

MIDLANDS STATE UNIVERSITY



FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

FORENSIC AUDITING OF RELATED PARTY TRANSACTIONS IN ZIMBABWEAN BANKS TO AVERT FRAUD

BY

KAPESA TONDERAI

R13281W

*SUBMITTED TO THE MIDLANDS STATE UNIVERSITY
IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE
AWARD OF MASTER OF COMMERCE IN ACCOUNTING (MACC)*

GWERU: ZIMBABWE, MAY 2014

MIDLANDS STATE UNIVERSITY

RELEASE FORM

NAME OF AUTHOR: KAPESA TONDERAI

TITLE OF PROJECT: Forensic auditing of related party transactions
in Zimbabwean banks to avert fraud

**PROGRAMME FOR WHICH
PROJECT WAS PRESENTED:** MASTER OF COMMERCE IN ACCOUNTING

YEAR GRANTED: 2014

Permission is hereby granted to the Midlands State University Library to produce single copies of this project and to lend or sell such copies for private, scholarly or scientific research purposes only. The author reserves other publication rights and neither the project nor extensive extracts from it may be printed or otherwise reproduced without the author's written permission.

SIGNED

PERMANENT ADDRESS: 53 CLYDE ROAD
EASTLEA
HARARE

DATE: MAY 2014

MIDLANDS STATE UNIVERSITY

APPROVAL FORM

The undersigned certify that they have read and recommend to the Midlands State University for acceptance; a dissertation entitled, *Forensic auditing of related party transactions in Zimbabwean banks to avert fraud*, submitted by Tonderai Kapesa in partial fulfillment of the requirements for the degree of Master of Commerce in Accounting.

.....

SUPERVISOR

.....

DATE

.....

CHAIRPERSON

.....

DATE

.....

EXTERNAL EXAMINER

.....

DATE

.....

LIBRARIAN

.....

DATE

DEDICATION

This work is dedicated to my dear wife Rumbidzai Chikwizo Kapesa for her support , when I felt like quitting and for not being a disturbance when I was carrying out this study.

ACKNOWLEDGMENTS

This work was not going to be possible had it not been for the following people who offered guidance, support and assistance during the research. My supervisor Mr. R. K. Noko offered valuable guidance as he reviewed my work. Special mention goes to my dear wife Mrs. R. Kapesa, who also offered moral support during the research. My workmates Mr. N. Hosho, Mr. D. Muzividzi, Mr. K. Matowanyika and Mrs. C. P. Mawema also assisted with guidance on the field work especially on the data analysis stage. Banking industry staff and participants from auditing firms who participated in this study are appreciated for their co-operation during data collection. Classmates Mr. S. Anali, Mr. D. Chimanga and Mr. K. Gwizo also offered great moral support during the study. Finally and most importantly, the Almighty, God my Father is valued, revered and appreciated for making me continue to function in this physical body

Abstract

The study sought to evaluate the impact of periodically engaging forensic auditors to verify related party transactions in Zimbabwean banks, focusing on financial institutions listed on the ZSE. The study was motivated by the prevalence of bank failures that have been experienced in Zimbabwe between 2009 and 2013, where two banks were placed under curatorship whilst three were closed. The objectives of the study were to examine the nature and extent of related party lending frauds and the financial impact of these frauds, as well as the cost and benefit analysis of engagement of forensic auditors to check on banks' related party lending limits compliance and health check with regards to non-performing insider loans. A descriptive design was used for the study, with a positivist philosophy. Data was gathered from a cross-section of respondents who included staff from three commercial banks, staff from five auditing and accounting consultancy companies as well as staff from the Reserve Bank of Zimbabwe's bank supervision and surveillance division. The study concluded that related party lending was a problem in Zimbabwean banks as responses from all concurred that in all the banks that have failed in Zimbabwe, had been affected by non-performing insider loans (related parties loans). The study came up with a number of conclusions which included the use of forensic auditors as well as suggestions that appointments of these forensic auditors be made annually and bank managers and shareholders were also encouraged to ensure high standards of corporate governance and ethical behaviour. The study recommended that the appointment of forensic auditors be considered by institutional investors as well as individual shareholders as a way to safeguard their investments from managers who may grant loans to undeserving related parties.

TABLE OF CONTENTS

Release form	(ii)
Approval form	(iii)
Dedication	(iv)
Acknowledgements	(v)
Abstract	(vi)
Table of Contents	(vii)
List of tables	(x)
List of figures	(xi)
List of Appendices	(xii)
List of acronyms	(xiii)

Chapter 1 Introduction

1.1 Introduction	1
1.2 Background of the study	1
1.3 Statement of the problem	4
1.4 Research objectives	4
1.5 Research questions	5
1.6 Significance of study	5
1.7 Delimitations	6
1.8 Conceptual framework	7
1.9 Limitations	9

1.10 Definition of terms	9
1.11 Summary	10
Chapter 2 Literature Review	
2.1 Introduction	11
2.2 Related party transactions	11
2.3 Fraud	14
2.4 Fraud Auditing	21
2.5 Forensic Accounting	24
2.6 Distinction between Fraud Auditing and forensic accounting	26
2.7 Fraud auditors, Forensic accountants and Financial Auditors	29
2.8 The Association of Certified Fraud Examiners (ACFE)	30
2.9 The Public Accountants and Auditors Board Zimbabwe (PAAB)	31
2.10 International Accounting Standards and International Standards on Auditing	33
2.11 Summary	34
Chapter 3 Research Methodology	
3.1 Introduction	36
3.2 Research design	36
3.3 Methods of Data collection	37
3.4 Population of the study	37
3.5 Sampling	38
3.6 Sources of data	39
3.7 Data collection Instruments	40

3.8 Validity and reliability	42
3.9 Data presentation and analysis procedures	44
3.10 Ethical Considerations	44
3.10 Summary	44
Chapter 4 Data Presentation and Presentation of findings	
4.1 Introduction	46
4.2 Response rate	46
4.3 Presentation of findings from banks	53
4.4 Presentation of findings from banks	63
4.5 Presentation of findings from RBZ staff	70
4.6 Analysis and discussion of findings	71
4.7 Summary	77
Chapter 5 Conclusions and Recommendations	
5.1 Introduction	78
5.2 Conclusions	78
5.3 Recommendations	80
5.4 Chapter summary	81
5.5 Further Study	81
References	82
Appendices	86

LIST OF TABLES

Table No.	Description	Page
Table 2.1	Auditing comparisons	28
Table 3.1	Sampling statistics	38
Table 4.1	position held	49
Table 4.2	Highest qualification	49
Table 4.3	Gender (bank)	50
Table 4.4	Age (bank)	50
Table 4.5	Length of service (bank)	50
Table 4.6	Cross-tabulation dept vs. Length	51
Table 4.7	Symmetric Measures	52
Table 4.8	Likert responses (Banks)	61
Table 4.9	Position held (auditors)	63
Table 4.10	Highest qualification (auditors)	63
Table 4.11	Gender (auditors)	64
Table 4.12	Age (auditors)	64
Table 4.13	Length of service (auditors)	64
Table 4.14	Cross tabulation audited bank vs. position	65
Table 4.15	Cross tab audited bank vs. length	66
Table 4.16	Likert responses (auditors)	68
Table 4.17	Responses from RBZ staff	70

LIST OF FIGURES

Number	Description	Page
Fig 1.1	Place for forensic auditing	4
Fig 1.2	Conceptual framework	8
Fig 2.1	Fraud Triangle	18
Fig 4.1	Department worked	48
Fig 4.2	Definition of fraud	53
Fig 4.3	Prevalent fraud	54
Fig 4.4	Reasons for fraud	55
Fig 4.5	Level of fraud	56
Fig 4.6	Frequency of fraud	57
Fig 4.7	Reported Fraud cases	58
Fig 4.8	Why not both forensic and statutory	59
Fig 4.9	Strategies to reduce fraud	60
Fig 4.10	Ever audited a bank	65
Fig 4.11	Problems faced by auditors	66
Fig 4.12	Reasons for fraud	67
Fig 4.13	Ways to reduce related party fraud	69

LIST OF APPENDICES

Appendix	Description
Appendix I	Questionnaire for banks
Appendix II	Questionnaire for auditors
Appendix III	Interview guide

LIST OF ACRONYMS

RBZ- Reserve Bank of Zimbabwe
ZSE- Zimbabwe Stock Exchange
NPLs- Non Performing Loans
SAS- Statement on Auditing Standards (United States of America)
COSO- Committee of Sponsoring Organisations
ISA- International Statements of Auditing
SOX- Sarbanes-Oxley Act
USA- United States of America
AICPA- American Institute of Certified Public Accountants
PCAOB- Public Company Oversight Board
ZBC- Zimbabwe Broadcasting Corporation
NSSA- National Social Security Authority
AS- PCAOB Audit Standard
ZRP- Zimbabwe Republic Police
PAAB- Public Accountants and Auditors Board
SEC- Securities Exchange Commission (US)
IFRSs- International Financial Reporting Standards
IAS- International Accounting Standard
IAASB-International Auditing and Assurance Standards Board
SME- Small to Medium Sized Enterprises
IFAC- International Federation of Accountants
SPSS- Statistical Package for Social Sciences

CHAPTER 1

INTRODUCTION

1.1 Introduction

In this chapter a background to the study is given, problem stated, objectives and research question also given and discussed. The delimitation of the study in terms of time, subject, geography and methodology were discussed before the conceptual framework was developed which are applicable to this study alone, use for any other studies might require modification or improvement to suit the circumstances. Key terms used in this study are also discussed in this chapter especially those words which had no common meaning were therefore contextualised to this study.

1.2 Background of the study

Financial institutions survive on fiduciary relationships, a position of trust and have a business built on confidence. It is the combination of trust and confidence that motivates bank customers to put their entire life saving in a bank. It is therefore imperative that banks should be safe for keeping of funds, but the reverse appears to be the case, as banks have become vulnerable to frauds and forgeries, which constitute the greatest risk to depositors and shareholders. This is why the responsibility of the forensic auditor to detect and report fraud became relevant (Hamid, 2009). Forensic auditing should be responsible for digging out frauds committed through application of auditing, accounting, and investigative techniques in order to come up with sufficient evidence that can be used in court proceedings (Albrecht et al, 2001). Forensic accountants have been described as experienced auditors, accountants and investigators of legal and financial documents that are hired to look into possible suspicions of fraudulent activity within a company; or are hired by a company who may just want to prevent fraudulent activities from occurring (Okoye and Okaro, 2012).

The same can be said of the Zimbabwe's banking sector where institutions continue to face closure/liquidation and/or near collapse (curatorship) and investigations instituted by the regulator; the Reserve Bank of Zimbabwe (RBZ), by employing forensic auditors pointed to

some element of misappropriation of depositors' funds (fraud), which had some link with related party exposures and non-performing insider loans. The Reserve Bank of Zimbabwe had this to say during the placement of Interfin Bank under curatorship in a press statement dated 11 June 2012; "The Reserve Bank took this action upon determining that Interfin Bank Limited is not in a safe and sound financial condition. In particular the unsafe and unsound condition of Interfin Bank Limited is attributable to inadequate capitalization, concentrated shareholding and abuse of corporate structures, high level of non-performing insider and related party exposures, chronic liquidity and income generation challenges, poor board and senior management oversight, as well as violation of banking laws and regulations." The same problems had also been cited on 2 June 2011 when the governor of the RBZ placed under curatorship ReNaissance Merchant Bank; "non-performing loans constituted 38 percent of the total loan book, the bulk of which were loans to insiders (related parties), this engagement in both cannibalistic and incestuous non-performing insider loans under the veil of a convoluted network of both sister and sinister companies and trusts designed to camouflage reality on the ground disguised the personalities behind them including the purpose for which those transactions were taking place," said Gono.

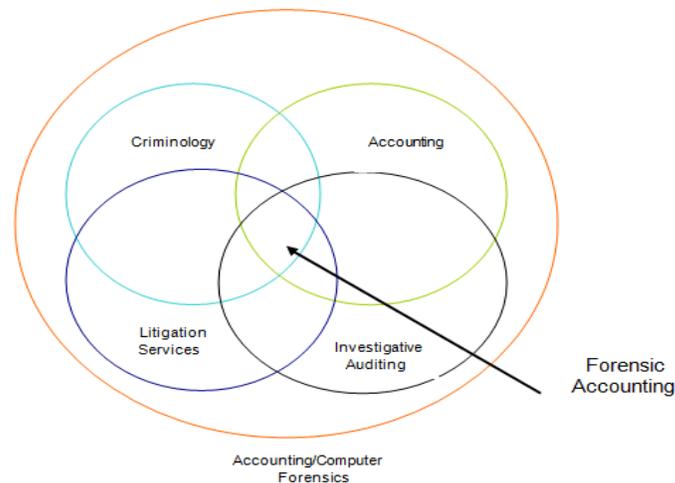
The governor of the RBZ also had this to say in another press statement dated 31 July 2012 at the closure of Royal Bank; "The regulatory authorities are particularly concerned with the rapid deterioration of Royal Bank's loan book over the 15 months since commencement of operations. The recent on-site examination determined that 99.29% of the total loan book of \$1.52 million as at 31 May 2012 was non-performing, including all exposures to related parties." These instances clearly show financial institutions abuse depositor's fund through granting loans to insiders and most of these turn to non-performing loans. In Africa, Brownbridge, (1998) cited by Richard (2011) concluded that many of the bad debts in banks were attributable to moral hazards; the adverse incentives on bank owners to adopt imprudent lending strategies, in particular insider lending (related party transactions), at high interest rates to borrowers in the most risky segments of the credit market.

Since the adoption of multiple currencies in Zimbabwe, in February 2009, there have been three bank closures and two banks being placed under curatorship, all of which had some abuse of insider lending. The closures were of Genesis Investment Bank (11 June 2012), Royal Bank (27 July 2012) and Trust Bank (6 December 2013), while the curatorships were of ReNaissance

Merchant Bank (2 June 2011) and Interfin Banking corporation (11 June 2012). Although the RBZ as the regulatory authority, came in handy by appointing forensic auditors to investigate and determine the financial losses to the banks and clients and the resultant curatorship of the financial institutions, the damage had already been occasioned. Clients, potential investors, and the public have lost confidence and trust with the banking sector. The aftermath of the financial crisis evidenced the inexorable withdrawal of savings from the banking institutions by clients who had the worst belief and fear that their hard-earned cash would be swindled. The risk was evidently high among the new and indigenous-owned financial institutions (Njanike et al, 2009).

