Texila International Journal of Academic research
ISSN: 2520-3088
DOI: 10.21522/TIJAR.2014.07.01.Art002

Financial Fraud: Enablers and Response. Empirical Evidence from NGOs in Uganda

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Abstract

This paper provides an empirical analysis of Financial fraud from NGOs in Uganda. Financial fraud was measured using assets misrepresentation, fraudulent statements and corruption. The study anchored on fraud triangle and fraud diamond theories. The population was 1,264 NGOs in central region with valid permits. The study used primary data collected from 302 NGOs out of 304. A cross sectional descriptive design was used in the study while data was analysed using descriptive statistics. The study finds that; the key enabler of financial fraud is opportunity, area most prone to financial fraud is corruption while financial fraud could be managed through prevention. The study recommends that; ethical values, statements and standards be developed and made available to NGOs stakeholders while policies on kickbacks should be developed. Pre-employment check should continue as a preventive measure. It is further recommended that this study be done for public organisations within the same area to have a full understanding of the nature of financial fraud in central Uganda. The same should be replicated in other regions of Uganda. While the prevention strategy of financial fraud is the most effective, there are other areas where opportunities to commit financial fraud exist and the attention of both development partners and NGOs should focus on them.

Keywords: *Financial Fraud, Enablers, Management, Uganda.*

Introduction

Of recent, some of the world's most prominent Non-Governmental Organizations (NGOs) have experienced large-scale frauds. The effects of these frauds have had very disturbing consequences on the economy of the world in addition to contributing unnecessary suffering and increased unemployment for the low- and middle-income class. With the aim of further understanding the key fundamental enablers of fraud, this paper takes an in-depth look at the areas in finance which are most prone to fraud and the appropriate ways in which organizations can respond to cases of financial fraud. These three key areas are important to assist anti-graft organizations, development partners and bodies in formulating practical strategies to prevent, detect and investigate financial frauds in organizations. The paper takes empirical approach by first examining the concept of financial fraud, highlighting key areas most prone to financial fraud and then recommending appropriate responses to cases of financial fraud. The study uses both primary and secondary sources of information obtained from journals, reports, internet and textbooks. The write up contributes to the understanding of financial frauds especially by forensic accountants, auditors, fraud examiners, Finance specialists and other antifraud bodies. The study also serves as guidance for further financial fraud related researches not just in Uganda but Africa and globally.

Corporate financial accounting including financial fraud scandals are no longer any unexpected news of the day as they have become the norm given the growing nature of E-commerce and Globalization. Take for instance, cases like that of Enron, WorldCom, Global Crossing and Tyco are notable and key among the most recent prominent scandals which suffered from the devastating impact of financial fraud. These financial scandals were not only costly but have as well increased global concerns about financial fraud, taking out billions of dollars of hard-earned shareholder value, and further, led to the erosion of investors and public confidence in the financial markets (Peterson and Buckhoff, 2004); (Rezaee, Crumbley and Elmore, 2004); (Bierstaker, Brody and Pacini, 2006). Many research studies have discussed fraud-related issues and the general agreement and feeling should be on prevention of fraud as the focus. It is less expensive and more effective to prevent financial fraud from happening than to detect it after the occurrence or put corrective measures when it occurs. normally, by the time fraud is uncovered, the money is lost and therefore, unrecoverable or the chance to recover the full amount of what has been lost is very limited. Furthermore, it is also very costly and time wasting if not consuming to investigate financial frauds especially involving large-scale operations. However, the focus now should be on fraud prevention so that all the monetary losses, effort and time to reconstruct fraudulent transactions, track down the perpetrator, and reclaim missing funds are not lost. (Thanasak, 2013) asserts that before any efforts are made in reducing financial fraud and as well manage the risks appropriately, it is important for organizations to identify the factors leading to fraudulent behaviour by understanding who the fraudsters are, areas most prone to fraud, when and why frauds are committed then appropriate respond mechanism can be put in place.

Financial Fraud has of recent become one of the deadlines threats to the world economy. It is a global problem which has to be fought, prevented and dealt with appropriately not only because of its impact on our major corporations and key financial institutions, but its effect on smaller organisations and ultimately the wider public who indirectly pay for the losses through increased costs of goods and services. some organisations fail to recognize that financial fraud can prove to be even more catastrophic than other forms of critical world threats like terrorism, floods, hurricane and fire. Cases involving these events that may cause serious disruption to the business but rarely are they insurmountable. However, a significant fraud against an organisation not only undermines financial stability but can ultimately result in such damage to the reputation and loss of investor's confidence that it proves irreparable. It is often to these reasons that organisation directors' write-off losses to financial fraud under the general heading of Bad debt rather than admit that there has been a failure to implement proper safeguards or managerial negligence in applying appropriate levels of oversight to routine business processes where the organisation cash and assets are at risk.

Globally, financial fraud is about 49% while in Africa as a continent, the percentage is higher than the global at 62% and within East Africa regional block, the case is much higher at 64% and in Uganda which is our reference point, it’s even worse at 66% (PwC, 2018). This, therefore, signify that cases of financial fraud have not just become rampant, but it is becoming normal. The nature and mechanism have become even sophisticated.

The 2012 Office of the Prime Minister (OPM) and another in the ministry of Public Service financial fraud in the pension scandal prompted several development partners to reduce funding to Uganda as a country. This in turn affected not just the government but the NGOs and the resulting effect was that it became very difficult for Civil Society Organisations to get money. In 2010, a group of development partners providing direct budget support reduced funding after the 2007 Commonwealth Heads of Government Meeting (CHOGM) scandal, which involved US$ 2.4 million and allegations against a former vice president and three senior government ministers. The budget reduction was more than 10% of US$ 360 million in direct support to the budget at the time. In 2005, for example, development partners suspended US$ 200million in aid following an exposure that officials at Ministry of Health had embezzled over US$ 4.5 million from the Global Fund to fight HIV/Aids, Tuberculosis and Malaria (Daily Monitor, 2019).

Financial fraud in Uganda is not news. The anti-corruption court is overwhelmed with cases of financial fraud and other related anti-corruption crimes with some concluded while others are still under investigation. In June 2019 for example, the Democratic Governance Facility terminated funding to four NGOs after a forensic audit found massive financial fraud. The level and gravity of the fraud included direct theft, expenditures which could not be supported, using the same paperwork to provide accountabilities to different development partners and improper procurements which did not provide value for money (Daily Monitor, 2019). A report by Irish Aid entitled “interim report by evaluation and audit unit technical team to secretary general on misappropriation of funds in the office of the prime minister, Uganda 15 November 2012” which was further reinforced by an independent body, the UN Office of Internal Oversight Services (OIOS, 2018) indicated massive financial fraud in management of refugees in Uganda and it has estimated the loses to be US$ 283,000 over payment of allowances to Office of the Prime Minister (OPM) staff, over payment of about US$ 7.7 million for supplies of water to the refugees.

