns (personnel misinterpret instructions)	3.58	1.085	Agreed
2	Management override (management deviates from the bank's policies or procedures for fraudulent reasons)	3.61	.945	Agreed
3	Collusion between internal or internal and external parties	3.94	1.061	Agreed
4	Human judgment under pressure to conduct business based on the information at hand	3.78	1.113	Agreed
5	System errors (the risk that automated system controls	3.71	1.030	Agreed

	breakdown without notice)			
	Average Mean	3.724		Agreed

Source: Researcher Computation, (2022)

The result in Table 4.10 shows that the mean on the collusion construct is 3.94 and SD of 1.061 which implies respondents agreed that collusion between internal or internal and external parties make the detection and prevention of fraud challenging; followed by human judgment under pressure with mean of 3.78 and SD of 1.113; system error with mean of 3.71 and SD of 1.030; override by management with mean of 3.61 and SD of .945, and finally Breakdowns (personnel misinterpret instructions) with mean of 3.58 and SD of 1.030.

The overall average mean of all the five constructs stood at **3.724** which imply the presence challenges in the proper implementation of internal control System in preventing and detecting fraud in AB.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter deals with summary, conclusion and recommendations. In this chapter first, a summary of the study was presented. Second, conclusions of the major findings are drawn. Lastly, some possible recommendations are forwarded on the basis of the major findings of the study.

5.1 Summary of Major Findings

The purpose of the study was to examine the effect of internal control on fraud prevention and detection in AB, the case of Addis Ababa City Branches. Primary method of data collection were utilized where 273 questionnaires were distributed to AB Addis Ababa city branch staffs from which 209 were responded and used for this study. The study employed the use of descriptive statistics and inferential statistics methods like mean scores, frequencies and standard deviations and regression analysis and SPSS version 26 software was used to analyze the questionnaires and describe the result. The study has used five explanatory variables of internal control Components (CE, RA, CA, I.C and MA) to measure their effect in detecting and preventing fraud in AB.

Respondents agreed with the extent of the existing control practices in Abay Bank on fraud prevention and detection. Accordingly:

The study revealed that the control environment components like having clear objective, significant compliance to operational financial rules and regulations, effective code of conducts that reward performance system; risk assessment components like management's having knowledge, skills and tools to effectively manage risks, board's having clear strategies for dealing with the significant risks of frauds and existence of authority, responsibility and accountability; control activities components like employees having the knowledge, skills and tools, existence proper authorization and approval of transactions and management follow the bank rules, regulations, procedures; Information and communication components like presence of effective periodic reporting procedures, availability of timely, relevant and reliable report to management; and finally, the monitoring activities components like presence report of any significant failure

or weaknesses on a timely, existence of reporting system on the effectiveness of the on-going monitoring system and maintenance of procedure of follow-ups actions against defaulters All the five internal control components have positively and significantly affect the fraud prevention and detection practices in Abay Bank.

Regarding the level of fraud prevention and detection in AB, the study showed that most of the bank's existing IC practices are helpful or effective on preventing and detecting fraud in Abay Bank.

As per the findings of the study, there observed a positive relationship between the independent variables (the five components of internal control) and the dependent variable (fraud prevention and detection). This means an increase in one component of internal control system will bring an increment on fraud prevention and detection. Therefore, the null hypothesis (H_0) describing internal control components have negative and insignificant association on fraud prevention and detection dimensions of AB are all rejected.

Regarding challenges on internal control components in preventing and detecting fraud, the result showed that collusion construct collusion between internal or internal and external parties make the detection and prevention of fraud challenging; followed by human judgment under pressure. Whereas, system error, override by management and Breakdowns imply the presence challenges in the proper implementation of internal control System in preventing and detecting fraud in AB.

Finally, Pearson correlation result shows that all five explanatory variables (internal control components) have positive and statistically significant relationship with fraud detection and prevention. Moreover, Regression result shows that all internal control components have statistically significant or it does have a cause and effect relationship with fraud detection and prevention in Abay Bank.

5.2 Conclusion

The study concluded that the model developed in the study is significant and sufficient in predicting the level of fraud prevention and detection. From the above findings, a conclusion is made that control activities components lead to higher extent of fraud prevention and detection.

Proper segregations of duties, proper authorization and approval of transactions, employees' knowledge, skills and tools, management follow the bank rules, regulations, procedures in recruitment of employees, communication to employees what is expected of them and the scope of their freedom to act plays a major role in fraud prevention and detection.