Prior to the current wave of troubled financial institutions the following had been cited, among the major causes of the collapse of Zimbabwean financial institutions: the inadequacy of risk management systems and diversion of the core business to speculative activities contrary to the dictates of Sections 32 to 35 of the Banking Act (Chapter 24:20), as well as related party exposures beyond the set limits. High levels of non-performing insider loans, overstatement of capital adequacy, and rapid expansion were some of the causes of the crisis (Reserve Bank of Zimbabwe Report, 2006) as reported after the 2003/2004 financial sector turmoil. Some financial institutions were misrepresenting their financial condition, while some were tampering with the information systems to conceal losses by creating fictitious (non-existent) assets and understating expenses and liabilities. Banking institutions were overstating their capital by under-providing for non-performing loans, while others falsified transactions to conceal undercapitalization (Akhudime & Izedonmin, 2013). The question that has arisen as a result of such scandals has been and still is, are internal and statutory external audits sufficient for Zimbabwean financial institutions, for the auditing of related party transactions? If not what should be done then to safeguard depositor's funds? What is the role of forensic accounting/auditing in Zimbabwe's financial sector, in the auditing of related party transactions? Should forensic accounting skills be mandatory for all bank auditors? The diagram below gives an overview of the position for forensic accounting/auditing in relation to accounting, auditing, criminology and litigation services.

Figure 1.1: Place for Forensic auditing



SOURCE: The Journal of Digital Forensics, Security and Law, Vol. 4(1), 2009 pg 68.

The integration of accounting, auditing and investigative skills results in the special field known as forensic accounting (Crumbley, 2008).

1.3 Statement of the problem

Forensic auditors are not engaged to express an opinion on the financial statements of an entity as a whole, therefore; can financial institutions not periodically engage forensic accountants/auditors in conjunction with statutory external auditors in order to mitigate financial and economic losses currently being suffered by the economy as a result of related party transaction frauds and any related white collar crimes? Can forensic auditing skills be part of the technical skills mandatory for auditors to be appointed as bank auditors? The research therefore seeks to establish whether forensic auditing or forensic investigative skills can help plug gaps of potential related party transactions fraud and improve stability of financial institutions in Zimbabwe.

1.4 Research Objectives

The following are the objectives for the study:

- (a) To examine the nature and extent of related party transactions fraud in Zimbabwean financial institutions.

- (b) To determine the extent of the cost and benefits of biannually appointing forensic auditors in the auditing of banks' related party transactions, in addition to statutory audits.
- (c) To suggest possible solutions to avert the problem of bank failures caused by related party transactions fraud in Zimbabwean banks.

1.5 Research Questions

The following are the research questions that the study sought to answer:

- a) What is the financial impact of engaging forensic auditors, to a bank and its members to audit related party transactions?
- b) Can forensic auditing of related party transactions be incorporated as part of statutory audits of financial institutions?
- c) To what extent are Zimbabwean banks exposed to fraud, in the form of related party transactions not done above board?
- d) What can be the possible solution to related party transactions fraud in banks?
- e) What is the role of the Reserve Bank of Zimbabwe in mitigating related party transactions fraud?

1.6 Significance of the Study

1.6.1 To the banking public

The banking public has lost confidence in Zimbabwe's banks as a result of losses that have been suffered already when banks were either put under the management of curators or worse still when liquidated or when licenses are withdrawn but the regulators. Therefore, this study will help in restoration of this confidence if the findings and recommendations are implemented by the responsible authorities.

1.6.2 To potential and current investors of financial institutions

Potential and minority shareholders suffer, the most when the majority shareholders connive with executive management, to fleece them of their investments through related party lending which in most cases turn up to be non-performing. The result is that shareholders loose out their investments, this study will help protect the interests of

minority shareholders as well as potential investors by improving on the transparency and accountability with banks not diverting from their core business.

1.6.3 To the financial sector regulator

Regulators are supposed to craft strategies that maintain, improve or restore the banking public's confidence as well as protect the economic objectives of the government. This study's findings are available for the regulators to improve on the existing rules and regulations so that Zimbabwe's banking sectors is always credible.

1.7 Delimitation

The scope of the study is discussed here.

1.7.1 Geographical scope

The study focused on Zimbabwe Stock Exchange (ZSE) listed banking institutions with headquarters in Harare. Data was also gathered from auditing firms that have audited financial institutions in the past and have experience in the auditing of financial institutions. Furthermore, data was also collected from the Reserve Bank of Zimbabwe's bank licensing and supervision division, regardless of their rank or position in the division, but stationed at the headquarters.

1.7.2 Time scope.

The period under study was from February 2009 to December 2013, this is a five year period.

1.7.3 Subject scope.

The study covered bank failures experienced in Zimbabwe since 2009 to 2011 and the findings that have been made with regards to related party transactions' effect on such failures. Furthermore, the study covered the extent of non-performing insider loans from the above said financial institutions.

1.7.4 Methodology scope.

The study used questionnaires, personal interviews, and document review as instruments to gather both primary and secondary data. The research is a problem study designed to explore the impact of forensic auditing in detecting, investigating, and preventing bank frauds, which are linked to related party transactions only, since forensic auditors are not employed to express an opinion on the financial statements as a whole.

1.8 Conceptual Framework

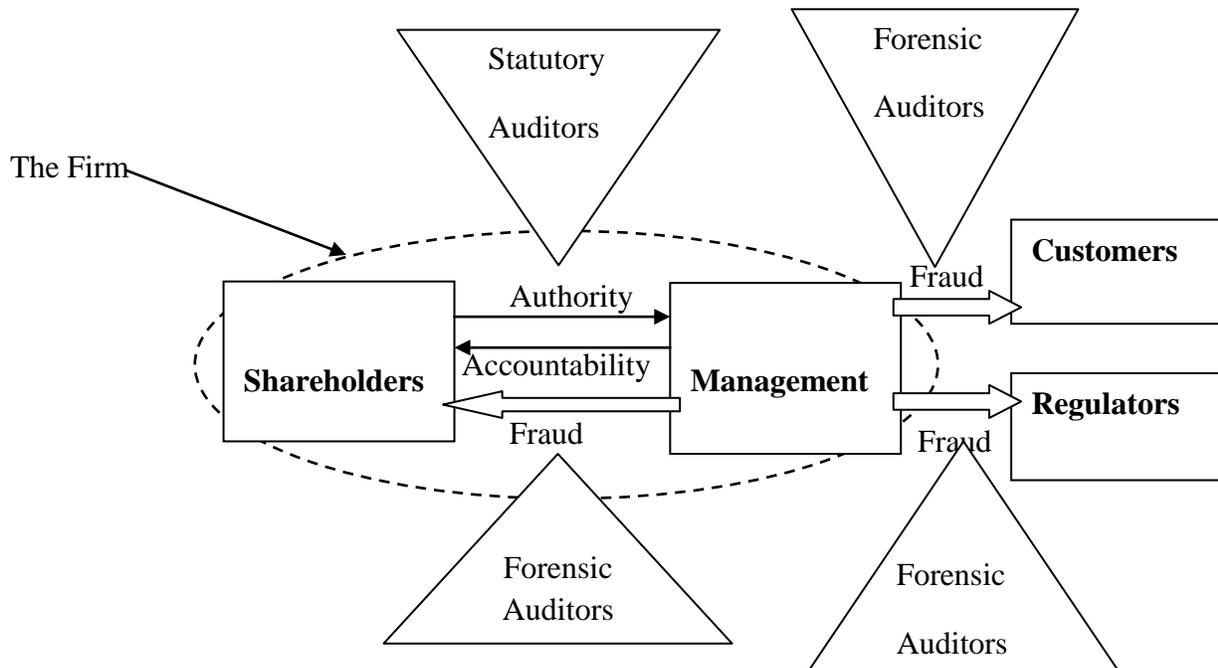
According to the Institute of Chartered Accountants in England & Wales background paper titled, Agency theory and the role of audit (2005), Audits serve a fundamental purpose in promoting confidence and reinforcing trust in financial information. The principal-agent relationship, as depicted in the agency theory, is important in understanding how the audit has developed. Principals appoint agents and delegate some decision-making authority to them. In so doing, principals place trust in their agents to act in the principals' best interests. However, as a result of information asymmetries between principals and agents and differing motives, principals may lack trust in their agents and may therefore need to put in place mechanisms, such as the audit, to reinforce this trust.

The agency theory is a useful economic theory of accountability, which helps to explain the development of auditing. However, this simple model of the role of auditing, depicted through agency theory, is complicated by other factors, which are highlighted, for example, auditors are also agents of principals, which can lead to further concerns about trust, threats to objectivity and independence and an ongoing need to find further mechanisms such as regulation to align the interests of shareholders, directors and auditors. Alongside this, we know that there are other stakeholders, such as regulators, who have an interest in the audit and agency theory does not provide a simple or complete explanation of their expectations. Furthermore, whilst the agency theory would suggest that principals do not trust their agents, we know that there must be some trust in agents because of the volume of unaudited information that directors provide to shareholders.

Shareholders are the owners of the company, but in pursuit of good governance the owners do not manage their companies as a result they appoint professionals to manage these organisations profitably. In return these managers are accountable to the shareholders on the agreed upon objectives of the company, but sometimes due to greed and personal motives such management do not account faithfully to the stockholders, resulting in prejudice of the owners (fraudulently). Such prejudice so suffered in Zimbabwe's financial sector has mainly been through lending to companies and individuals related to the managers who usually do not pay back the lent funds and the interest thereon, this does not affect the shareholders alone but customers as well, who would invest their life savings in banks expecting a return (interest) at the agreed time. This

management is also charged with the responsibility to report and disclose such transactions to the public as well as the regulators (RBZ) periodically to show their compliance with the regulations, governing their operations and licensing requirements. However, management sometimes do not execute this responsibility faithfully, thus the existence of fraud.

Figure 1.2: Conceptual Framework



Source: Developed from a December 2005 Institute of Chartered Accountants in England & Wales background paper titled “Agency theory and the role of audit”.

It is the existence of fraud in firms that motivates or creates the need for forensic accountants/auditors. The level of related party transactions influences the susceptibility to fraud of an organisation, therefore, fraud (dependent variable) depends upon related party transactions level (independent variable), whilst forensic auditing is a means to ascertain the level of these two variables. Zimbabwe’s financial institutions have been saddled with the same problem, but the most grievous fraud has been through insider lending or related party transactions, which normally turns out to be non-performing loans (NPLs). This has in the history of Zimbabwe’s banking sector had a number of victims in the form of banks under the management of a curator as well as bank closures and licenses withdrawals by the RBZ.

1.9 Limitations

- i. The most outstanding challenge has been about confidentiality which banks and financial institutions adhere to, to an extent that gathering of data from financial institutions was a big challenge. However, the researcher used past networks and colleagues from banks to gather the data, this was going to result in very biased findings had it that such important data could not be collected.
- ii. Time constraints were also a major issue, with the researcher having to balance between school, work and family, but the researcher had to prepare very strict schedules and exercise discipline in all activities but without compromising each of the others.
- iii. Financial resources were also a problem that the researcher faced, especially having to go into the field to gather data in the very short space of time that this study was to be completed, however, the researcher used technology like the emailing of research instruments to respondents as well as requesting them to scan and send back their responses once completed and this proved very essential and effective in managing transport costs for data collection.
- iv. Accessibility constraints were also faced, thus most audit firms were during the peak of their business when this study was carried out so the researcher could not get the data from the expected people in the anticipated timeframes. To mitigate this challenge the researcher had to exercise a virtue called patience and persistence in following up until the required information had been obtained regardless of the busy schedules of the respondents.

1.10 Definition of terms

Related Party A director, senior manager or significant shareholder of the credit institution or an entity in which the credit institution has a significant shareholding, as well as a connected person of any of the aforementioned persons, (Central Bank of Ireland's Code of practice on lending to related parties (2013)).

Senior Management: Members of management of the institution or person who report directly to the board of directors or the chief executive (howsoever described) of the institution, (Central Bank of Ireland's Code of practice on lending to related parties (2013)).

Senior Manager: A person who is a member of senior management, (Central Bank of Ireland's Code of practice on lending to related parties (2013)).

Significant Shareholder: A person who holds, either themselves or in aggregate with their connected persons, a significant shareholding. Governments are excluded from this definition, (Central Bank of Ireland's Code of practice on lending to related parties (2013)).

Significant Shareholding: 10% or more of the shares or voting rights in the credit institution or business, (Central Bank of Ireland's Code of practice on lending to related parties (2013)).

Lending; The provision of a loan, (Central Bank of Ireland's Code of practice on lending to related parties (2013)).

Loan: means the extension of any credit or the provision of any credit facility whatsoever, including the advance of funds arising from the fulfillment of the obligations of issuers and endorsers of commercial or business paper. (Zimbabwe Banking Regulation of 2000 or Statutory Instrument 205 of 2000)

Non-performing Loan (NPL): A non-performing loan is an advance by a financial institution that is not earning income and full payment of principal and as such interest is no longer anticipated, (Chikoko, Mutambanadzo, & Vhimisai, 2012).

1.11 Summary

This chapter has introduced the study from the problem and its background, the delimitations and limitations of the study as well as the conceptual framework. This chapter has clearly brought out the problem and the gap where this study filled in the field of forensic auditing which the researcher found to be a highly under researched area as most researchers have focused on statutory external audits as well as internal audits. This study provides very great insights into the mentioned area. The following chapter reviews literature that has been published, locally in Zimbabwe by Zimbabweans or in the region and sub-regions and even the global scale.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This Chapter examines empirical and theoretical literature related to the main concepts under review in this study. The main concepts are; fraud, forensic accounting and related party transactions. The theory is based on the International Accounting Standards (IAS) and International Standards on Auditing (ISA) as well as established authors in the field of forensics and forensic accounting.

2.2 Related party transactions

International Accounting Standard 24 *Related Party Disclosures* is the major literature that deals with related party transactions and has the following items as its scope: The Standard is applied in:

- (a) Identifying related party relationships and transactions;
- (b) Identifying outstanding balances, including commitments, between an entity and its related parties;
- (c) Identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- (d) Determining the disclosures to be made about those items.

The Standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of a parent, venturer or investor presented in accordance with IAS 27 *Consolidated and Separate Financial Statements*. This Standard also applies to individual financial statements. Related party transactions and outstanding balances with other entities in a group are disclosed in an entity's financial statements. Intra-group related party transactions and outstanding balances are eliminated in the preparation of consolidated financial statements of the group.

The same standard also defines related parties under different circumstances, but for the purposes of the study the definition of a related party is confined to the one given in Chapter 1, above.

The standard is discussed as it relate to banks and financial institutions. Further empirical reviews were made of studies on the same phenomenon as it relates to related party lending. According to Robin (2011), in a review of IAS 24, related parties are a major issue for banks, as the potential access to banks' funds attracts undesirable parties. The major risks of related parties are they can secure credit at either below-market rates, or circumvent the normal credit appraisal procedures that would either have vetoed the loan, or demanded stricter conditions.

2.2.1 Related parties disclosures for banking institutions

According the RBZ Guideline No. 01-2007/BSD 's Second and seventh schedules, every banking institution shall disclose separately, in tabular form, all intra-group transactions and/or exposures to related parties, directors and shareholders indicating the gross limits, utilised amounts and maturity date. Furthermore, every banking institution shall disclose a summary of the policies on related party transactions, which should include the definition of relatedness, limits applied, terms of transactions, and the authorities and procedures for approving and monitoring these transactions. Furthermore the disclosures should include the nature, size and purpose of related party transactions and intra-group transactions.