In October 2017, Irish, British and Swedish donors stopped funding International Alert (IA), an NGO, after an investigation report unearthed massive financial fraud. For instance, in 2015, six employees of the giant telecom operator, MTN Uganda were before court for theft of US$ 3.4 million (Olga Morawczynski, 2015). In one of the complex and sophisticated case involving Caring for Orphans, Widows, and the Elderly (COWE), an NGO, whose aim is to uplift vulnerable people out of poverty and also running a micro finance paying a 54% interest monthly, asked people to invest in this and suddenly, the directors of the NGO collected money from people and in turn withdrew all the cash and disappeared with the money (The Guardian, 2019).

The objectives of the study were to; ascertain the enablers of financial fraud, examine areas most prone to financial fraud and assess how financial fraud can be managed. The associated questions were: What are the key enablers of financial fraud, which are the area's most prone to financial fraud? And how can financial fraud be managed?

Literature review

Fraud

Fraud has grown rapidly over the last few years and there is a growing trend for large organisations to consider hiring professionals such as forensic accountants to reduce the pressure and potential of occupational financial frauds. There is, however, concern on the general common definitions of fraud as many jurisdictions define it variedly.

Fraud, according to the Association of Certified Fraud Examiner (ACFE, 2010), is the use of one's occupation for personal enrichment through the deliberate misuse of or misapplication of the employing organization's resources or assets. notwithstanding the sector, many financial frauds either committed by employees or vendors of the organisation is fraud fraud (ACFE, 2010); (Duffield and Grabosky, 2001) and (Levi ,2008); (Kiragu, Wanjau, Gekara, and Kanali, 2013). However, according to Merriam Webster's Dictionary of Law (1996) as quoted in (Manurung and Hadian, 2013), fraud is defined as: "Any act, expression, omission, or concealment calculated to deceive another person to his or her disadvantage, specifically, a misrepresentation or concealment with reference to information or a fact relating to a transaction that is made with knowledge that its false. According to (Ernst and Young, 2009), fraud is said to be an act of deliberate action which is made by person or groups who knows that the error can result in some benefits that are not either to individuals or entities or other parties.

According to (Adeneji, 2004) and Institute of Chartered Accountants of Nigeria (ICAN, 2006), fraud is defined as an intentional act made by one or more individuals among management, employees or third parties who produce errors in financial reporting. Fraud can also be seen as misrepresentation, storage or negligence of a truth for the purpose of manipulating the financial statement to harm the company or organization, and that includes among others; theft, embezzlement stealing, abuse of authority asset misappropriation.

Fraud is also said to be a civil wrong as well as a criminal offence. In the following circumstances, an illustration is made on how fraud is seen from the two perfectives.

In common law jurisdictions, as a tort, fraud is a tort. While the precise definitions and desires of proof vary among jurisdictions, the requisite parts of fraud as a wrongful conduct usually area unit the intentional deception or concealment of a very important fact upon which the victim is meant to rely, and in fact does rely, to the harm of the victim (California Civil Jury Instructions, 1900). The remedies for fraud could embody recession (reversal) of a fraudulently obtained agreement or dealing, the recovery of a monetary award to compensate for the harm caused, punitive damages to penalize or deter the misconduct, and possibly others. In cases of a fraudulently elicited contract, fraud could function a defense during a action for breach of contract or carrying out of the contract.

In common law jurisdictions, as a criminal offence, fraud takes many alternative forms, some general (e.g., felony by false pretence) and a number of specific to specific categories of victims or misconduct (e.g., bank fraud, insurance fraud, forgery).

The elements of fraud as a criminal offense equally vary. The requisite elements of perhaps the most general form of criminal fraud, theft by false pretence, are the intentional deception of a victim by false representation or pretence with the intent of persuading the victim to dispense with property and with the victim parting with property in reliance on the illustration or pretence and with the culprit aspiring to keep the property from the victim.

Fraud triangle theory

According to this theory, fraud is attributed to three key components which are: perceived incentive or the motivation to commit a fraud, opportunity to commit fraud and these are the circumstances which exist in organisations and they may include weak systems of Internal controls and the third element is rationalization for committing fraud. The subcomponents of rationalization include attitude, character and ethical values allowing committing a dishonest act (Mui & Mailley, 2015). The first version of the fraud triangle theory was referred to by (Cressey, 1953) who attributed the embezzlement behaviour to three primary factors and these are: Pressure to commit an embezzlement, an opportunity, and a rationalization or attitude to justify the embezzlement (Daigle, Hayes, & Morris, 2014). The fraud-triangle theory asserted that fraud occurs when a perpetrator has pressure to commit a fraud; exploits any opportunity of weak internal controls with a low risk of being caught; and be able to justify the fraud behaviour (Mui & Mailley, 2015). Multiple parties such as SAS 99, ACFE, and others recognized the importance of fraud-triangle model as a tool for addressing potential fraud risk factors.

The fraud- triangle model is used as a heuristic framework to explain fraudulent incidents (Schuchter & Levi, 2015). For example, (Dellaportas, 2012) interviewed a group of accountants who committed fraud to discover the root causes for their misconduct. They were asked about the reason for committing fraud, their expectation of getting away with fraud undetected, and the rationale behind their misconduct (Dellaportas, 2012). Therefore, the fraud triangle theory is very helpful to explain how accountants exploited their positions to deceive their clients, misappropriated fund, and committed fraud under perceived pressure, and exploited the available opportunity as well (Dellaportas, 2012). It is important to know that financial and non-financial pressures for example failed investments, poor performance, impending bankruptcy, distressed businesses, need for money, gambling and greed/anger were root causes for the fraudsters' behaviour (Dellaportas, 2012). The perpetrators of fraud acknowledged that their knowledge of systems and processes enable them to bypass controls and commit fraud without detection through trust, complex scheme, and concealment (Dellaportas, 2012). The offenders acknowledged that their behaviour is inappropriate and rationalized their fraud through denial of responsibility by putting any blame on other people, injury (no one is harmed, or money will be repaid) and victims (victim deserve it) (Dellaportas, 2012). The importance of opportunity factor as to influence the fraud decision through the exploitation of offenders' positions, trust or dependence, knowledge to bypass controls and deceive their client for personal gain was highly noted (Dellaportas, 2012).

Similarly, researchers like (Aghghaleh, Iskandar, and Mohamed, 2015) have examined the contributions of two of the fraud triangles models and these are; pressure and opportunity: Pressure and opportunity to the likelihood of fraud occurrence in the financial reporting of 40 fraud Malaysians public firms and 100 non-fraud firms. Fraud pressure was operationalized through the financial ratios of sale to accounts receivable and leverage ratio, whereas the fraud opportunity was operationalized through the financial ratio of the numbers of the audit committee and board members. The researchers used a logistic regression model to examine the relationship between pressure and opportunity factors and the level of fraud occurrence. They found that the probability of fraud occurrence was positively related to more leverages and more sale to accounts receivable percentage, and negatively related to the audit committee size and the board of directors' size (Aghghaleh, Iskandar, & Mohamed, 2015). However, the study was unable to operationalize the fraud rationalization (Aghghaleh, Iskandar, & Mohamed, 2015).