There is a strong positive correlation between internal control and fraud prevention and detection in Abay Bank, which implied that CE, RA, CA, IC and MA have capability of reducing fraudulent practices. Therefore it can be concluded that all controls if not properly designed and implemented may create opportunity for fraudulent practices to take place.

Regarding challenges on internal control components in preventing and detecting fraud, the result showed the presence challenges in the proper implementation of internal control System in preventing and detecting fraud in AB due to collusion, human judgment under pressure, system error, override by management and Breakdowns.

5.3 Recommendation

The study concluded that internal control system (control environment, risk assessment, information and communication, control activities and monitoring) have a significant effect on fraud prevention and detection in Abay Bank. The following recommendations are made based on the findings of the study:

Though the extent of the existing Internal Control practices in Abay Bank is generally good, to prevent and detect the occurrence of fraud the management should communicate the employees objectives of IC and what is expected of them, identifying and assessing risks of fraud occurring on an on-going basis, establish channels of communication to report suspected breach of laws and regulations and monitor the effective application of policies on an on-going basis.

The level of fraud prevention and detection is must be enhanced by effectively utilizing vigorous fraud hotline so that both internal and external stakeholders of the bank reported actual and suspected fraudulent activities within the bank.

A positive relationship between the independent variables (the five components of internal control) and the dependent variable (fraud prevention and detection) means an increase in one component of internal control system will bring an increment on fraud prevention and detection.

Therefore, the bank's management shall strive for the proper implementation internal controls throughout the bank by all units.

No internal control system gives absolute assurance regarding fraud prevention and detection rather it gives reasonable assurance. Challenges on proper implementation of internal control like collusion between internal or internal and external, human judgment under pressure, system error, override by management and breakdowns should be given important emphasis by management of the bank.

5.4 Suggestion for Further Study

Based on the information gathered and the knowledge gained in this study, the researcher has suggested some areas for further research:

The research work is only limited to Addis Ababa city branches (case study) of AB which is not extended to bank level, further research can be done on Ethiopian Banks, primary data was solely utilized in the study; alternative research can be employed using secondary sources of data. This can approve or disapprove the current findings

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APPENDICES

APPENDIX I: QUESTIONNAIRE

QUESTIONNAIRE FOR SAMPLED EMPLOYEES OF ABAY BANK S.C ADDIS ABABA CITY BRANCHES

TOPIC: The Effect of Internal Control in Preventing and Detecting Fraud in Bank:-The Case of AB Addis Ababa Region”

Dear Respondents,

The questionnaire below is aimed at achieving the aforementioned topic, and the successful completion of it will lead to the award of onMasters Degree in Business Administration at St. Mary’s University. The researcher pledge to conceal the anonymity and confidentiality of all persons who give out information as required by this questionnaire.

SECTION A: Bio-graphic Data of Respondents

1) Gender of respondent:

A. Male B. Female

2) Age of respondent:

A. 25 years and below B. 26- 35years C. 36-45 years D. 46-55 years E.
56 years and above

3) Educational level of Respondent:

A. Diploma B. 1st Degree C. 2nd Degree D. Ph.D E.

Any other please specify _____

4) Position held at AB:

A. Manager B. Assistant Manager C. Accountant D. Auditor E.
Credit Officer F. Cashier G. Customer Service Officer H. Any
other?please specify _____

5) How long have you been working with AB? (Tenure of work)

A. 1-3 years B. 4-6 years C. 7-9 years D. 10 years and above

SECTION B: Fraud related questions.

6) What are your views on the types of fraud in AB? (put thick mark on the number closest to your view)

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

No	Types of Fraud	Highly Frequent 5	Frequent 4	Less Frequent 3	Rarely Frequent 2	Not Frequent 1
1	Loan and Letter of credit related fraud					
2	Forgeries and falsification of documents					
3	Accessing dormant account					
4	Account opening fraud					
5	Theft and embezzlement					
6	Fraudulent money transfer					
7	Misuse of the bank's asset					
8	Money Laundering					
9	Bribery					

7) What are your views on the causes of fraud in AB?(put thick mark on the number closest to your view)

Use a scale of 1 to 5 where, 5= highly agree, 4=agree, 3=indifferent, 2=disagree, and 1= highly disagree,

No	Causes of Fraud	Highly Agree 5	Agree 4	Indifferent 3	Disagree 2	Highly Disagree 1
1	Refusal of employees to comply with laid-down procedures without any penalty or sanction					
2	Poor internal control system					
3	Lack of improved information Technology track fraudsters					
4	Inadequate staffing					
5	Inadequacy of fraud detection and prevention strategies					
6	Inadequate training and re-training of staff					
7	Inadequate staff compensation					
8	Presence of unqualified staff					
9	Ineffective internal auditing					
10	Greed on the part of employees					
11	Conspiracy between interacting agents in-charge with the responsibility of protecting the assets and other interest of the bank					
12	Poor record-keeping practices					
13	Poverty and infidelity on the part employees					

SECTION C: Effect of internal control components in fraud detection and prevention

8) What are your views on the effect of internal control components in fraud prevention and detection?