In the Republic of Ireland, there is a Code of Practice on Lending to Related Parties originally done in 2010 and became effective on 1 January 2011, and a recent revision was in 2013, which came into force on 1 July 2013 has the following as its overview; "In order to guard against abuses in lending to related parties and to address possible conflicts of interest, the Central Bank hereby requires that such lending be on an arm's length basis and subject to appropriate management oversight and limits." This clearly shows how contentious and how much a problem, related lending is a problem the world over.

The central Bank of Nigeria also specifies limits on lending to related parties for Micro-finance banks, in the document titled Revised Regulatory and Supervisory Guidelines for Microfinance Banks in Nigeria (2012) section 8.1.9 dealing with Limits of Lending to a Single Borrower and Related Party, where it states the following:

- a) The maximum loan by an Micro Finance Bank to any individual borrower, Director or related borrowers shall not exceed 1 percent, and in the case of group borrowers, a maximum of five (5) per cent of the Micro Finance Bank's shareholders' fund unimpaired by losses or as may be prescribed by the Central Bank of Nigeria from time to time.
- b) In addition, aggregate insider-related lending at any time shall not exceed five (5) per cent of its shareholders' funds unimpaired by losses. For this purpose, loans under a staff scheme shall not apply, but shall be in accordance with the staff conditions of service.

Any contravention attracts a penalty of N250, 000.00 on the Micro Finance Bank and a letter of warning to the Managing Director. Subsequent defaults are a ground for the removal from office of the affected Officer(s).

The Basel committee on Banking supervision's core principles for effective banking supervision has a principle addressing the problem of transactions with related parties as follows; "Principle 20 – Transactions with related parties: In order to prevent abuses arising in transactions with related parties and to address the risk of conflict of interest, the supervisor requires banks to enter into any transactions with related parties on an arm's length basis; to monitor these transactions; to take appropriate steps to control or mitigate the risks; and to write off exposures to related parties in accordance with standard policies and processes." This principle clearly shows that the major problem with related party transactions in banks just like in any other industry is about such transactions not being done in an arm's length basis. If transacting parties were going to be professional enough and treat business seriously then there was never going to be any related party transactions problems that would lead to bank or corporate failure of the magnitude of the 21st century bankruptcies.

2.3 Fraud

Fraud is a legal term that refers to the intentional misrepresentation of the truth in order to manipulate or deceive a company or individual. Corporate fraud has recently received considerable attention from the business community, accounting profession, academics, and regulators (Kedia & Philippon, 2009; Rezaee, 2005). Fraud may be defined as intentional deception, cheating, or stealing. It can be committed against users such as investors, creditors, customers, or government entities (Weirich & Reinstein, 2000). The US Statement on Auditing Standards (SAS) No. 82 identifies two types of corporate fraud: financial reporting fraud and misappropriation of assets. Financial reporting fraud (also called management fraud) refers to management behavior that seeks to inflate reported profits or other assets by deliberately overstating assets and revenues or understating expenses and liabilities in financial statements (Rezaee, 2005; Zahra, Priem, & Rasheed, 2005). Misappropriation of assets (also called employee fraud) is the behavior of employees stealing money or other property from their employers (e.g., embezzlement, theft, and kickbacks). This study is concerned with management fraud.

When banks undergo severe financial problems and end up in either curatorship or bankruptcy, fraud by senior management may be involved. In Zimbabwe's financial sector this fraud has been attributed to related party transactions that go undeterred, advances made to individuals and companies related to senior management of a financial institution. This was the case when the Reserve Bank of Zimbabwe (RBZ) placed Interfin Bank under curatorship; "The Reserve Bank took this action upon determining that Interfin Bank Limited is not in a safe and sound financial condition. In particular the unsafe and unsound condition of Interfin Bank Limited is attributable to inadequate capitalization, concentrated shareholding and abuse of corporate structures, *high level of non-performing insider and related party exposures*, chronic liquidity and income generation challenges, poor board and senior management oversight, as well as violation of banking laws and regulations" (RBZ Press statement, 11 June 2012).

Accounting fraud is an act of knowingly falsifying accounting records, such as sales or cost records, in order to boost the net income or sales figures. Accounting fraud is illegal and subjects the company and the executives involved to civil lawsuits. Company

officials may resort to accounting fraud to reverse loss or to ensure that they meet earning expectations from shareholders or the public. David (2005), states that fraud is not a possibility but a probability. He also explains that fraud can be better prevented if decisions are made by a group and not an individual. However, this is not the case if the group has the same interest in mind, then fraud may not be prevented. Conversely, the group is influenced by the dominant decision maker who ends up deciding everything, who usually in the case of Zimbabwean banks that have failed in the past has been a shareholder-manager. The only way to solve the cancer of fraud could be the education of the public and inform them of the use and function of forensic accounting to prevent fraud occurrences. When the public is made known of the concept, then they could actually demand for the service in the company in which they invest in.

Albrecht (2005) argued that fraud is rarely seen. However, the symptoms of fraud are usually observed. The symptoms do not necessarily mean fraud is being experienced as it may be caused by genuine mistakes. Therefore, there is great need for caution when fraud is reported, as it may turn out to be false accusations. Fraud is not easily proven since fraudsters have a safe line where authorities (legal or civil) cannot convict them. This shows that fraudsters are getting smarter due to the possibility of human mistakes/errors. And these mistakes and/or errors can be justified by the defaulter as the reason for such fraudulent symptoms. This has made detecting and proving fraud a hard work for a forensic accountant. There is a need for deeper understanding on how these fraudsters work their fraudulent act. Without constant involvement of the public and improvement in forensic accounting, fraud cases are hard to detect and thus lead to greater success in financial fraud, which also translates into the failure to meet the expectations of the public, shareholders or even other stakeholders. There is therefore no agreed position on what should be done to eliminate fraud, with some advocating for legal means whilst others are of the opinion of educating members of the public on the role that forensic auditing, whilst others are also of the opinion that corporate governance and ethics could be a solution to the problem.

2.3.1 What motivates fraud?

Ramaswamy (2005), states that poor corporate governance and accounting failure is one of the reasons why fraud cases emerge. This is because poor corporate governance leads to the ability of certain individuals or a group of people with the same interest to act upon it to commit fraudulent activities in the company. This can be reinforced by the fact that top level management should follow the policies of the firm which help the company to perform better. The problem comes from the fact that certain corporate leaders do not have positive attitude regarding company policies. Therefore, lack of honesty and transparency in reporting financial statements is another problem. It is agreeable that an auditor does not have the absolute duty to uncover fraud, but they should express an opinion regarding the fairness and truthfulness of reported financial information to ensure that the interests of the public as well as the employees are protected. With the use of forensic accounting guidelines, statutory auditors can act as forensic accountants in cases of suspicious fraud or criminal activities in a company. Even if a company applies good internal control systems, the management still is the major factor influencing their implementation. Companies should look towards new approaches rather than follow the traditional approach as forensic accounting may be the next best alternative in resolving problems.

Loebbecke & Willingham (1998) concluded that the probability of material misstatement in financial statement due to fraud is a function of three factors. These include;

- The degree to which those in authority in an entity have reason to commit management fraud,
- The degree to which conditions allow management fraud to be committed, and
- The extent to which those in authority have an attitude or set of ethical values that would facilitate their commission of fraud.

These three factors show that management could simply commit fraudulent activities since the knowledge of the public which includes shareholders are limited regarding the option they could take to ensure that financial crime could be prevented. There should be

a set of guidelines created for the public and management to ensure that actions could be taken if there are financial fraudulent activities in the organisation.

White-collar crime has its origin in the same general process as other criminal behaviour. The term *white-collar crime* was coined in the 1930's by Edwin Sutherland who defined it as crime committed by a person of respectability and high social status in the course of his occupation. The U.S. Congress defined *white-collar crime* as an illegal act or series of illegal acts committed by non-physical means and by concealment or guile, to obtain money or property, or to obtain business or personal advantage. The hypothesis of differential association is that criminal behaviour is learned in association with those who define such behaviour as favourable and in isolation from those who define it unfavourably, and that a person in an appropriate situation engages in such criminal behaviour if and only if the weight of the favourable definitions exceeds the weight of the unfavourable definitions (Jaspan and Black, 2011). This hypothesis confirms the common saying that birds of a feather flock together or at least reinforce one another's rationalised views and values. However, people make their own decisions and, even subconsciously in a cost-benefit based manner. In order to commit fraud, a rationalization must exist for the individual to consider fraud worth committing.

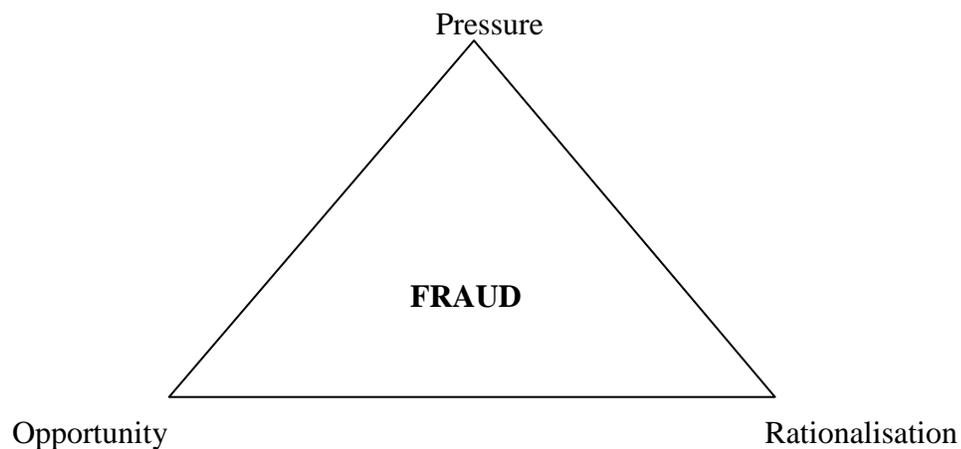
Jaspan tries to derive anti-fraud measures in his research, *The Thief in White collar*, is based on his many years of consulting experience in security-related matters, and contains a number of notable and often quoted generalizations. Summarily, he exhorts employers to pay their employees fairly, treat them decently, and listen to their problems if they want to avoid employee fraud, theft and embezzlement. Jaspan like P.T Barnum tries to be realistic when he equally suggests that employers ought never to place full trust in either their employees or the security personnel they hire to check on employees.

Hartung disagrees with Jaspan's generalization and focuses on the individual. His argument is that, the criminal violator of financial trust and the career delinquent have one thing in common: Their criminality is learned in a symbolic communication,

dependent upon cultural sources of patterns of thought and action, and for systems of value and vocabularies of motives. In effect, both Jaspan and Hartung appear to have been correct. Hartung noted that individuals are inevitably affected by their environment. Although Jaspan might be considered too empathetic to the individual, his suggestions to deter fraud are the same as modern efforts to create an environment with few reasons and with few opportunities to commit fraud. Of the traditional fraud research, Donald R. Cressey's research in the 1950s provides the most valuable insight into the question why fraud is committed. The result of this research is most commonly and succinctly presented in what is known as the fraud triangle. Cressey decided to interview about 200 embezzlers in prison. One of the major conclusions was that every fraud had three things in common:

- 1) Pressure
- 2) Rationalisation(of personal ethics) and
- 3) Knowledge and opportunity to commit crime.

Figure 2.1 Fraud Triangle by Donald Cressey:



Source: T.W. Singleton & A.J. Singleton (2006): Fraud Auditing and Forensic Accounting, pg9

Explaining the third point, Cressey points out that employees and managers who have been around for years know quite well where the weaknesses are in the internal controls and have gained sufficient knowledge of how to commit crime successfully. A weakness in or the absence of internal controls provides the opportunity for fraudsters to commit their crime. This seems to be the situation in which we find ourselves in Zimbabwean banks today, the reasons so far cannot be explained empirically but general conclusions are that the Reserve Bank of Zimbabwe is highly incapacitated to perform all its regulatory roles such as sufficient bank supervision and monitoring.

It is noteworthy that the Tread Way Commission (later known as the Committee of Sponsoring Organizations or COSO) was formed to respond to the savings and loans frauds and scandals of the early 1980s. The committee's conclusion was that the best prevention was strong internal controls, and the result was the COSO model on internal controls, which was incorporated into financial auditing technical literature as *SAS No. 78, Consideration of Internal Controls in Financial Statement Audits (ISA 400 Risk assessments and internal controls)*. Then the Sarbanes-Oxley Act (SOX) in the USA focused on an annual evaluation of internal controls by management with an independent opinion of that evaluation by the financial auditors-Section 404 of the Act. If the purpose of SOX was to minimize fraud, then internal controls are an effective way to accomplish that goal.

The opportunities to commit fraud are rampant in the presence of loose or lax management and inadequate attention to internal controls. When motivation is coupled with such opportunities, the potential for fraud is increased. This coupled with other factors caused the Enron fraud scandal in the USA in 2001. Any discussion in Fraud Auditing and Forensic Accounting cannot be complete without making reference to the Enron case especially with the current Global Financial Crises plaguing the world.

After a series of revelations involving irregular accounting procedures bordering on fraud perpetrated throughout the 1990s involving Enron and its statutory auditors Arthur Andersen, Enron stood on the verge of undergoing the largest bankruptcy in history by

mid-November 2001 (*the largest Chapter 11 bankruptcy until that of the investment bank Lehman Brothers on September 15, 2008*). A white knight rescue attempt by a similar, smaller energy company, Dynergy Inc, was not viable.

Enron filed for bankruptcy in December of 2001. In addition, the scandal caused the dissolution of Arthur Andersen, which at the time was one of the world's top auditing firms. The firm was found guilty of obstruction of justice in 2002 for destroying documents related to the Enron audit and was forced to stop auditing public companies. Although the conviction was thrown out in 2005 by the Supreme Court, the damage to the Andersen name has prevented it from returning as a viable business. Garry and Jean (2006), stated that Enron was a massive failure, partly because of its size, its complexity, the controls to protect integrity of capital markets failed, and especially because of the massive greed and collusion of the key participants. Management failed, auditors failed, analysts failed, creditors/bankers failed and regulators failed. The intersection of multiple failures sent a signal of structural problems. Suddenly the consequence of deceptive financial data resulting from structural failure in capital markets was not merely a hypothetical possibility. The speed with which the system responded indicates the importance of fairly presented financial information.

Albrecht et al. (2009) examined fraud and corruption in Korean organizations known as chaebols. Although initially credited for advancing Korea's economic development, Albrecht et al. (2009) found that family prominence plays an important role in terms of opportunity and social pressure to commit fraud. Most chaebol founders that Albrecht et al. (2009) studied used fraudulent means to keep ownership within their families.