The fraud-triangle model attracted the attentions of many scholars, such as (Wolfe and Hermanson, 2004) who expanded it to fraud diamond by adding a fourth element of capability which includes (skills, ability, and power) as more observer attribute than pressure or rationalization (Ruankaew, 2016). Other researchers proposed fraud scale by substituting personal integrity for rationalization, as it is more readily observable than rationalization (Lokanan, 2015). Additionally, researchers like (Dorminey, Fleming, Kranacher, and Riley, 2012) claimed that predator only seeks opportunity to commit a fraud, and requires no pressure or rationalization (Dorminey, Fleming, Kranacher, & Riley, 2012).

The fraud-triangle model was criticized as it does not address collusive behaviour and/or management override of internal controls for the organisations, limited fraud motivation to non-sharable financial need, non-observability of rationalization, and only focused on individual's decision making (Dorminey, Fleming, Kranacher, & Riley, 2012). It is also criticized for its narrow context, as it ignores other dimensions of fraud notably time and further ignores issues of power relations, and the wider macro social and economic dimensions (Cooper, Dacin, & Palmer, 2013). As such, another theory is advanced to explain the limitations of the fraud triangle theory.

Fraud diamond theory

This theory was presented by Wolfe and Hermanson in the CPA Journal of (December 2004) and it's kind of an expanded version of the Fraud Triangle Theory. In the fraud diamond theory, an additional element called capability has been added to the three original components of the Fraud Triangle Theory. Wolfe and Hermanson, 2004) argued that although perceived pressure might coexist with an opportunity to commit fraud and a rationalization for doing so, it is not possible for fraud to take place unless the added component which is capability is present together with the others. According to the researchers, the opportunity opens the doorway to fraud, and the incentive and rationalization can draw a person towards it. It is important to note that the person who wants to commit fraud must have the capability to recognize the open doorway as an opportunity and to take advantage of it by walking through, not just once, but repeatedly". With the additional element presented in the theory affecting individuals' decision to commit fraud, the organization and auditors need to understand employees' individual traits and abilities in order to assess the risk of fraudulent behaviours. The components of theory are interrelated to the extent that an employee cannot commit fraud until all the elements are present and further proposes that pressure can cause someone to seek opportunity while pressure and opportunity can encourage rationalization of fraud. Therefore, the additional element, which is capability is what differentiates the Fraud Diamond theory from the Fraud triangle theory.

According to the publication of (Bressler & Bressler, 2007) as cited by (Mackevicius & Giriunas, 2013), not all who possessed opportunities, motivation, and realization may necessarily commit fraud because they may not have the capability to do it. Meanwhile, authors like (Albrecht, Williams & Wernz, 1995) assert that capability component of the fraud diamond theory is very important when it comes to large-scale fraud. Furthermore, (Albrecht et al, 1995) believes that only people who have extremely high capacity are able to understand the controls so as to identify any weaknesses and to use them in planning the implementation of fraud. (Wolfe and Hermanson, 2004) state that someone's position within an organization may provide the ability to exploit an opportunity to commit fraud. (Beasley et al, 1999) and quoted by (Wolfe & Hermanson, 2004) reported that Chief Executives were implicated in more than 70% of accounting frauds.

(Wolfe and Hermanson, 2004) while quoting (Sutherland, 1977) entitled "Theory of White Collar Criminals" state that, "As fraudsters found themselves successful at this crime, they began to gain some secondary delight in the knowledge that they are fooling the world, that they are showing their superiority to others". As such, the people committing fraud do have strong ego and clear confidence that they will not be detected. A fraudstar who has been successful in the game can even coerce other people in committing and/or concealing fraud (Rudewicz, 2011). People with very persuasive personality can convince others to commit fraud or not to report fraud when it comes to their knowledge. In addition, it is a common personality type among fraudsters is the "bully," who "makes unusual demands of those who work under them, cultivates too much fear instead of respect and end up not being subjected to controls as others within the organisation" (Wolfe & Hermanson 2004). Generally, it ought to be on record that many cases of financial frauds are committed by lower level staff reacting to an edict from the senior staff to "make your numbers at all costs, or else."(Wolfe and Hermanson 2004).

Materials and Methods

Design

The study adopted a descriptive design. This design was appropriate because it describes a situation the way it was (Mugenda, 2003). Descriptive design has further been applauded in the sense that it allows for collection of data from the population by use of the questionnaire (Micheni, 2011).

Study population and sample size

The population of the study included 1,264 registered and validated NGOs in Central regions of Uganda (Ministry of Internal Affairs, 2019). The choice of Central region was motivated by the fact that it hosts the largest number of NGOs than all the other regions in Uganda. The sample of the study was 304 arrived at using the formulae advanced by (Yamane, 1973). Simple random sampling method was used in selection of the samples. From the sample, the response rate was 97% which is representative of the population.

Data collection instruments

The instruments used for data collection was structured questionnaire. The questionnaire was used because it allows the detailed collection of information required.

Validity and reliability

To ensure validity of the research instruments, experts were used to review the questionnaire and the Content Validity Index (CVI) was calculated and overall, the results showed that the contents were 0.86 and as such were valid as per (Sakaran, 2000). For reliability, (Cronbach, 1951) alpha was used. As the rule of thumb, any coefficient of more than 0.5 is acceptable (Nannally, 1978). Therefore, the reliability overall was 0.87.

Data analysis and presentation

Data was analysed using descriptive statistics where frequencies and percentages were computed. Descriptive statistics was used because it allows presentation of data in a logical and easy to understand manner.

Results

Characteristics of the NGOs

A total of 302 out of the 304 sampled NGOs participated in the study. There were five background information required from each NGO participating in answering the questionnaire.

In terms of the period each NGO has been operating in Uganda, the results show that the NGOs that have been in Uganda for more than 15 years were more (64%, n= 192) than those that have been in Uganda between 5-9 years (20%, n=60) and those between 10 -14 years (17%, n=50). It is interesting to note that out of the 302 NGOs which took part in the study, none has been for less than 5 years in Uganda. Most of the NGOs were National (66%, n=200) compared to (34%, n=102) that were International. Many of the NGOs are working in other sectors (80%, n=242) while (20%, n=60) are working in Accountability sector. Of the 302 NGOs, more than half (76%, n=230) are non-faith based mean while only (24%, n=72) are faith based.

In terms of the nature of the organisations, the majority (90%, n=272) were nonprofit making whereas (10%, n=30) were social enterprises/profit making organisations. Regarding the areas of operations within central region, more than half (60%, n=180) works outside the greater Kampala which includes Mukono, Mityana, Wakiso, Luweero triangle and Kayunga, meanwhile (40%, n=122) works within Kampala metropolitan area.

Enablers of financial fraud

The study sought to in objective 1, examine the enablers of financial fraud. In this objective, the key question was stated thus “what are the key enablers of financial fraud?”. Enablers of fraud was divided into three categories namely, Motivators of fraud, Opportunity for fraud and Rationalization for fraud. To achieve this objective and answer the question, several questions were put to the NGOs to provide the extent to which they agree or disagree with the statements related to each categories of fraud enablers. The tables below are a presentation of the results for each category of fraud enabler.