Please rank the following statements ranging from strongly disagree to strongly agree where: 5= Strongly Agree; 4= Agree; 3=Neutral; 2= Disagree; and 1= Strongly Disagree

No	I. Control Environment	Strongly Agree 5	Agree 4	Neutral 3	Disagree 2	Strongly Disagree 1
1	The bank has clear objectives					
2	The management communicate the objectives so as to provide effective direction to employees					
3	There is significant compliance in operational and financial rules and regulations					
4	The bank has a culture, code of conduct that reward performance systems that support the business objectives					
5	The management demonstrate, through its actions and policies the commitment to competence, integrity and trust					
	II. Risk Assessment					
1	The Board has clear strategies for dealing with the significant risks of frauds occurring					
2	There are policies on how to manage these risks					
3	Risks of frauds occurring are identified and assessed on an on-going basis					
4	Authority, responsibility and accountability are clearly defined in the bank					
5	The management have the knowledge, skills and tools to effectively manage risks to the achievement of their objective					
	III. Control activities	Strongly Agree 5	Agree 4	Neutral 3	Disagree 2	Strongly Disagree 1
1	The bank communicate to its employees what is expected of them and the scope of their freedom to act					
2	The management follow the bank rules, regulations, procedures in recruitment of employees					
3	The employees in the bank have the knowledge, skills and tools to support the achievement of the bank objectives					
4	There is proper segregations of duties					
5	There is proper authorization and Approval of					

	transactions					
	IV. Information and communication	Strongly Agree 5	Agree 4	Neutral 3	Disagree 2	Strongly Disagree 1
1	The management receive timely, relevant and reliable reports on progress against the bank objectives					
2	The management receive timely, relevant and reliable reports on indicators of change, such as employee attitudes etc.					
3	The information needs and related information systems are reassessed to meet objectives.					
4	The periodic reporting procedures are effective in communicating accounts of the bank position and prospects					
5	There are established channels of communication for individuals to report suspected breaches of laws or regulations					
	V. Monitoring activities	Strongly Agree 5	Agree 4	Neutral 3	Disagree 2	Strongly Disagree 1
1	There are on-going processes, which monitor the effective application of the policies, process					
2	Such processes may include control self-assessment, confirmation by personnel of compliance with policies and codes of conduct.					
3	There are effective follow-up procedures to ensure that appropriate action or changes against defaulters					
4	There are appropriate communication to the Board on the effectiveness of the on-going monitoring processes					
5	The monitoring personnel report any significant failure or weaknesses on a timely basis.					

SECTION D detecting and preventing fraud

9) What are your views on detection and prevention of fraud in AB?

Please rank the following statements ranging from strongly disagree to strongly agree where: 5= Strongly Agree; 4= Agree; 3=Neutral; 2= Disagree; and 1= Strongly Disagree

No	Detection and Prevention of fraud	Strongly Agree 5	Agree 4	Neutral 3	Disagree 2	Strongly Disagree 1
1	The bank has effective internal audit					
2	The bank has vigorous fraud hotlines					
3	The bank has a structure for regulatory compliance strategies					
4	The bank Probe suspect financial performance					
5	The bank has a risk assessment culture					

SECTION E: Challenges of Internal Control in detecting and preventing fraud

9) What are your views on the challenges of internal control in detection and prevention of fraud in AB?

Please rank the following statements ranging from strongly disagree to strongly agree where: 5= Strongly Agree; 4= Agree; 3=Neutral; 2= Disagree; and 1= Strongly Disagree

No	Challenges of Internal Control	Strongly Agree 5	Agree 4	Neutral 3	Disagree 2	Strongly Disagree 1
1	Breakdowns (personnel misinterpret instructions)					
2	Management override (management deviates from the bank's policies or procedures for fraudulent reasons)					
3	Collusion between internal or internal and external parties					
4	Human judgment under pressure to conduct business based on the information at hand					
5	System errors (the risk that automated system controls breakdown without notice)					