Fraud together with its sister white-collar crimes which came into being later in the 19th and 20th century inter alia corruption, money laundering, tax evasion, externalization of foreign currency to itemize just a few have stood as potent weapons capable of hemorrhaging the entire world economies, particularly the banking sector because of its high risk factor. Even the richest and electronically mobile countries have experienced a fair share of financial turbulence and uncertainties seeded by fraud-related crimes. The scandals sent shockwaves in the corporate world, regulatory authorities, audit fraternity,

and the society at large; hence, the erosion of investor confidence in the financial markets (Levi, 2001), in Njanike et al, 2009. With the current Global Financial Crises, the question now is not only a matter of *'who will audit the auditors?'* but *'how will the excesses of the capitalist system be controlled?'* Control should also be at the source of transactions and not only the auditors per se. Perpetrators of the capitalist system should accept the challenge and implement more stringent regulatory measures to combat corporate fraud. Zimbabweans cannot afford to remain indifferent to this global fight. It appears statutory audits are no longer sufficient in the wake of the cancer of fraud and many other white collar crimes, especially in the financial sector which are the custodians of national payment systems as well as national and individual savings. The major form of fraud experienced and reported in Zimbabwe has been through related party exposures. Therefore, the main purpose for an assessment of the impact of fraud auditing and forensic accounting is very necessary to determine the way to plug loopholes that may be existent in Zimbabwean banks.

2.4 Fraud auditing

The savings and loans scandals of the early 1980s in the USA led to the Treadway Commission, which carried on its work as the Committee of Sponsoring Organisations (COSO), which is still functioning today. According to Treadway Commission findings, the best thing to prevent scandals, such as the ones involving savings and loans, was for companies to have very strong internal controls. The model developed by this group has been known as the COSO Model of Internal Controls. It focused on five key areas of internal controls namely; Risk assessment, Control environment, Information and communication, Monitoring, and Control activities.

In the 1990s, the AICPA adopted the COSO model as SAS No. 78 (Consideration of Internal Controls in a Financial Statement Audit). In the late 1990s and early 2000s, a strong global economy met an increase in fraud in public companies and a lack of effective oversight. The result was a serious shock to the economy and to society at large. Public concern over fraud, in general, erupted to new and seemingly endless heights. Another positive effect is how these changes have created a greater awareness of the need

to further develop the discipline of fraud auditing. However, billions of dollars have been lost; creating a serious “black eye” for the auditing profession, and a wave of legislation resulted, which tried to make it the responsibility of the auditor to expose fraud.

The Sarbanes-Oxley Act in particular has greatly affected the awareness of and attention to fraud. The AICPA’s SAS No. 99 (Consideration of Fraud in a Financial Statement Audit), codified and complemented SOX’s tenets, or “best practices” in antifraud. The Public Company Oversight Board (PCAOB), created by SOX and responsible for overseeing standards and enforcement, also sets its own standards affecting internal controls and fraud audits. The bottom line is, management has to accept responsibility for fraud per SOX and financial auditors have to be active in detecting fraud to comply with SAS No.99 that is, in the USA.

SAS 99 has two basic requirements for financial statement audits. One is for auditors to exercise “professional scepticism”; that is, auditors are to be constantly mindful of the potential for fraud. The other is that fraud assessment must be included in audit steps from planning to reporting findings. Importantly, SAS 99 noted that evaluating audit evidence and adjusting the audit is a continual process. The audit team must identify, assess, and respond to fraud risks. Subsequently, the audit team must evaluate the findings of the audit tests and report to “an appropriate level of management” (usually the audit committee). Documentation must exist for all of these audit steps.

Section 404 of SOX requires management to evaluate the effectiveness of internal controls over financial reporting and to report on their evaluation in the annual report. This section also forces management to state their responsibility for internal controls. The internal control evaluation report and certain financial reports have to be signed by the chief executive officer and chief financial officer, providing a legally enforceable claim. More important, management’s report on internal controls is evaluated by the external auditors who opine on that report. SOX also brought about these changes of note:

- More independent boards of directors (especially the audit committee).
- Increased involvement of the audit committee (especially oversight of management and anti-fraud programs).
- More financial experts on the audit committee.
- More independent reporting lines (external and internal auditors report directly to the audit committee).

PCAOB Audit Standards No. 2 (AS 2) and No. 3 (AS 3) both address fraud. PCAOB guidance is superior to the audit guidance provided by the AICPA's SASs, although PCAOB has mostly accepted SAS guidance up to the year 2006. AS 2 adopted many SAS 99 requirements. As part of that adoption, AS 2 (via SAS 99) noted that the audit of internal controls and the financial statement audit are connected and requires the nature, timing, and extent of financial statement audit procedures to be adjusted according to the results of the internal control audit. Results here certainly include any findings regarding fraud. Importantly, AS 2 references the COSO Internal Control model with regard to managing fraud risk.

Sarbanes-Oxley, SAS 99, and AS 2 have much more depth than can be summarised here, but these regulations and technical standards have stimulated similar legislation and standards the world over. However, much work on fraud auditing has been done more in the USA than anywhere else the world. In Zimbabwe, however it appears nothing has been done to come up with legislature that deals with fraud and other white collar crimes as they relate to the auditing profession. Only the Zimbabwe Republic Police (ZRP), has a separate unit, (The Criminal Investigations Department Serious Fraud section), to investigate white collar crimes, but there are no clear procedures on the investigation and prosecution of white collar crimes. Therefore, the authorities need to address this problem as matter of urgency as there appears to be an increase in the prevalence rate of white collar crimes in Zimbabwe, with outstanding such crimes being unearthed in January and February 2014, covering mainly parastatals and state owned enterprises, such as Air Zimbabwe, Zimbabwe Broadcasting Corporation (ZBC), National Social Security Authority (NSSA) amongst others.

2.5 Forensic Accounting

Forensic and investigative accounting is the application of financial skills and investigative mentality to unresolved issues, conducted within the context of the rules of evidence. As a discipline, it encompasses fraud knowledge, financial expertise, and a sound knowledge and understanding of business reality and the working of the legal system (Bologna & Lindquist, 1987). According to Singleton and Singleton (2006), forensic accounting is one of the oldest professions and dates back to the Egyptians. The 'eyes and ears' of the king was a person who basically served as a forensic accountant for Pharaoh, watchful over inventories of grain, goats, and other assets of the Pharaoh. The person had to be trustworthy, responsible, and able to handle a position of influence.

According to Smith and Crumbley (2009), to successfully exercise good corporate governance, there is a need for internal controls and one aspect of these controls relates to financial oversight. Unfortunately the number of financial frauds that have been continually perpetrated within U.S. companies raises serious questions as to whether traditional financial controls are working. "Is the traditional audit model still doing its share in providing oversight over financial activities?" Today the answer might be, "not very well, but what other choice is there?" Questions about the ability of the audit-reporting model to provide reasonable financial oversight and the broader acceptance of principles-based accounting methods have the potential to create a new approach to risk assurance. Fraud is a real threat to the economies of the 21st century.

The first major corporate fraud is probably the fraud known as the South Sea bubble, around the year 1720. South Sea Company drove the prices of stock up through artificial means; largely taking the form of new subscriptions combined with the circulation of pro-trade with Spain stories designed to give the impression that the stock could only go higher. Not only did capital stay in England, but many Dutch investors bought South Sea Stock, thus increasing the inflationary pressure. Other joint-stock companies then joined the market, usually making fraudulent claims about foreign ventures, and were

nicknamed 'bubbles'. However, the total cost of the fraud could not be determined as there were mixed fortunes, with those who sold their shares in the company making huge profits while those who waited until it was late lost out everything. The cost was estimated to be around £7.5million.

A major savings and loan scandal hit hard in the early 1980s, preceding the energy and telecommunication companies' frauds in the 1990s. The latter led the seeming explosion of fraud around the last half of the 1990s and the early 2000s. During this period, high dollar frauds reached all types of industries. For example, Waste Management in trash services, Enron in energy, WorldCom in telecommunications, Adelphia in media, Fannie Mae in government, and Health South in health services all occurred during this time. Several of these frauds were among the largest ever, and they occurred during a short period of time. Although the cost of the WorldCom fraud was far greater, the most notable fraud, as far as impact on the business community, is probably Enron. In 2001, Enron filed bankruptcy after disclosing major discrepancies in revenues and liabilities in its financial reports. The audits from Arthur Andersen came to an end as a result of the ramifications of the Enron scandal by 2002.

In 2002, the U.S. Congress passed the Sarbanes-Oxley Act (SOX) due to that fraud and others, such as WorldCom. Perhaps nothing has brought more attention to fraud audits and forensic accounting than the Enron scandal and SOX. Forensic auditing is focused on the identification, interpretation, and communication of the evidence of underlying strategic economic and reporting events. It not single-event based, like a fraud examination, and a forensic audit is not used to render an audit opinion. As such, forensic audits are easily adapted to a principles-based accounting environment with broad guidelines applied to a variety of accounting investigations without using rule-based audit approaches or more narrowly-focused fraud practices (Smith and Crumbley (2009)).

Are all of these events merely historical flukes? Did media attention create them? Perhaps, media attention may have created the original public awareness, but the problem

of frauds and corruption were there all the time, and there exists no real way of measuring or comparing them. Part of the problem during the period of time when such large frauds occurred was the mind-set of the auditors, which has since turned around completely. Nothing is taken for granted anymore, and the financial wellbeing of the general public is again the ultimate concern. Suspicion fell on industries, professions, and various areas of government. The undivided attention of auditors, regulators, management, and employees then led to wholesale charges of fraud, theft, and corruption.

The fraud environment can be and is often viewed as a pendulum, swinging from one extreme to the other with little time in between at the proper balancing point. After 2002, the pendulum was close to an extreme end, one that entailed ultra-conservatism on the part of companies, and auditors as well, and the stiffest requirements and enforcement by regulators and legislators. This cycle (pendulum swing) is a natural result of human nature, business cycles, and the nature of legislation and regulation. The cycle can certainly be influenced and controlled to some extent, but it may never cease to exist. Smith and Crumbley (2009) also argued that forensic audits fit within a principles-based approach as they require the application of professional judgment to identify the underlying nature of unstructured and unreported financial transactions. A forensic auditor must assess the underlying nature of transactions and apply a deductive mindset using professional judgment as the primary source for interpreting accounting events. As the evaluation of accounting events becomes more strongly based on judgment, forensics has the potential of supporting such an approach by monitoring corporate activities for "economic reality" and "economic consequences."

2.6 Distinction between Fraud auditing and Forensic accounting.

The terms statutory auditing, fraud auditing, forensic accounting, investigative accounting defined in chapter 1 may not be comprehensive enough to give the impression the researcher so desire in this work. Some clear distinctions must be made at this level. Fraud auditing involves a specialised approach and methodology to discern fraud; that is, one audits for evidence of fraud. The purpose is to prove or disprove whether a fraud exist. Historically, forensic accountants have been called in after evidence or suspicion of

fraud has surfaced through an allegation, complaint, or discovery. Forensic accountants are experienced, trained, and knowledgeable in the different processes of fraud investigation. They must be able to interview people (especially the suspect) effectively, write reports for the courts, provide expert evidence in court, as well as be conversant with how the legal system works. The Association of Certified Fraud Examiners (ACFE) refers to this notion of forensic accounting as fraud examination. In effect, fraud auditing is a subset of forensic accounting (Singleton, 2006).

Statutory auditing is a wholly different term that needs to be distinguished from forensic and fraud auditing. Financial auditing (statutory) typically refers to the process of evaluating compliance of financial information with regulatory standards, usually for public companies, by an external independent entity (auditor). The focus of financial audits and financial reporting is to provide reasonable assurance that a material misstatement to financial statements has not occurred, regardless of the reason.

The table below gives a summary of the possible distinctions between, statutory, fraud and forensic audits.

Table 2.1 Comparison of Statutory, Forensic and Fraud audits

Characteristic:	Statutory Audit	Fraud Audit	Forensic Audit
Time Perspective:	Historical	Historical	Future and historical
Primary focus:	Periodic, usually at the end of a financial year.	Reactive, as and when fraud is suspected.	Proactive and on-going, that is when the need arises and continually.
Investigation scope	Narrow	Narrow	Wide ranging
Objective:	Express opinion as to 'true & fair' presentation.	Fraud case report	Forensic audit report which determines the correctness of the accounts or whether any fraud has actually taken place.
Main responsibility is to:	Company and public	Defrauded party	Concerned principal or third party
Guidelines are	Rules based	Principles based; under audit rules, it is rule-based	Principles based
Purpose of report	Ensure GAAP/IFRSs and IASs are complied with.	Identify perpetrator of fraud	Fraud risk assessment and strategic services
Professional stance	Non-adversarial	Adversarial	Adversarial and Non-adversarial
Adverse findings, if any	Negative opinion or qualified opinion expressed, with or without quantification.	Fraud report but may not be admissible at law as acceptable evidence.	Legal determination of fraud and naming persons behind such frauds.
Techniques	Substantive and compliance procedures	Substantive tests and procedures.	Analysis of past trend and substantive or 'in depth' checking of selected transactions.

SOURCE: The Journal of Digital Forensics, Security and Law, Vol. 4(1), 2009 pg 69.

2.7 Fraud Auditors, Forensic Accountants, and Financial Auditors

Fraud auditors are generally accountants or auditors who, by virtue of their attitudes, attributes, skills, knowledge, experience, are experts at detecting and documenting frauds in the books of accounts. Their particular attitudes include four main beliefs listed below:

- Fraud is possible even in accounting systems in which controls are tight.
- The visible part of a transaction fraud may involve a small amount of money, but the invisible portion can be substantial.
- Red flags of fraud are discernible if one looks long enough and deep enough.
- Fraud perpetrators can come from any level of management or society.

The personal attributes of fraud auditors include self confidence, persistence, commitment to honesty and fair play, creativity, curiosity, an instinct for what is out of place or what is out of balance, independence, objectivity, good posture and grooming (for court room testifying), clear communication, sensitivity to human behaviour, common sense, and an availability to fit pieces of a puzzle together without force or contrivance (Singleton, 2006).

The skills fraud auditors require include all of those that are required by financial auditors, plus the knowledge of how to gather evidence of and document fraud losses for criminal, civil, contractual, and insurance purposes; how to interview third party witnesses; and how to testify as an expert witness. Forensic accountants appear on the crime scene a little later than fraud auditors, but their major contribution is in translating complex financial transactions and numerical data into terms that the ordinary laypersons can understand. Areas of expertise of forensic accountants are not only in accounting and auditing but in criminal investigation, interviewing, report writing, and testifying as expert witness. Forensic accountants must be excellent communicators, professional in demeanour, conservative in dress, and well groomed. A financial auditor is an auditor of financial information or the financial reporting process. Financial auditors are usually numbers oriented, and their processes have been driven by the audit trail.

2.8 The Association of Certified Fraud Examiners (ACFE)

According to its website, the ACFE is the world's leading anti-fraud organisation and premier provider of anti-fraud training and education. The Board of Directors is called the Board of Regents. Together with over 70,000 members, the ACFE is reducing business fraud world-wide. The organisation inspires public confidence in the integrity and objectivity within the profession of fraud examiners.