Motivation for fraud

Five (5) questions related to what motivates NGOs staff to commit financial fraud were asked. Figure 1 shows the results of what motivates them to commit fraud.

From the figure, the results show that (30%) strongly agreed that pressure mounted by owners of the organisations to meet the revenue targets while another (30%) agreed that bonus payments to employees because of the need for additional resources mobilization were the two topmost motivators for committing financial fraud. This was followed closely by personal reasons and the need to earn more money (20%) and peer pressure from colleagues earning more money (20%). It is also very clear from the figure that (66%) strongly disagreed that less pay was the motivator of financial fraud.

Opportunity for fraud

Six (6) questions related to if a presentation of an opportunity was the reason why NGOs staff commit financial fraud were asked. Figure 2 shows the results.

As seen from the results in figure 2, it is very evident and clear that (64%) of the NGOs agreed that inadequate policies related to Accounting and Finance, followed by strong agreement (40%) that Board of Directors' commitment to being ethical and honesty in decisions which was the same with management commitment to being ethical and honesty in decisions (40%) were the top three areas where opportunity to commit financial fraud is ripe. However, it is further clear that poor documentation (44%), lack of or no supervision by Board and Management (44%) and weak internal controls and segregation of duties are areas where there could be no opportunity for fraudulent financial transactions to be seen.

Rationalization of fraud

Six (6) questions related to rationalization by NGOs staff to commit financial fraud were asked. Figure 3 shows the results.

As seen from figure 3, it is very evident and clear that (10%) of the NGOs strongly agreed that if one is about to lose a job, committing fraud is the only way to get a compensation meanwhile (20%) agreed that staff members have committed financial fraud and nothing was done to them and so others should also do it and go unpunished or unnoticed. However, the majority (80%) strongly disagreed that financial fraud is committed because the Board members also do it, (66%) strongly disagreed because someone was treated by the organisation badly.

Summary - enablers of financial fraud

Figure 4 presents an overall summary on the status of the key enablers of financial fraud.

From the results in figure 4 and from each individual figure presented on enablers of financial fraud, it can therefore be summarized that the top enablers of financial fraud among the NGOs in Uganda are as follows.

- Opportunity presents itself as the topmost number one enabler of financial fraud among NGOs in Uganda. The specific areas where opportunities are ripe for financial fraud are; Board commitment to ensuring ethical and honest standards (70%), Management Commitment to ensuring ethical and honest standards at (70%), inadequate accounting and financial policies (64%).
- Motivation is second after opportunity. The specific area to note as the motivator for committing financial fraud is the pressure from the owners of the organisation to meet the expectations in terms of resources targets (50%) which is very closely linked and connected to payment of bonuses to the staff who meet the resources mobilization targets of the organisations (30%).
- Rationalization is the least enabler of financial fraud among NGOs in Uganda. While this is the least enabler of financial fraud, there is some area which could be a potential for financial fraud and needs monitoring as Fraud is committed because staff have done it (20%).

Areas most prone to financial fraud

The study sought to in objective 2, assess areas most prone to financial fraud. In this objective, the key question was stated thus "which area is most prone to financial fraud?". Areas most prone to financial fraud was divided into three broad categories namely, assets misappropriation, Financial statements and Corruption. To achieve this objective and answer the question, several questions were put to the NGOs to provide the extent to which they agree or disagree with the statements related to each categories of areas most prone to financial fraud. The tables below are a presentation of the results for each category.

Assets misappropriation

This sub section presents the areas within assets where misappropriation could occur causing financial fraud. To answer this sub section, seven (7) questions were put to the NGOs on possible areas where fraud could happen, and they were asked to provide the extent to which they agree or disagree with the statements. Presented in figure 5 is the feedback.

As seen in figure 5, it is clear that (10%) strongly agreed while a further (30%) agreed reflecting a total of (40%) overall agreement that theft of cash by staff including management and Board happens. This was followed very closely by (10%) strong agreement and (20%) agreement that false payment requests are made by staff, management and Board happens and this got the same number of feedbacks with billing schemes by using fictious vendors for false payment (10%) with strong agreement while (20%) in agreement. However, (36%) were in strong disagreement and a further (44%) disagreed that alteration of legitimate documents including Purchase Orders could happen. Further, (36%) strongly disagreed while a further (44%) agreed that inventories and fixed assets misuse by staff, management and Board could occur.

Financial statements

This sub section presents the areas within financial statements where financial fraud could. To answer this sub section, seven (7) questions were put to the NGOs on possible areas where misstatements could happen which leads to financial fraud, and they were asked to provide the extent to which they agree or disagree with the statements. Presented in figure 6 is the results.

As clearly seen in figure 6, (10%) strongly agreed while (20%) agreed reflecting a total of (30%) that misstatement of expenses in the financial statements specifically in the statement of Financial performance or statement of income is an area where financial fraud could occur. Meanwhile (30%) agreed with the statement that improper accounting related to intra organisation charges is another core area where financial fraud could occur among the NGOs. However, it is worth noting that there are areas where the majority, (70%) in total with (26%) strong disagreement while (44%) disagreement that improper revenue recognition is an area where financial fraud could occur, followed closely with falsified employment having (36%) strong disagreement and (30%) disagreement.

Corruption

This sub section presents the areas within corruption where financial fraud could. To answer this sub section, five (5) questions were put to the NGOs on possible areas where corruption could happen which leads to financial fraud, and they were asked to provide the extent to which they agree or disagree with the statements. Presented in the figure 7 is the results.

From figure 7, the results show that (10%) of the NGOs strong agreed while (40%) agreed with a total of (50%) agreement that kickback to employees of the organisations by a vendor in return for Favourable treatment is the top most factor facilitating corruption, this was closely followed by collusion between and/or among staff of the NGOs and customers or vendors (10%) strong agreement and (30%) agreement. Conflicts of interests by staff scored same with kicks. However, the majority (56%) disagreed that extortion which is the offering to help someone from harm in exchange for money or other considerations is a form of corruption which could lead to financial fraud among NGOs.

Summary- areas most prone to financial fraud

Figure 8 presents an overall summary on the status on the key enablers of financial fraud.

From figure 8 and from each individual figure presented on areas most prone to financial fraud, it can therefore be summarized that the most areas prone to financial fraud among the NGOs in Uganda are as follows.

- Corruption. Corruption is the topmost area which is ripe and prone to financial fraud among NGOs in Uganda. Corruption presents itself in many ways. However, the specific areas that are riper to financial fraud are; Kickback (50%), collusion (40%) and conflicts of interest (40%).
- Assets Misappropriation is second area after Corruption most prone to financial fraud. The specific areas to note within assets misappropriation are; theft of cash by staff

(40%), False payment (30%) and fictitious payment (30%) were second

- Financial Statement is the least most prone to financial fraud among NGOs in Uganda. While this is the least area where corruption can take place leading to fraud, there are some areas which could be a potential for financial fraud and as such, requires close monitoring. Expenses misappropriation (30%) and improper accounting (30%).