Every year, ACFE updates its compliance requirements to meet up with professional needs and maintain high standards. ACFE is an association of professionals committed to performing at the highest level of ethical conduct. Members of the Association pledge themselves to act with integrity and to perform their work in a professional manner. Members have a professional responsibility to their clients, to the public interest and each other; a responsibility that requires subordinating self-interest to the interests of those served. These standards express basic principles of ethical behaviour to guide members in the fulfilling their duties and obligations. By following these standards, all Certified Fraud Examiners are expected to demonstrate their commitment to excellence in service and professional conduct.

The following Standards of Professional Conduct are strictly adhered to:

- Integrity and Objectivity
- Professional Competence
- Due Professional Care
- Understanding with Client or Employer
- Communication with Client or Employer
- Confidentiality

However, the ACFE only has a chapter in Zimbabwe, only those interested have to apply for membership and go through the examinations process in order to be admitted into membership of the Association. The chapter does not provide details about how many certified fraud examiners there are in Zimbabwe.

2.9 The Public Accountants and Auditors Board (PAAB) Zimbabwe.

The Zimbabwe Public Accountants and Auditors Board is a statutory body established in 1996 under the Public Accountants and Auditors Act (Chap 27:12). The Zimbabwe Accounting Practices Board has statutory recognition in the Companies Act but is an independent body with its own constitution set up, on the initiative of the Institute of Chartered Accountants in Zimbabwe in the 1970's.

The Board's primary function is to register qualified accountants and auditors and to provide assurance to the public and employers regarding the quality of accountancy services. Members of the profession are registered as either *Registered Public Accountants* or as *Registered Public Auditors*. Neither category may practise (provide services directly to the public) without a Practising Certificate issued by the Board. In addition to the five professional bodies that are constituent members of the PAAB, accountancy bodies also exist for non-professional accountants. The best known are the Southern African Association of Accountants (which is a constituency member of the PAAB), the Institute of Administration and Commerce and various associations of book-keepers.

In Zimbabwe, the PAAB is made up of the representatives of five professional accountancy bodies –

- The Institute of Chartered Accountants of Zimbabwe, established under the *Chartered Accountants Act (Cap: 27:02)* in 1918.
- The Institute of Chartered Secretaries and Administrators of Zimbabwe established under the *Chartered Secretaries (Private) Act (Cap: 27:03)*.
- The Zimbabwe branch of Chartered Institute of Management Accountants incorporated by Royal Charter in the United Kingdom.
- The Zimbabwe branch of the Association of Chartered Certified Accountants incorporated by Royal Charter in the United Kingdom.
- The Zimbabwe branch of the Certified Public Accountants otherwise known as the Institute of Certified Public Accountants Zimbabwe (ICPAZ) was

incorporated as a Company in 1984 as the Zimbabwe Institute of Public Finance and Accountancy (ZIPFA) and subsequently changed its name in May 2007 to its current name.

The Board has established minimum criteria for membership of the Board by other bodies. These criteria relate to the educational qualification and practical training provided by would-be member bodies and also require them to maintain an office in Zimbabwe and to be capable of meeting their obligations under the PAAB Act (primarily disciplinary).

There is, in addition, the Zimbabwe Accounting Practices Board which sets accounting standards. The Zimbabwe Accounting Practices Board was established in the 1970s as a means for interested bodies to participate in the setting of accounting standards by the Institute. It received statutory recognition in 1993 when amendments to the Companies Act made it a requirement for the Minister of Justice Legal and Parliamentary Affairs to have regard to the international accounting standards adopted by the Board when making regulations about the content of company accounts. *Sections 142(2) and 360(2) of the Companies Act (Cap: 24:03)*

In Zimbabwe, the disclosure requirements of International Accounting Standards adopted for use in Zimbabwe are prescribed in the Companies (Financial Statements) Regulations. These Regulations are updated periodically and, (together with the disclosure requirements of any International Accounting Standards adopted for use in Zimbabwe by the ZAPB since the date of the last amendment to the Regulations) can be used as a disclosure checklist when preparing annual financial statements. Membership of the Board currently includes all member bodies of the PAAB plus the Zimbabwe Stock Exchange, the Chamber of Mines, the Zimbabwe National Chamber of Commerce, the Confederation of Zimbabwe Industries and other interested bodies. The Board may alter its membership as it thinks best and has recently, for example, invited the Institute of Directors to join. (*Reference: Foreword to the Zimbabwe Accounting Standards*). A review of International Accounting Standards (IAS) and International Standards on

Auditing (ISA) enables us to situate this study within accounting theories, principles, and practices.

2.10 International Accounting Standards and International Standards on Auditing.

The International Auditing and Assurance Standards Board (IAASB) is the body that sets auditing standards for global adoption overseen by the Public Interest Oversight Board (PIOB) conveyance of auditing standards is part of the International Federation of Accountants' agenda. Due to the international Accounting Standard Committee Foundation (IASC) to develop a set of global accounting standards which are of high quality, understandable and enforceable and to bring about the convergence of national and international accounting standards, the International Accounting Standards (IASs) were issued from 1973 to 2000. The IASB replaced the IASC in 2001, since then, the IASB has amended some IASs and has proposed certain new IFRS, (International Financial Reporting Standards), and has adopted or proposed certain new IFRSs, on topics for which there was no previous IAS. Through committees, both the IASC, and the IASB also have issued interpretation of standards. Of importance to this study is IAS 24 Related Party Disclosures, which deals with related party transactions as they relate to definition of related parties and transactions therewith as well as accounting treatments and disclosure requirements.

Besides the IFRSs, the Sarbanes-Oxley Act of 2002 was passed in response to the financial scandals such as Enron and WorldCom. The law establishes new, stricter standards for all US publicly traded companies. It does not apply to privately owned companies. The Act is administered by the Securities Exchange Commission (SEC), which deals with compliance, rules and requirements. The Act also created a new agency, the Public Company Accounting Oversight Board (PCAOB), which is in charge of overseeing, regulating, inspecting, and disciplining accounting firms in their roles as auditors of public companies.

Another set of standards governing audit practice is the US Generally Accepted Auditing Standards (GAAS). Several organisations have developed such sets of principles which

vary by territory. The US GAAS are ten auditing standards developed by the American Institute of Certified Public Accountants (AICPA) consisting of;

- General standards (three of them)
- Standards of field work (three of them)
- And standard of reporting (four of them).

They were developed by the AICPA in 1947 and have undergone minor changes since then.

International Standards on Auditing were also developed by the international Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). IFAC is in support of a single auditing standard globally and a separate standard for Small to Medium Enterprises (SMEs) is not foreseeable. Guidance on how ISAs are to be applied in the context of SME was recently issued. Of interest to this study is ISA 550, Related Parties.

The forms of the IAASB strategy would be the development of standards, monitoring and facilitating adoption of the standards and responding to concerns about the implementation of the standards. The planned activities of IAASB would be directed towards the effective operation of the world capital markets and the needs of SMEs. The IAASB recently issued an Audit Practice Alert regarding the audit of fair value accounting estimates under the current situation in the market where the level of uncertainty is very high.

2.11 Summary

After a review of related literature, it is observed that so much has been said about fraud auditing and forensic accounting in other parts of the world especially the USA. It is therefore clear that the issue of fraud auditing and forensic accounting is an ongoing debate in many countries. However, not much has been written on the topic in Zimbabwe. In Chapter three, the research methodology is described that enabled the

researcher to gather and analyse data to be collected from some randomly selected financial or banking companies listed on the Zimbabwe Stock Exchange (ZSE). Data was also collected from the Reserve Bank of Zimbabwe, as well as auditing companies that have previously audited banking institutions.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

The previous chapter reviewed literature both theoretical and empirical on the concepts of forensic auditing, related party transactions and fraud as well as fraud auditing. This was done in a bid to identify a gap this research intended to fill and it was clearly identified that no such a study had ever been done on the prospects of employing forensic auditing skills in Zimbabwe to avert bank failures which have caused much suffering and financial losses to Zimbabwean companies operating in Zimbabwe. This chapter focuses on the research methodology that the researcher used for the study. Focus is particularly given on the research design, the nature of population studied, sampling techniques applied, instruments used, their reliability and validity and the procedures used during data collection as well as the tools of analysis of data. The ethical consideration of the research and the methodology used in the study is also discussed in this chapter.

3.2 Research Design

According to Saunders et al, 2007, research philosophy pertains to the development of knowledge as well as the characteristics of the knowledge. The research philosophies include but are not limited to pragmatism, positivism, realism and interpretivism. Positivism and interpretivism fall under the term epistemology which is about what is acceptable knowledge in a field of study (Saunders et al, 2007).

This study therefore adopted the positivism philosophy since, positivism places greater emphasis on numerical analysis, objectivity, reliability and replication of findings. According to Saunders et al (2007), positivism is working with an observable social reality and that the end research product is law-like generations similar to those produced by social scientists. This is because this study is mainly qualitative in nature but adopted a number of descriptive statistics which are the quantitative aspects of the study.

The research design made use of quantitative and qualitative analysis using cross-sectional data. A descriptive research design is also adopted. In this design, financial institutions, auditing firms and the regulatory authorities' representatives were studied by collecting and analysing data through the use of questionnaires and oral interviews. The advantage of this design is its ability to provide large amounts of data within a short space of time.

3.3 Method of Data Collection

A field research was done from the financial institutions and auditing firms to establish the feasibility of periodically engaging forensic auditors to review related party transactions and the extent of any fraud that could have happened using related parties. Desk research was also done using secondary data collected from published financial statements of banks that have in the past experienced problems with related party lending and how they resolved them. Also audit reports published in the past five years that expressed reservations and/or qualified opinions on related party transactions for banks were reviewed.

The field research involved the use of self-administered questionnaires and oral interviews. Questionnaires were administered to personnel who are knowledgeable in the field of accounting for the banks, thus these include accountants, financial directors, finance managers, heads of division in charge of the budget, financial controllers, cashiers, managers as well as accounts clerks and internal auditors. Whilst for the auditing firms these questionnaires were distributed to audit staff that have in the last five years audited a financial institution, thus were able to relate the issue of forensic auditing to related party exposures in banks.

3.4 Population of the study

Saunders (2009) defined the population as a full set of items from which a sample is taken. A target population is the entire number of units under study. For this study, the target population was made up the seven, Zimbabwe Stock Exchange listed financial companies operating in Zimbabwe. The study also targeted the seventeen auditing and accounting consultancy companies operating in Harare. Independent views of the regulators' position with regards to related party transactions fraud and any history of such were obtained from the Reserve Bank of

Zimbabwe (RBZ)'s bank supervision and surveillance division, which directly supervises all financial institutions under the jurisdiction of the RBZ, thus Zimbabwe, the Harare office was targeted for this study.

3.5 Sampling

Saunders (2007) asserted that not every member of the population is measurable for reasons of cost, time limit and the possibility that there is need to choose a sample which is a representative of the target population through the process of sampling. The main objective of sampling is to obtain maximum information of the population under study (Dutta, 2006).

3.5.1 Sample size

As given by Best and Khan (2006) 10% of the target population is a sufficiently big sample. Accordingly from the seven financial institutions the study focused on three financial institutions representing 43% of the target population but however, the exact number of respondents was 10% of the eligible employees of these three companies. For the auditing and financial accounting consultancy companies from the total of seventeen the study selected a maximum of five, thus 39% of the companies were selected and also 10% of the qualifying personnel. For the RBZ's bank supervision and surveillance the study targeted 10% of the staff in the department since all of them qualify for this study as respondents. Table 3.1 below gives the sampling statistics:

Table 3.1: Sampling Statistics

Population category	Total population	Sample size
ZSE listed Financial institutions' employees	180	24
Auditing and accounting firms employees	90	10
RBZ's bank supervision and surveillance division employees	80	10
Totals	350	44

3.5.2 Sampling Procedure

The sampling procedure adopted by the researcher was guided by literature and involves both probability and non-probability sampling method. Probability sampling method used in this research is random sampling which gives equal chances of the population to be selected. The non-probability method used is convenience sampling.

Saunders *et al* (2009) said probability sampling is used where each case has an equal chance of being included in the sample. Probability sampling is also used where there is need for statistical inferences. Therefore employees in the bank supervision and surveillance division were selected randomly using simple random sampling, giving a number which was equal to 10% of the total staff establishment of the division.

Non probability sampling is used where the probability of each case being selected from the total population is not known and it is impossible to answer research questions or address objectives that require you to make statistical inferences about characteristics of the population (Saunders *et al* (2009). The research used convenience sampling to select auditing and accounting firms as some of the audit firms might not have audited any bank before and were therefore not be in a position to provide reliable and credible information on the audit of financial institutions.

3.6 Sources of data

These refer to the origins of data used in the study. The research used mainly primary data supported by secondary data.

3.6.1 Primary data

Primary data is original data obtained from the study and collected by the researcher solely for the research in question. The advantage of using primary data is that it is not summarized and contains all the data relevant for the study since it is sought specifically for the current study. The disadvantage of using primary data is that it is expensive to gather and it is time consuming.

Structured and non-structured questions are designed to get information from the chosen sample. Primary data was collected through the instruments discussed below from banks and from audit firms based in Harare.

3.6.2 Secondary data

Secondary data is data that has been collected for another use other than the present study (Saunders et al 2009). Secondary data used was mainly from the RBZ about the history and the extent of fraud in the Zimbabwean banking sector that has emanated or is still emanating from banks lending to related parties. This was obtained from monetary policy statements as well as investigative reports from previously affected banking institution. The major advantage of using secondary data is that it is readily available and therefore obtained at a lower cost. However, secondary data's main disadvantage is that of sometimes being too summarized which could have resulted in some important original facts being lost. The secondary data may not adequately meet the needs of the present study since it was collected for something else.

3.7 Data collection instruments

These are tools used to gather primary data from respondents. This research used the questionnaires and the structured interview guide to gather data.

3.7.1 Questionnaires

The most common instrument used in social research is the questionnaire. The questionnaire consists of a list of presented questions to which respondents are asked to supply answers (Haralambos 2006). Therefore, a researcher can convert directly data given by respondents into information by the use of the questionnaire. Questionnaires with structured, semi-structured and open ended questions were hand delivered to selected bank and auditing companies' employees. The structured questions consist of close ended questions also referred to as forced-choice questions (Saunders et al 2009). The researcher used questionnaires to collect data from the targeted sample. Two sets of questionnaires were personally administered by the

researcher. These are the one for banking institutions, another for the auditing firms. Samples of the questionnaires are provided as Appendix one and two respectively. The choice of the use of questionnaires as a research instrument was largely influenced by the diversity of the target population which is drawn from different companies and with different ideologies and backgrounds. The other factor that also influenced the use of questionnaires is the fact that it is less expensive as well as little time consuming to administer a questionnaire, if compared to interviews.

3.7.2 Interviews

Nordquist (2012) defines interviews as a conversation in which one person elicits information from another person. It is a face to face meeting between the interviewer and the interviewee. Face to face interviews were conducted during this study. The advantages of using the face to face interviews is mainly that the respondents can expand on areas of interest and use non-verbal cues such as facial expression to emphasize their responses. This was not going to be possible if the data was only collected using either questionnaires or telephone interviews alone. This helped in the triangulation of the data to be collected as the shortcomings of one instrument were compensated by use of another instrument. This helped in increasing both validity and reliability of findings.

3.7.3 Instruments Pilot Testing

The questionnaires were pilot tested with ten respondents from banks not listed on the ZSE randomly selected. The purpose for this testing was to ensure the questions in the questionnaires were not ambiguous and clear in order to allow respondents to give clear and unambiguous responses. Corrections of note made pertained to question 8 which asked the most prevalent forms of fraud and the first choice of response was financial statement fraud and this was rephrased to financial reporting fraud, while the second option was asset misappropriation was rephrased to company assets abuse. Question 12 was also rephrased from, ‘what causes banks not to engage both statutory auditors and forensic auditors’ to ‘what makes banks not engage both statutory external auditors and forensic auditors’. Also the last question of the questionnaire was also revised from, ‘what can be done to reduce bank fraud by the way of related party

transactions’ to ‘what can be done to reduce bank fraud committed through related party transactions’. These amendments were done after receiving answers that indicated that these questions were not clearly understood by respondents.

The other questionnaire, which was directed to auditors was also tested and amended. This was done with five employees of audit firms which were not part of the study sample. Question 5 which asked the auditor how long they had been with “this” auditing firm was adjusted to ‘how long have you worked in an auditing firm’. Question 6 was also corrected and a question which was not numbered was also numbered and amended and the result was that the total numbering of questions changed even though their count did not change. A question initially numbered 8 was renumbered 9 and the corrections made was the removal of the word bank executives and replaced with bank managers, this was meant to make respondents more comfortable answering the question. Also the last sub-question to this question was corrected by removing the word therefore. These were the results of the pilot testing of the questionnaire. These instruments were also tested for validity and reliability, results of which are discussed below.

3.8 Validity and Reliability

In the abstract, reliability is the consistency of a measure. A test is considered reliable if we get the same result repeatedly. For example, if a test is designated to measure a trait (such as honesty), then each time the test is administered to subjects, the result should be approximately the same. Unfortunately, it is impossible to calculate reliability exactly, but there are several different ways to estimate reliability (Kendra Van Wagner). Kendra states that in conventional usage, the term validity refers to the extent to which a test measures what it claims to measure. It is vital for a test to be valid in order for the results to be accurately applied and interpreted. The instruments were therefore tested for both reliability and validity.

3.8.1 Validity

Best and Khan (2010) define validity as that quality of a data-gathering instrument that enables it to measure what it is supposed to measure. It is the extent to which a research

instrument can measure what it is supposed to measure. Cooper and Schindler (2003) goes on to explain content validity of a measuring instrument as the extent to which it provides adequate coverage of the investigative questions guiding the study. In order to incorporate validity in this study, the questionnaires were tested in a pilot study to be carried out.

A direct result of the pilot study pertaining to validity of all the instruments was the correction of the questionnaires used for both bankers and auditors. These were found to be valid instruments for purposes of the study, however, the use of personal interviews was found not to be valid given the time constraint under which the study was carried under. Generally interviews are time consuming as the researcher was supposed to interview the respondents one after another. Therefore, the researcher adopted the interview approach to managers at the central bank whilst for the rest; the researcher would continue to ask the same questions but rather on a different forum. Instead of conducting one on one interviews the researchers opted for group interviews and would tape record their responses and then later transcribe the responses. Therefore, the instrument was not changed but the way of gathering the data was altered accordingly. The maintenance of the instrument was meant to achieve instrument triangulation.

3.8.2 Reliability

Seaman (1985) define reliability as “the extent to which a specified procedure such as a measure yields consistent observation of the same facts from one time to another”. To ensure that the research instruments are reliable and valid the researcher formulated questions that cover the contents of each objective. The questionnaires were pilot tested in an effort to reveal ambiguities, conflicting items and items that are not relevant to the purpose of the study. Straightforward questions were asked to avoid ambiguity. Related questions followed each other in sequence. The aim is to ensure coordinated responses. Reliability of results was achieved by administering the same questionnaire many times to the same class of respondents but at different organizations and making necessary adjustments until the similar results were obtained, when the respondents are from a different set of respondents.

3.9 Data Presentation and Analysis Procedures

Data from questionnaires was coded and presented in tables, graphs and descriptive statistics is also used to analyze the data using SPSS version 20. Each questionnaire is given a unique code in the order they are received from the respondents. Frequencies and averages are found from the analyzed results and summarized into tables which reflect patterns and relationships of the variables under study.

3.9.1 Tools of Data Analysis

Data collected is presented in chapter four using both quantitative and descriptive tools. Itemised form of analysis was also employed because both opinion and factual questions was analysed. Descriptive statistics makes use of percentages, frequency distribution, graphs, bar charts and pie charts. This method of analysis is suitable because some of the information from questionnaires was difficult to quantify and because some consisted of counts or frequencies. Using the stated research questions, there are expected standards with which observed practices were compared and conclusions drawn based on these comparisons.

3.10 Ethical considerations

The participation of respondents in this study was purely voluntary. The researcher simply furnished respondents with the information as to what the study entails, and then they choose whether or not to participate in the study. The researcher also assured respondents that their responses were not be publicized. The ethical position of the instruments was reviewed by colleagues at the researcher's own work-place, as well as fellow class mates.

3.11 Summary

The researcher employed the positivism philosophy and a cross-sectional study design, the descriptive research technique that involves qualitative methods and isolated quantitative analysis techniques, mainly for data analysis. The study sample comprised randomly selected individuals from 3 ZSE listed financial Institutions representing 43% of the population from which 10% of the qualifying employees from these institutions were given questionnaires. Data

was also collected from a maximum of five auditing and accounting consultancy firms that have previously audited financial institutions and respondents were drawn making then 10% of the staff in these companies. Furthermore, data was collected from 10% of the staff from the RBZ's banks supervision and surveillance division. The questionnaire was the major instrument, and structured personal interviews were carried out with the senior managers from the selected banks for triangulation as well as audit firms on the possibility of conducting forensic audits on a periodic basis. The data collected was presented in tables and charts for easy analysis in the next chapter.

CHAPTER 4

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1. Introduction

The previous chapter focused on the research methodology that the researcher used for the study. Attention was focused on the research design, the nature of population studied, sampling techniques applied, instruments used, their reliability and validity and the procedures used during data collection as well as the tools of analysis of data. This chapter focuses on the findings resulting from the data collection instruments, namely questionnaires, oral interviews and secondary data collected from published material. Out of the sample of the three, Zimbabwe Stock Exchange listed financial institutions operating in Zimbabwe; responses were received from all three of the companies.

4.2 Response rate

The researcher had aimed to interview at least 10% of the eligible employees of the three banks. With an estimated total of eighty eligible staff per bank, this translated to about eight staff members per bank and therefore twenty-four staff for the three institutions. Responses were received from a total of twenty eligible staff, translating to an 83% response rate. Out of the five auditing and accounting consultancy companies selected for study, the researcher had aimed to interview at least 10% of the eligible employees of these five firms. With an estimated total of eighteen eligible staff per company, this translated to about two staff members per firm and therefore ten staff for the five firms. Responses were received from a total of eight out of the eligible staff of ten, translating to an 80% response rate.

From the RBZ's bank supervision and surveillance division the study targeted 10% of the staff in the department since all of them qualified for this study as respondents. With a total of almost

eighty staff, 10% translated to eight staff but five responded, thus 62.5% response rate was achieved.

Two sets of questionnaires were administered by the researcher. These were the one for financial institutions and the other for the auditing firms. In addition, the researcher employed the virtue of patience in achieving such high response rates across the three target groups, as information was very hard to obtain from these institutions. A number of appointments were turned down to be reconfirmed the following days after, which therefore required extra patience to collect the data. Generally, results from the pilot test revealed the need for a few additional questions. The questions were around the Donald Cressey's fraud triangle as articulated in chapter two and which would help the researcher answer the question of what motivates fraud. In addition questions relating to the risk management systems in place in banks and to the strength of bank internal controls were added.

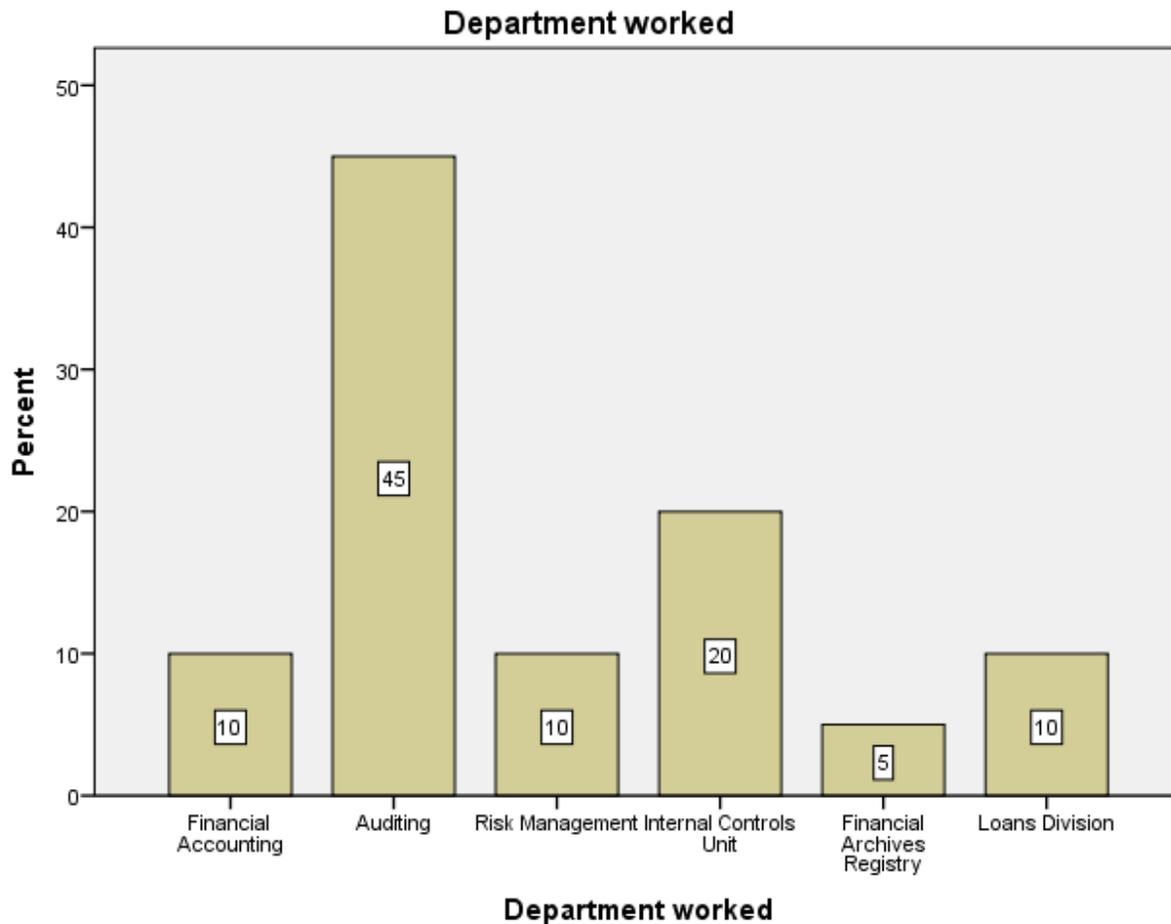
Data from questionnaires was coded and presented using mainly descriptive statistics. This form of statistics makes use of percentages, frequency distributions, graphs, bar charts and pie charts. This method of analysis was found suitable because some of the information from questionnaires was difficult to quantify and some consisted of counts or frequencies. Quantitative tests were used to summarize, reflect patterns and relationships of the variables under study. Data from interviews was analyzed using itemisation, for the reason that responses from both opinion and factual questions needed to be presented.

Findings are presented first in graphical and tabular format and then subsequently discussed under each objective and ensuring that by the end of this chapter the researcher can determine how well the research objectives have been met and how well the research questions been answered.

4.2.1 Demographic information

This section presents the demographical features of respondents such as departments worked by respondents, age groups, gender and qualifications of respondents

Figure 4.1: Department worked



Source: Primary data

The majority (45%) of those interviewed worked in the internal auditing department, 20% in the Internal Controls Unit, 10% in three other departments namely Finance and Accounting, Risk Management and Loans Divisions while the remaining 5% in the Financial Archives Registry.

Tables 4.1 to Table 4.5 below present the Position held highest qualification, Gender, Age and length of service.

Table 4.1: Position held

	Frequency	Percent	Valid Percent	Cumulative Percent
Business Development Manager	3	15.0	15.0	15.0
Loans Officer	5	25.0	25.0	40.0
Head – Corporate Clients	3	15.0	15.0	55.0
Accountant	3	15.0	15.0	70.0
Internal Auditor	6	30.0	30.0	100.0
Total	20	100.0	100.0	

Source: Primary data

Table 4.2: Highest qualification

	Frequency	Percent	Valid Percent	Cumulative Percent
Diploma	2	10.0	10.0	10.0
Degree	6	30.0	30.0	40.0
Professional qualification	10	50.0	50.0	90.0
Masters degree	2	10.0	10.0	100.0
Total	20	100.0	100.0	

Source: Primary data

Table 4.3: Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Female	5	25.0	25.0	25.0
Valid Male	15	75.0	75.0	100.0
Total	20	100.0	100.0	

Source: Primary data

Table 4.4: Age

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Below 30	2	10.0	10.0	10.0
Valid 30 to 40	8	40.0	40.0	50.0
Valid 41 to 50	6	30.0	30.0	80.0
Valid Above 50	4	20.0	20.0	100.0
Total	20	100.0	100.0	

Source: Primary data

Table 4.5: Length of service

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1 to 5 years	6	30.0	30.0	30.0
Valid 6 to 10 years	5	25.0	25.0	55.0
Valid Over 10 years	9	45.0	45.0	100.0
Total	20	100.0	100.0	

Source: Primary data

Table 4.6: Department worked * Length of service Cross tabulation

		Length of service			Total
		1 to 5 years	6 to 10 years	Over 10 years	
Department worked	Financial Accounting	0	1	1	2
	Auditing	4	2	3	9
	Risk Management	0	0	2	2
	Internal Controls Unit	1	2	1	4
	Financial Archives	1	0	0	1
	Registry	0	0	2	2
Total		6	5	9	20

Source: Primary data

A cross tabulation of the department worked and the length of service did not yield a strong correlation. With a Pearson's coefficient of 0.126, there is no relationship between the departments worked. Other cross tabulations performed, but not here presented, that is, gender and number of years serving the banks, years of experience against position did not yield any correlation either. For this reason it can be concluded that the demographic variables in this study serve the purpose of providing a cross sectional picture of those interviewed.