Management of financial fraud

The study sought to in objective 3, assess how financial fraud can be managed. In this objective, the key question was stated thus "How can financial fraud be managed?". Management of financial fraud was divided into three broad categories namely; Prevention, Detection and Response. To achieve this objective and answer the question, several questions were put to the NGOs to provide the extent to which they agree or disagree with the statements related to each categories of areas how financial fraud can be managed. Figure 9 is a presentation of the results for each category.

Prevention of fraud

This sub section presents the areas within prevention where financial fraud could be avoided and prevented at all costs. To answer this sub section, eight (8) questions were put to the NGOs on how financial fraud could be prevented and they were asked to provide the extent to which they agree or disagree with the statements. Presented in figure 9 is the results.

From the results in the figure 9, it can be seen that within prevention arm of fraud management, the majority (100%) who are both in strong agreement (40%) and a further (60%) in agreement believe that conducting pre-employment screening of candidates from the previous employers whether or not they committed financial fraud is the best in the prevention of fraud among NGOs. This was followed by regular staff trainings and awareness sessions (40%) strongly agree while (50%) agree. It scored the same percentage point with ensuring that the organisation puts up a statement of its ethical values, business principles and commitment to integrity (20%) in strong agreement while (70%) in agreement. It is important to note that whereas management of gifts (70%), vendors vetting (70%) and conflicts of interest declarations (70%) have a lower percentage, it is important to stress that they are as well very key in the prevention.

Detection of financial fraud

This presents the areas within detection where financial fraud could be detected. Eight (8) questions were put to the NGOs on how financial fraud could be detected by providing the extent to which they agree or disagree with the statements. Presented in the figure 10 is the results.

From the results in figure 10, it shows that internal audit (80%) in total with (10%) strong agreement while (70%) agreement complemented with a further (73%) with (19%) strong agreement and (54%) agreement that external audit helps in detection of financial fraud. Its, however, interesting to note that the majority (75%) with (40%) disagreeing while (35%) not sure that investigations can help detect financial fraud.

Management of financial fraud

This presents how financial fraud could be managed whenever it has been reported to have occurred. Five (5) questions were put to the NGOs on how they can respond to cases of reported financial fraud by providing the extent to which they agree or disagree with the statements. Presented in the figure 11 is the results.

As seen in figure 11, the results show that having a register which records all cases of reported financial fraud in an organisation with details of the nature, gravity of the fraud is key to responding to financial fraud (74%) which is followed by recovery of funds lost to financial fraud (70%) and having a clear reporting channel where anybody can report a case financial fraud (70%).

Summary- management of financial fraud

Figure 12 presents an overall summary on the status on the key enablers of financial fraud.

From figure12 and from each individual figure presented on response to financial fraud, it can therefore be summarized that response to financial fraud among the NGOs in Uganda is as follows.

- Prevention is the best mechanism in management of financial fraud. This can be done in many ways. However, the specific and most accepted areas include; pre-employment checks which is assumed to be (100%) a good measure more than any other, regular staff trainings and awareness creation on fraud (90%) and the organisations having its ethical statements of values and business principles (90%).

- Detection. This can be managed through a combination of many theories. For instance, internal audits (83%), external audits (73%), while internal tip-off (70%) and change of personnel (70%) are equally good measures seen to be a detection and/or deterrent to financial fraud among NGOs in Uganda.

Response is the least method NGOs can use to manage financial fraud. While this is the least approach according to the results, there are, however, some ways it can prove to be helpful to management of financial fraud. For instance, having a register/record of all financial fraud cases may help in responding to the issue (74%) and recovery of funds lost (70%).

Discussion

This study investigated financial fraud among NGOs in central region of Uganda. The objectives were three and included; establishment of the key enablers of financial fraud, areas most prone to financial fraud and how financial fraud can be managed.

From objective one, the results show that when an opportunity to commit financial fraud presents itself, nobody can resist to miss the chance and therefore, this was the key enabler of financial fraud. From the findings, what is surprising though is that payment of low salaries to NGO staff is not a motivator to committing financial fraud as (86%) said so. Meanwhile (50%) said pressure from the owners of the organisation to meet the resource mobilization targets for the organisations were responsible for the financial fraud as the staff is forced to look for money to facilitate his mobilization targets. It is further surprising from the findings that weak internal controls, lack of or no supervision by management and Board including poor documentation are not opportunities which are seen by NGO staff to commit financial fraud, but rather ethical conduct of both the Board and Management are responsible. From the rationalization point of view, more surprises are recorded in that people in the NGOs commit financial fraud not because there are no other solutions, but because other staff within the organisation also do it as therefore, seen as a game of chance.

A few plausible reasons could be presented as to why low payment of salaries is not a motivator to committing financial fraud. First, a staff member might want to use his employment status and/or position to keep using other means like kickbacks to get money. Even collusion with vendors and other third parties to defraud the organisation. Weak internal controls, lack of or no supervision by management and Board including poor documentation are not opportunities to commit fraud because the other staff see the Board and Management with poor ethical values who might also be defrauding the organisation and as such, use those avenues to commit fraud after all, other staff have also done it before and nothing has happened. Most probably, those staff are shielded by Management or the Board or both. (Wood, 2011) in his study found that board members including some Divisional Managers were responsible for the fraud in organisations. This was further reinforced by (Arleen r. Thomas and Kim m. Gibson, 2003).

Objective two of the study was to examine the area(s) most prone to financial fraud among NGOs in Uganda. The results show that corruption is the most prone to financial fraud. This finding agrees with the report of (Larché, 1999). From the findings, what is surprising though is that theft of inventories like stationeries and other office consumables is not common. The possible reason probably is that those who commit fraud target high value items and not low value items like inventories. The possibility of committing cheque fraud is only up to (10%) chance meaning that this is less likely to happen. Bribes has a relatively low likelihood (20%) chance that it can be committed in the NGOs and close to it is extortion which is (34%) chance.

It is important to note that bribes and extortions have low scale in committing financial fraud because NGOs staff get kickback from the vendors (50%) as opposed to the traditional way of being bribed or extorting money from vendors. As such, what should have been taken in the form of bribes are still given as kickbacks but not necessarily extortions when a vendor is given an opportunity to do work with organisation.

Objective three of the study was to assess how financial fraud could be managed. The results show that prevention is the best approach to management of financial fraud. This was confirmed by (CG, 2020) and reinforced further by (Lowers & Associates, 2014). From the findings, what is surprising is that carrying out investigations and production of the report does not in any way help in management of financial fraud as it is on record and confirmed by (75%) of the NGOs. What is, however, in conformity with this finding is that carrying out pre-employment screening which is (100%) very effective is one sure way to prevent financial fraud. Trainings and awareness sessions on fraud including organisations having ethical statements on its business principles significantly prevent financial fraud among NGOs in Uganda.

A variety of arguments could be provided giving some light on why even when investigations are carried out, it does not help manage financial fraud. First, investigations are more of a post facto intervention, done after the fraud has been committed and, in most cases, the fraudster immediately leaves the organisation and it becomes impossible to enforce organisation policies if someone has left the organisation. Secondly, the evidence will have been tempered with immediately fraud is committed and the person committing is not got red-handed. Further, pre-employment screening is very key and a tool which can prevent as well as manage fraud because if someone has been involved in fraudulent behaviour from previous employment, it is easy to discover and as such some criminal case could be registered against the person or some other actions can be taken to thwart the possibility of more financial fraud in the organisation.