Table 4.7: Symmetric Measures

	Value	Asymp. Std. Error ^a	Approx. T ^b	Approx. Sig.
Interval by Pearson's R	0.126	0.214	0.539	0.597
Ordinal by Spearman Ordinal Correlation	0.103	0.220	0.441	0.665
N of Valid Cases	20			

Source: Primary data

- a. Not assuming the null hypothesis.
- b. Using the asymptotic standard error assuming the null hypothesis.

Table 4.7 above gives the statistical measures for the Pearson's and Spearman's correlation coefficient for the above (table 4.6) of the length of service and department worked and it therefore shows weak positive relationships in terms of both measures of relationship. This therefore means responses obtained from the study were not seriously compromised or affected by both the department that the respondents worked from and their working experience.

4.3 Presentation of findings from banks

This section presents the responses that were obtained from the banks' staff through the use of questionnaires. The questionnaire was made up of open-ended and closed-ended questions. The closed ended questions were mainly in the form of Likert type questions.

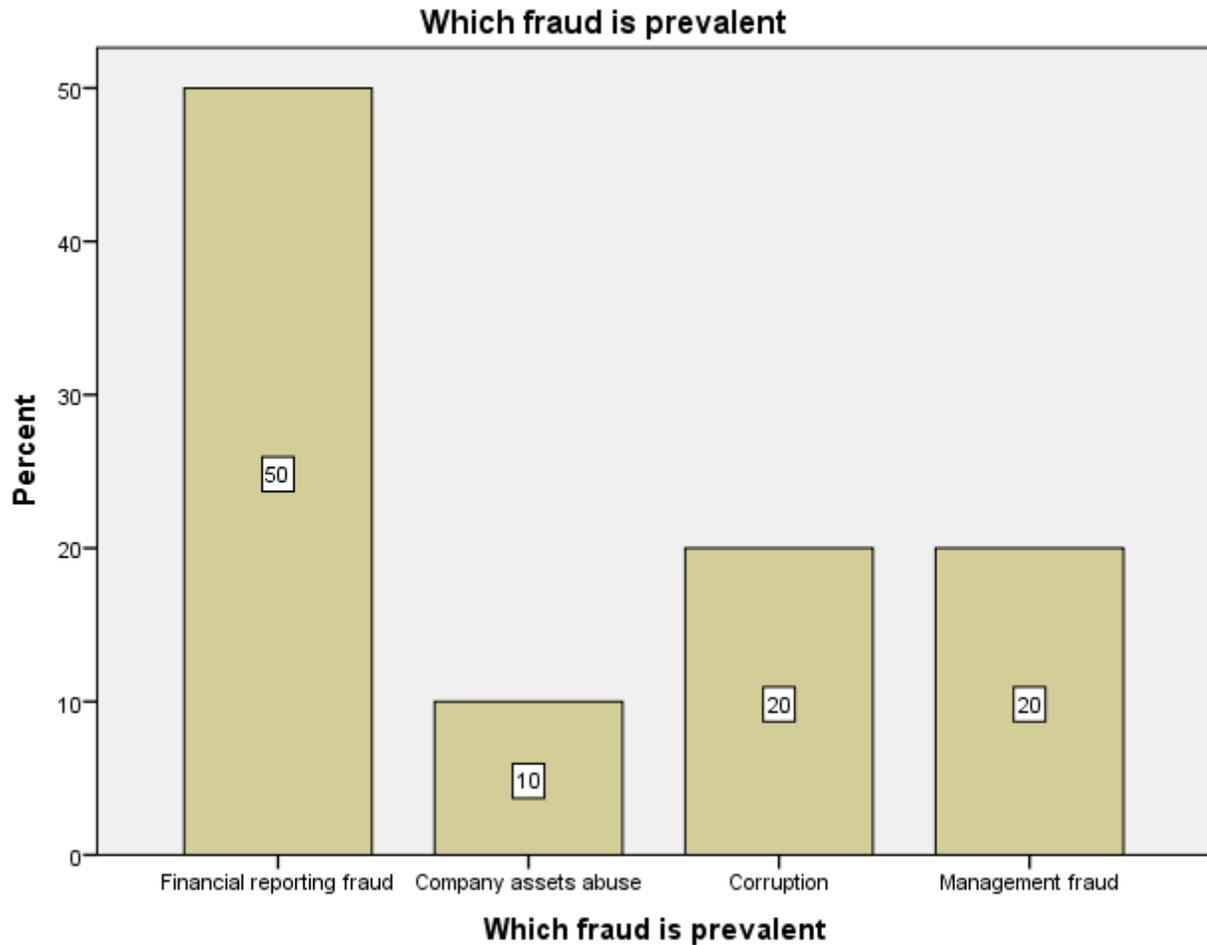
Figure 4.2: Definition of fraud



Source: Primary data

Figure 4.2 above indicates that 35% of respondents consider fraud to be misrepresentation of truth, an equal 35% consider it to be deception, 15%, to be intentional stealing and 15%, considered fraud to be a criminal act. However, all the forms of fraud have a legal connotation and therefore it can be said all the other forms, such as misrepresentation of the truth and deception are rather white collar crimes (Jaspan and Black, 2011).

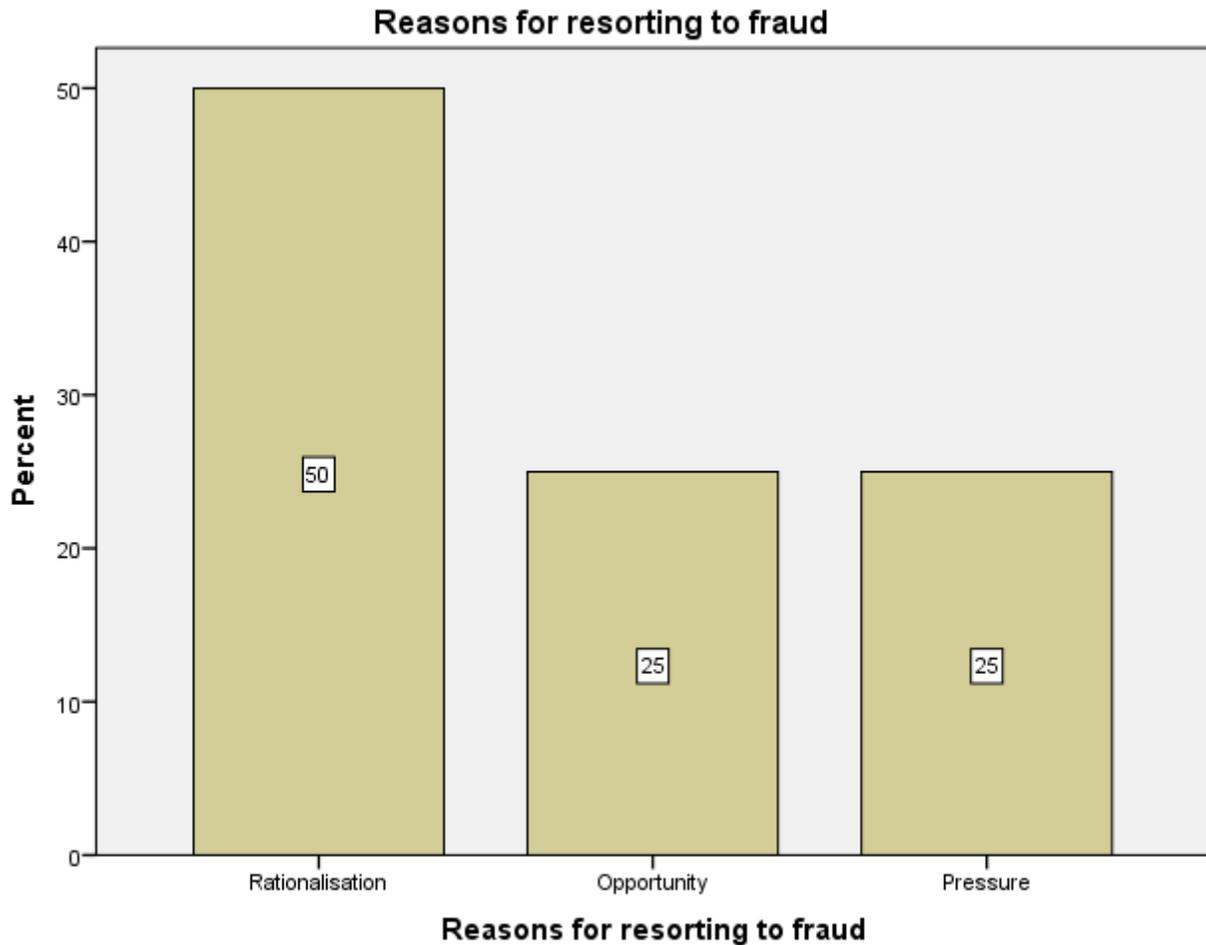
Figure 4.3: Prevalent fraud



Source: Primary data

As indicated in Figure 4.3 above a total of 50% identified financial reporting fraud as being the most prevalent of fraud types in Zimbabwean financial institutions. This is followed by 20% who believe it is corruption, 20% who believe it is Management fraud and 10 who feel it is company assets abuse. These results were however not consistent with the findings obtained by Njanike et al (2009) who carried out a study to establish the effectiveness of forensic auditing to prevent bank operations fraud in Zimbabwe where a number of frauds were identified, which included cheque fraud, identity fraud, wire fraud among many. These differences could have emanated from the fact that the current study asked a closed ended question and therefore did not give room to such specifications in terms of fraud types.

Figure 4.4: Reasons for fraud



Source: Primary data

Figure 4.4 above shows that 50% of reasons that motivate fraud were thought to constitute rationalization whilst opportunity pressure were said to equally constitute 25% each of the reasons for engaging in fraudulent activities. This however, appeared to be divergent with facts on the ground, in Zimbabwe because of the economic situation obtaining it was anticipated that pressure was going to be the most prevalent cause of fraud. This may be as a result of deliberate misinformation by the respondents as they may not wish to expose their colleagues who might have benefited from such activities.

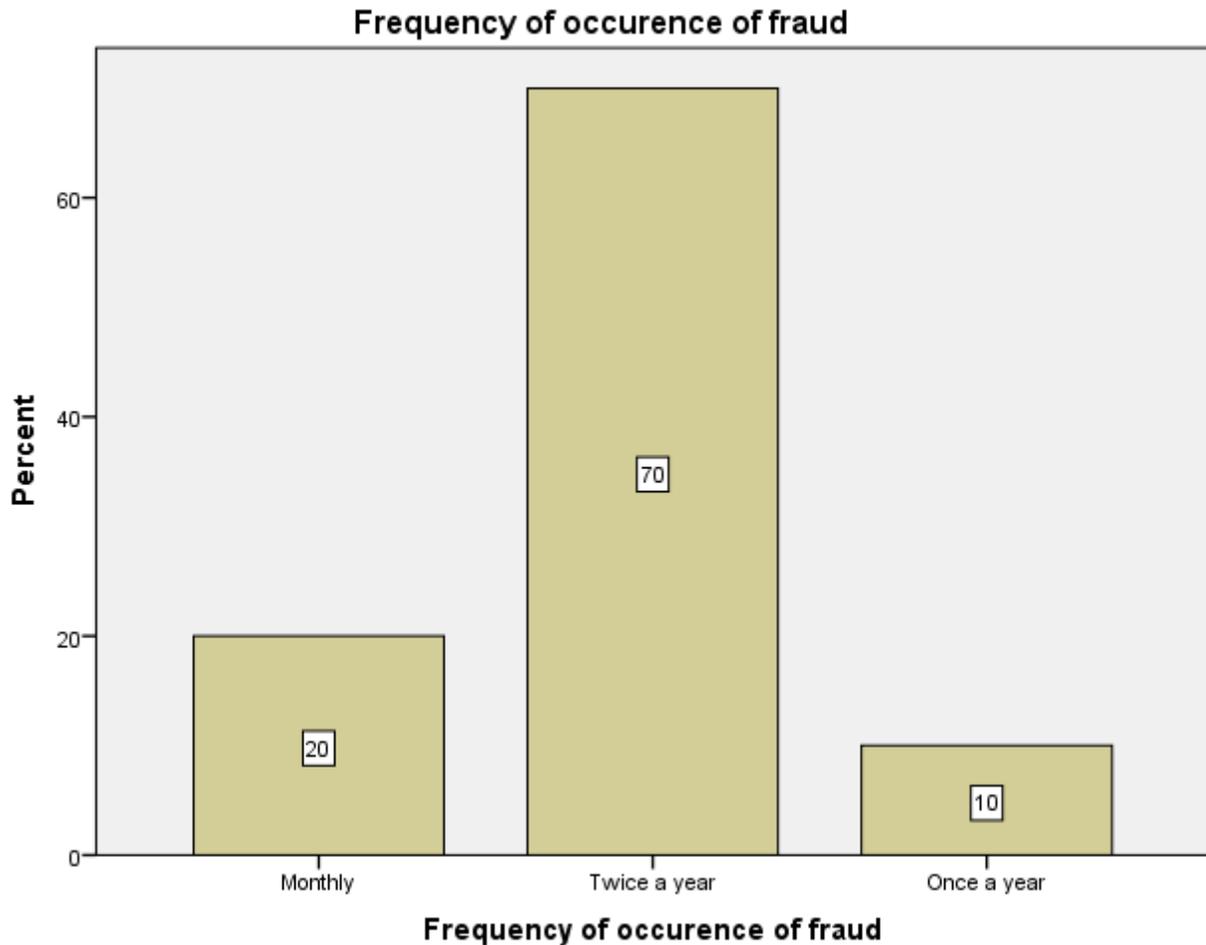
Figure 4.5: Level of fraud



Source: Primary data

A total of 50% of the respondents rated the occurrence of fraud in Zimbabwean banks as high, whilst 30% as very high and 25% as low. The responses are outlined in Figure 4.5 above.