Limitations of the study

The current study had the following limitations. Firstly, the study focused only on Non-Governmental Organisations (NGOs) and did not consider Public sector entities. Second, the study concentrated on NGOs within the Central region of Uganda meaning NGOs that are not operating in this area were not considered part of the study. Thirdly, the study concentrated only on financial fraud and left out programmatic and other related fraud.

Conclusion and recommendation

The following conclusions have been arrived at and the recommendations provided are for policy and practice for NGOs in Uganda.

From results of objective 1, it is concluded that the key enabler of financial fraud is when an opportunity presents itself to NGOs staff. One of the key findings is that the Board and management have some ethical issues to be addressed. It is as such, recommended that both the Board and Management should have ethical values, standards and statements of integrity be put in place and made known to all staff and vendors. The Board and Management should demonstrate these values in their deeds and be exemplary. It is further recommended that the owners (subscribers) of the NGOs including top management should not put too much pressure on the staff charged with roles related to resources mobilization for the organisation as this puts a strain on the staff to look for ways of getting cash to fund their resources mobilization strategies which organisations do not provide. Alternatively, organisations should provide some financial resources to facilitate resources mobilization drives.

From results of objective 2, it is concluded that the area most prone to financial fraud is corruption among the NGOs staff. Some of the key findings are that theft of cash and receiving kickbacks are the main areas within corruption that facilitates fraud. As such, it is recommended that for organisations that do not already have a policy framework on kickback should have a very strong one. For those that already have, considerations on reviewing and taking stock of what is happening given the context in Uganda. Kickback has become very sophisticated to the extent that bribes and collusion is taking a downward trend while kickback is rising. Furthermore, direct theft of cash has become rampant and as such, organisations should limit the use of physical cash for routine transactions. New and advanced technologies like use of Mobile Money, Vouchers and applicable methods should be considered other than use of physical cash.

From results of objective 3, it is concluded that prevention is the most effective way to manage financial fraud among NGOs in Uganda. Some of the key findings are that pre-employment checks, trainings on ethical values, Internal audits, internal tip-off and change of personnel are very key in management of fraud. As such, it is recommended that organisations should as a matter of urgency put in place mechanism to ensure that within HR policy, all potential new staff should undergo fraud examinations before they are offered appointment letters. HR and management should ensure that there are planned and deliberate training to all staff on ethical issues and at the same time, design online courses on fraud and corruption prevention that all staff should undertake during the course of the year to ensure prevention is on high alert. Staff should be encouraged to report suspected cases of fraud immediately to the designated officials. As a matter of practice, there should be rotation and/or change of personnel from one duty station to another as this has proved very effective in Management of financial fraud.

Appendix

List of Figures

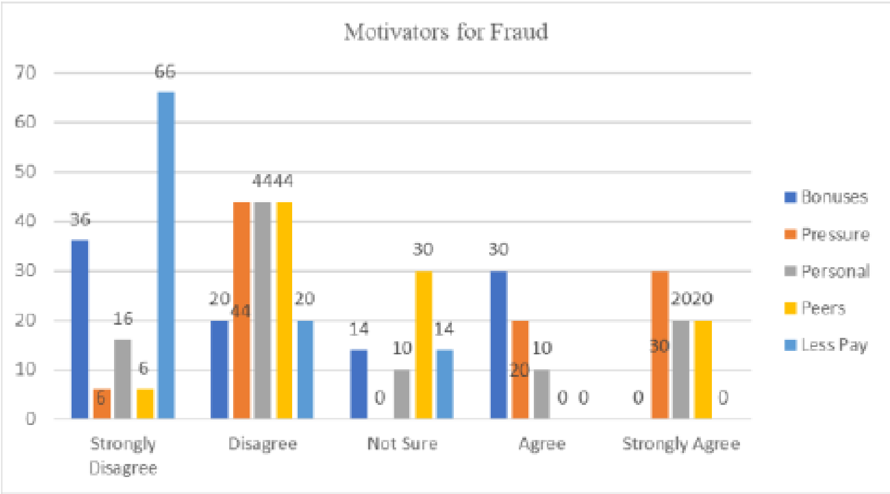

Figure 1. Motivators of Financial Fraud

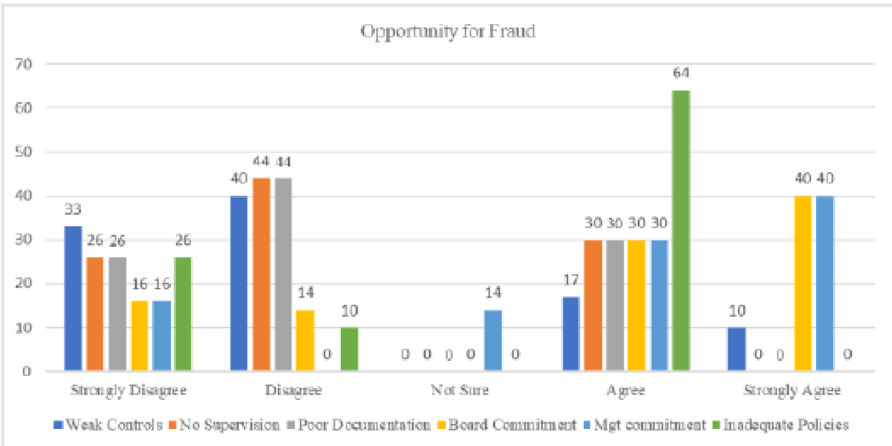

Figure 2. Where Opportunities can present itself for Financial Fraud

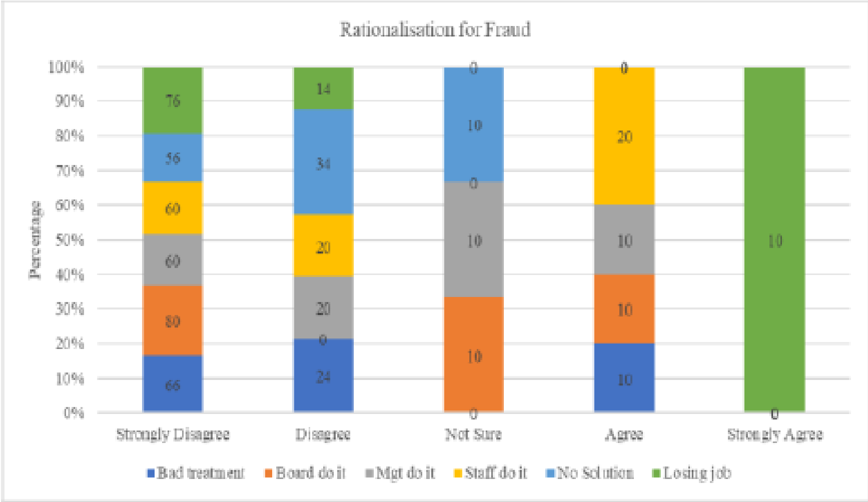

Figure 3. Rationalization for Financial Fraud

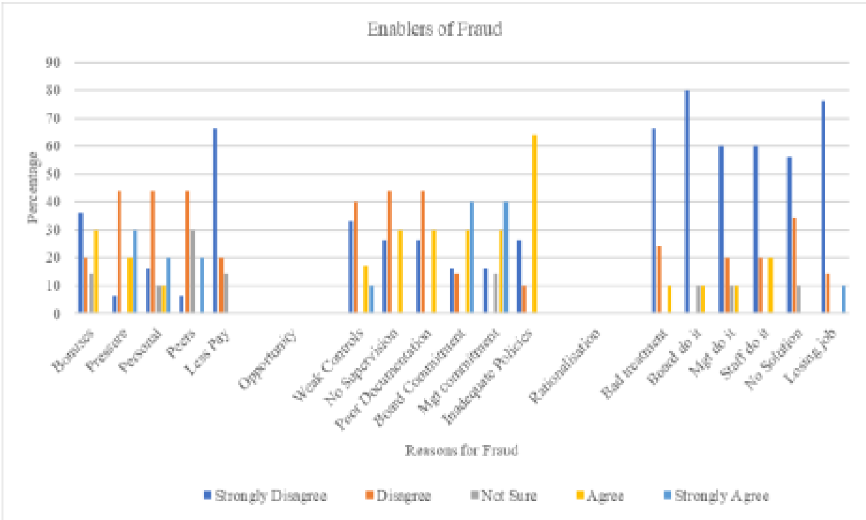

Figure 4. Summary of enablers of financial fraud

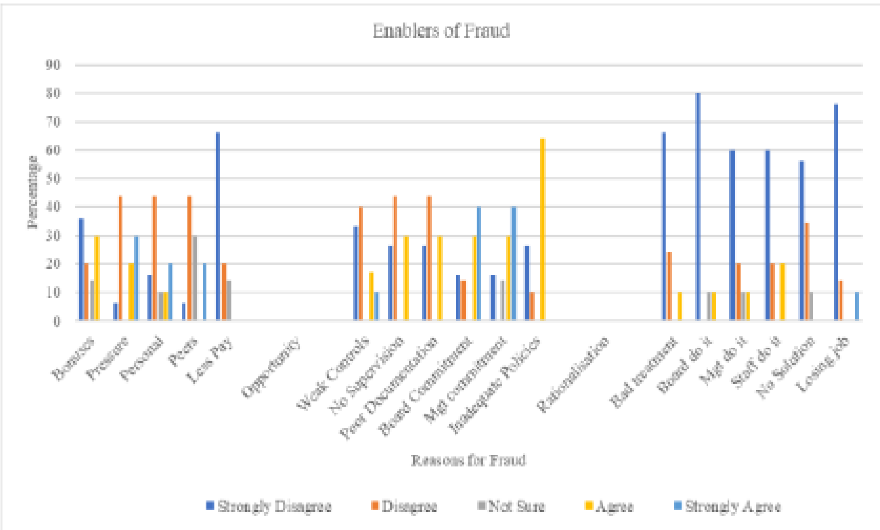

Figure 5. Where Assets Misappropriation can occur

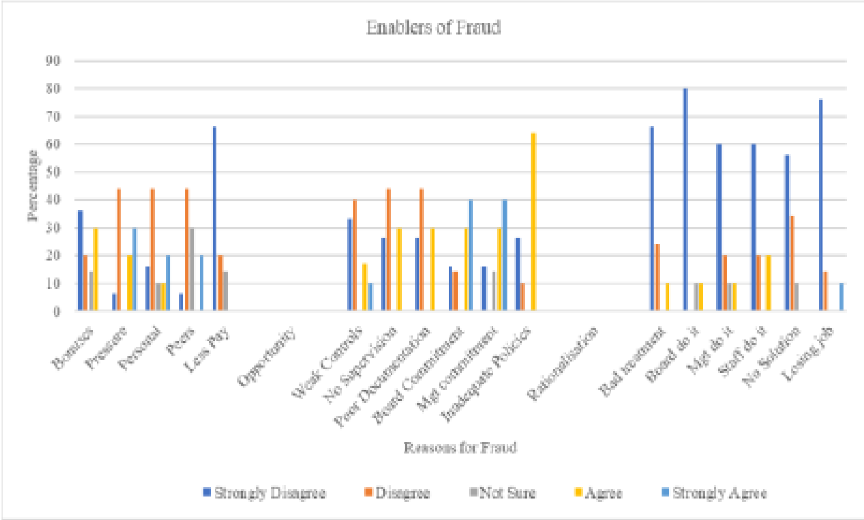

Figure 6. Areas Where Fraud Can Occur within Financial Statements

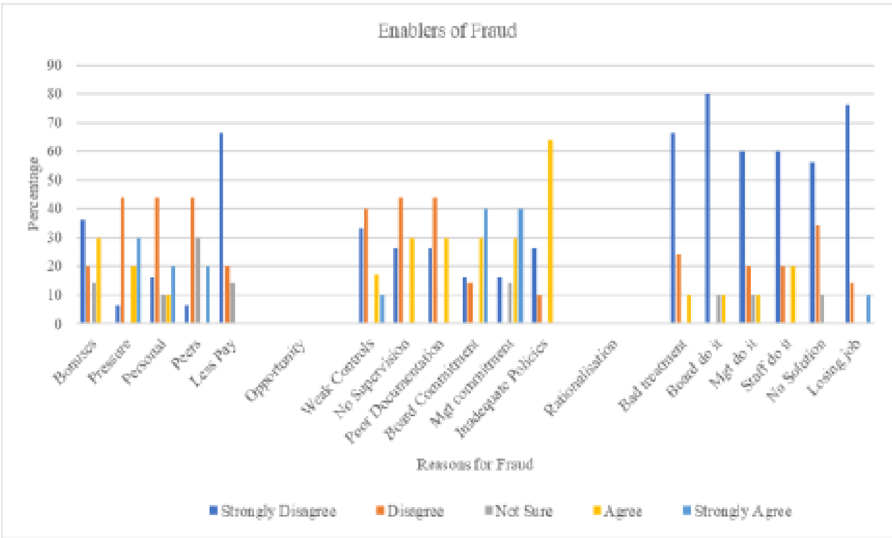

Figure 7. Areas most prone to corruption

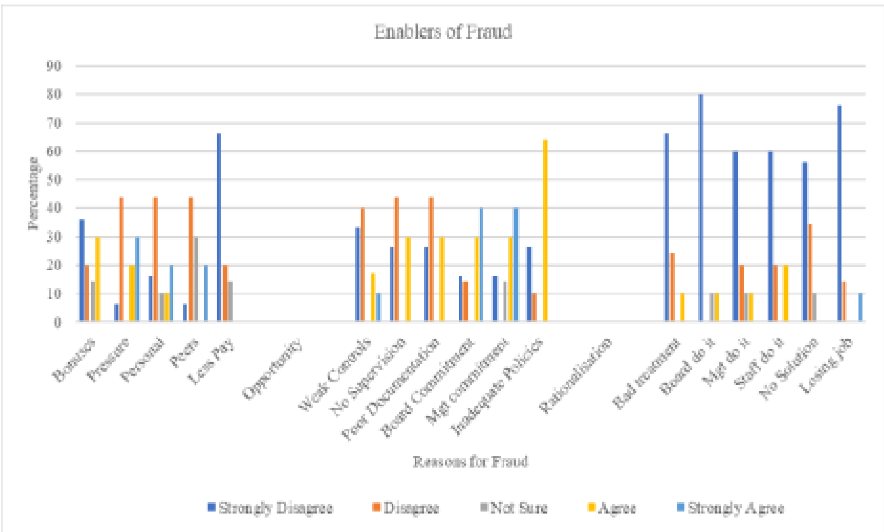

Figure 8. Areas Most Prone to Financial Fraud

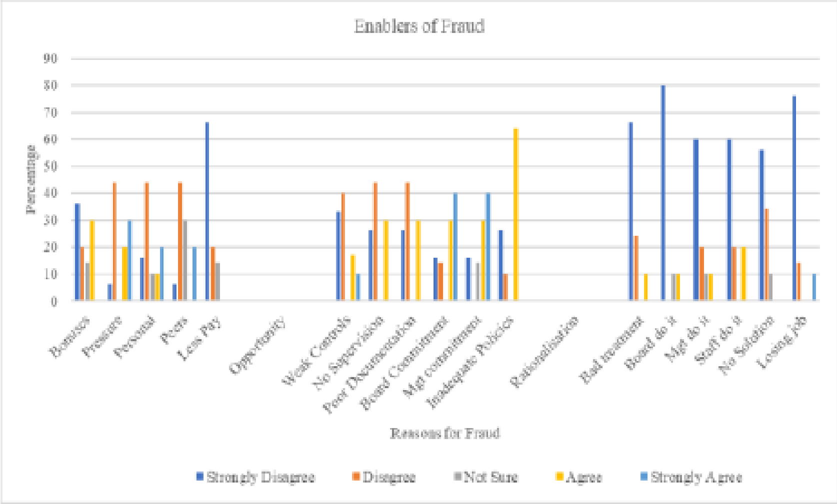

Figure 9. How to prevent Financial Fraud

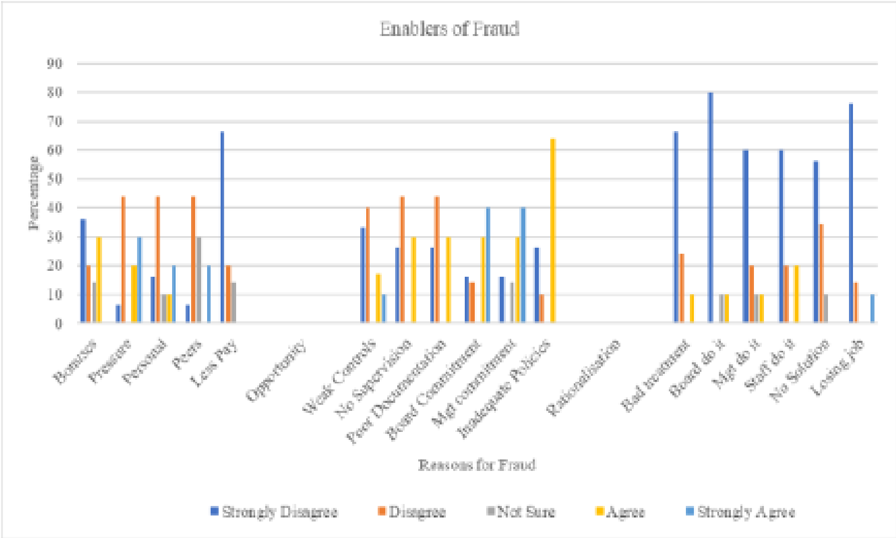

Figure 10. How to detect Financial Fraud

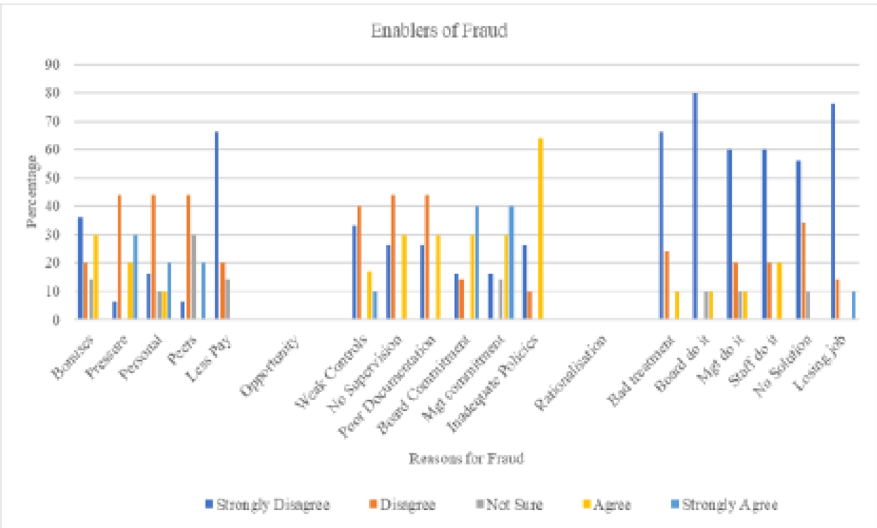

Figure 11. How to Manage Financial Fraud

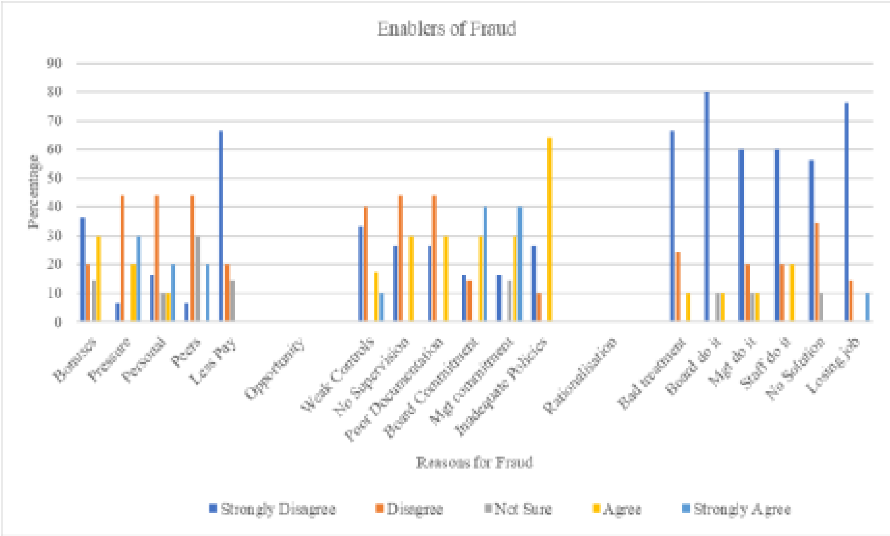

Figure 12. Summary on Management of Financial Fraud

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