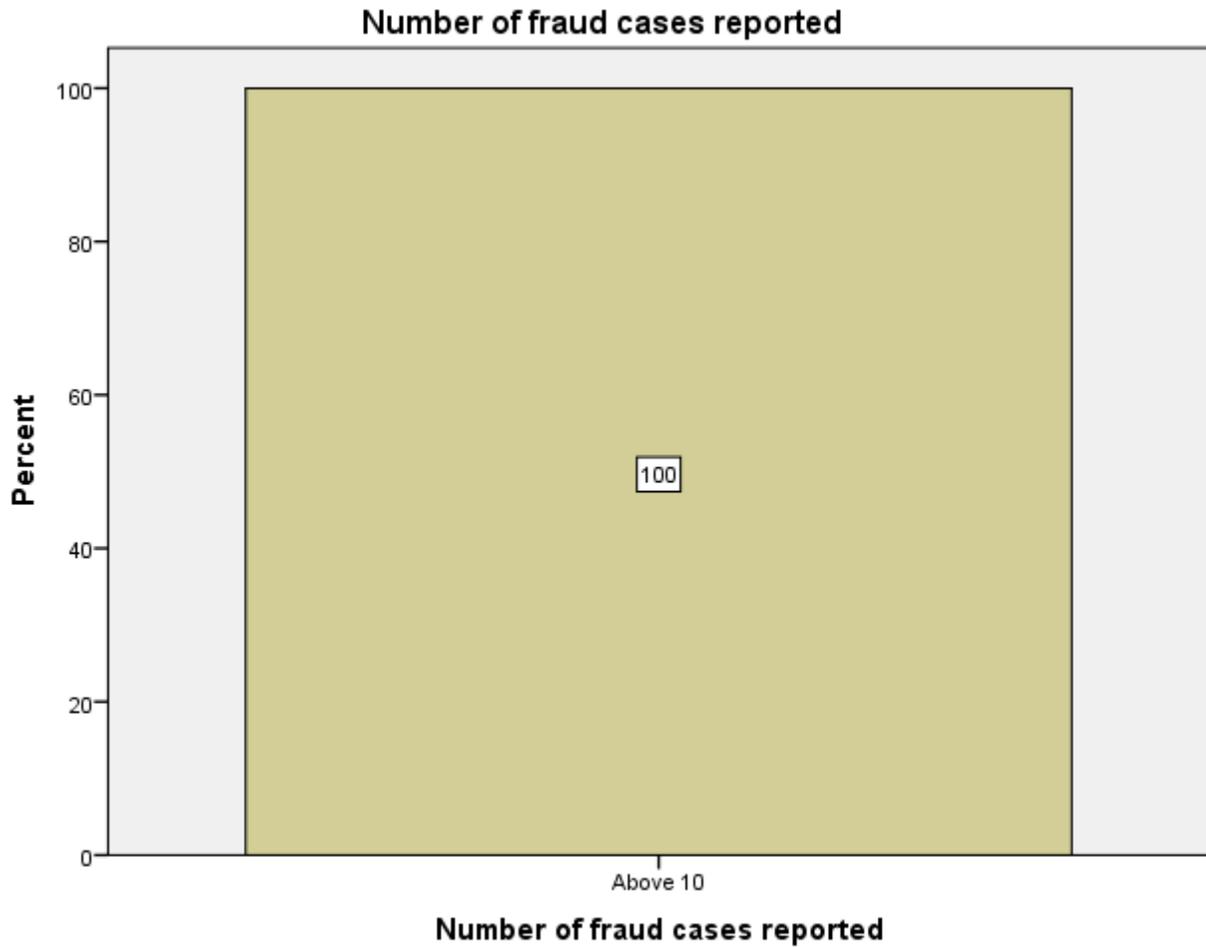
Figure 4.6: Frequency of fraud occurrence



Source: Primary data

Figure 4.6 shows that when respondents were asked about the frequency of instances of fraud in the institutions in which they work, 70% stated that it has happened twice a year, 20% stated it was monthly and 10 said it was once a year. However, it must be noted as given by Albrecht (2005), that the fraud is not an observable phenomenon, but the maybe seen. This implies that the occurrence of fraud in banks could be more frequently than the observation of the fraud, thus these frequencies only represent the intervals at which such symptoms were observed at various financial institutions.

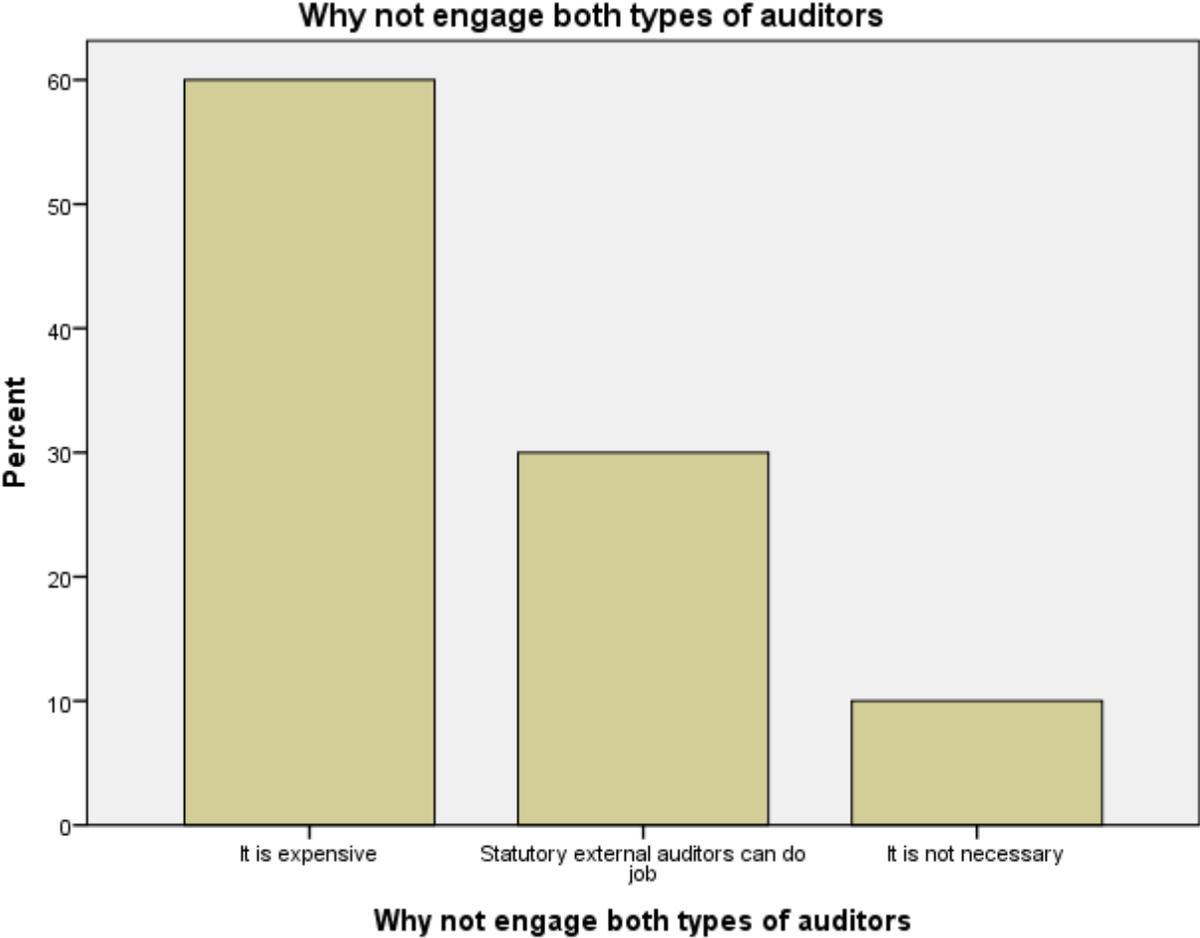
Figure 4.7: Reported fraud cases



Source: Primary data

All of the respondents interviewed stated that there had been more than 10 cases of fraud in the last five years as shown in Figure 4.7 above. This means fraud could be a real problem for Zimbabwean financial institutions, and this fraud which is normally reported is employee fraud, not management fraud which was earlier discussed as most prevalent in the form of financial reporting fraud.

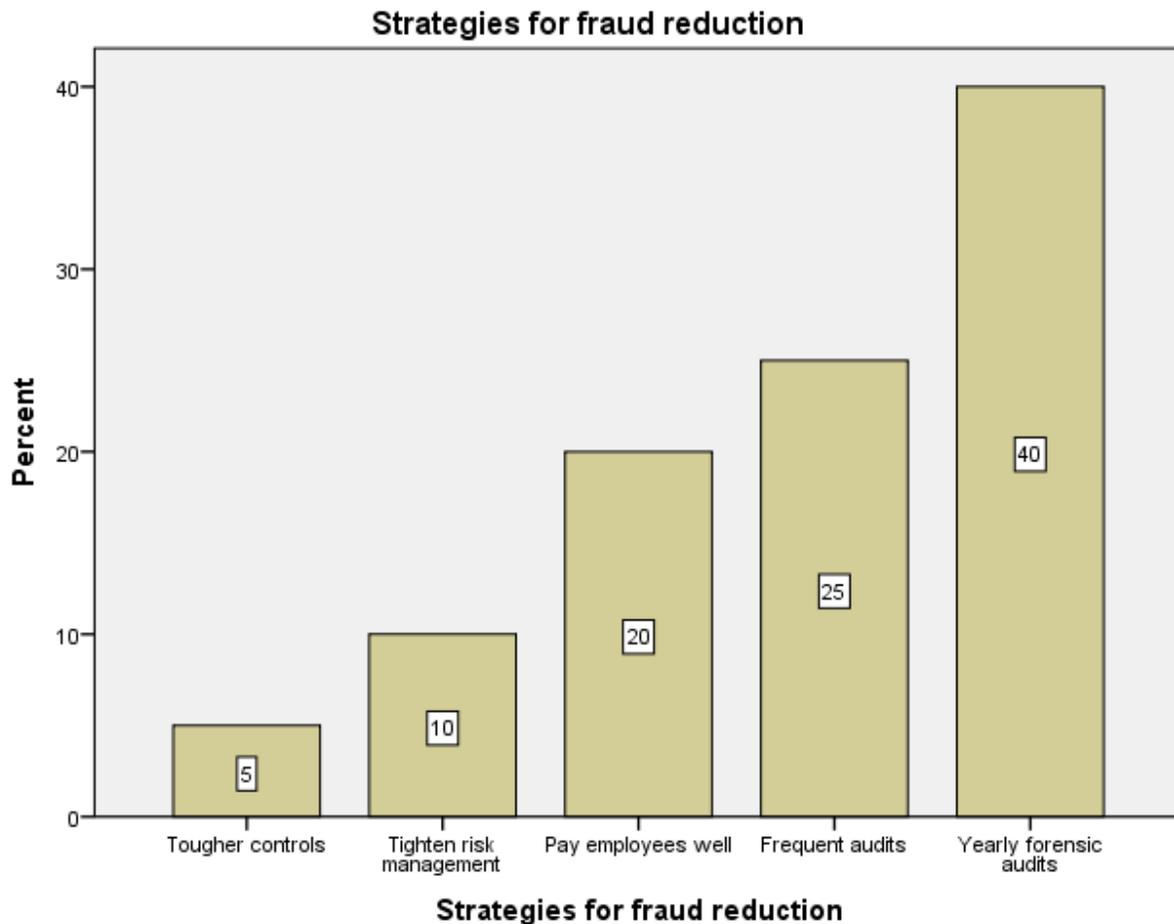
Figure 4.8: Statutory and forensic auditors



Source: Primary data

Figure 4.8 illustrates that 60 % of respondents believe non engagement of both statutory external auditors and forensic auditors is expensive, whilst a near 30% believe that statutory external auditors can do the job and 10 believe that it is not necessary to have both, statutory auditor and forensic auditors at a given time.

Figure 4.9: Strategies to reduce fraud



Source: Primary data

A significant 40% of the respondents believe that in order to reduce bank fraud committed through related party transactions, yearly forensic audits should be conducted. A total of 25% believe it should be through frequent audits, 20% state through paying employees well, 10% said through tightening risk management departments and processes in the banks whilst 5% believed it could be through tightening of internal controls. These findings are not in agreement to the findings of the COSO which recommended internal controls to minimise fraud, and came up with what is called the COSO Model of internal controls. However, similar findings were obtained by Njanike (2009) that forensic auditing is an effective tool to control bank frauds, it is therefore the submission of the researcher that forensic auditing can be the only best solution to the problem of fraud committed through related party transactions.

Table 4.8 Likert responses (Banks)

Variable	Strongly agree (%)	Agree (%)	Disagree (%)	Strongly Disagree (%)
All frauds involve related party transactions	0	0	50	50
Related party lending promotes bank fraud	55	45	0	0
Bank managers have knowledge of forensic auditors	100	0	0	0
Forensic auditors' appointment is expensive	15	65	20	0
Forensic auditing skills are scarce in Zimbabwe	30	35	35	0
Unaffordable to engage statutory & forensic auditors	10	40	30	20
There are benefits for engaging forensic auditors	25	50	5	20
Banks know the benefits of forensic auditing	80	20	0	0
Forensic auditors could have helped avert bank failures	80	0	15	5
Failures caused by related party lending cannot be averted	10	35	30	25
The bank has a risk management system in place	45	55	0	0

Source: Primary data

Table 4.8 highlights responses to the Likert Scale questions which solicited how far respondents agreed or disagreed with a set of statements which relate to their organisations. From the table it

can be seen that the majority of the respondents disagree with the notion that all frauds involve related party transactions. At the same time the same majority agrees and strongly agrees that related party promotes bank fraud. The same group of respondents also strongly agrees that bank managers have knowledge of forensic auditors. This shows a high degree of inconsistency of the respondents, which means the responses were biased.

A total of 65% of respondents believe that forensic auditors are expensive. An almost equal number believe that forensic skills are scares in Zimbabwe. A total of 30% strongly agreed, 35% agreed and 30% disagreed. On the issue of affordability of engaging both forensic and statutory external auditors, 40% agreed that engaging both was unaffordable, 10% strongly agree, 30% disagreed and 20% strongly disagreed. The majority, however still affirmed that there are benefits for engaging forensic auditors. A total of 80% felt that forensic auditors could have helped avert bank failures. In an interesting twist of events, however, 35% agree that bank failures caused by related party lending cannot be averted. An almost equal number (30%) disagree with that notion.

On the issue of risk management system in place, 45% strongly agree that banks have risk management system in place and 55% agree to this. This clearly shows that all banks in Zimbabwe have a functional risk management function though maybe the variation in responses with some just agreeing whilst others strongly agreed implies that there could be issues about the effectiveness of the risk management departments in banks in light of the problem of fraud and related party transactions is concerned. These risk management functions are recommended by the Basel committee; however, its constitutions could a problem with its effectiveness.

4.4 Presentation of responses from Auditors

Demographic findings from auditors were presented using frequency tables generated from SPSS. As with bank staff, cross tabulations for each of the demographic variables against each other revealed insignificant correlation between the variables. For this reason it can be assumed that the demographic variables in this study serve the purpose of providing a cross sectional picture of those interviewed. Tables 4.9 to 4.13 below, highlight the frequencies and distribution of respondents by the listed demographic variables.

Table 4.9: Position held

	Frequency	Percent	Valid Percent	Cumulative Percent
Auditor	2	25.0	25.0	25.0
Senior Auditor	1	12.5	12.5	37.5
Valid Forensic Auditor	2	25.0	25.0	62.5
Articled clerk	3	37.5	37.5	100.0
Total	8	100.0	100.0	

Source: Primary data

Table 4.10: Highest qualification

	Frequency	Percent	Valid Percent	Cumulative Percent
CTA	2	25.0	25.0	25.0
ACCA	2	25.0	25.0	50.0
Valid First degree	3	37.5	37.5	87.5
Masters degree	1	12.5	12.5	100.0
Total	8	100.0	100.0	

Source: Primary data

Table 4.11: Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Female	3	37.5	37.5	37.5
Valid Male	5	62.5	62.5	100.0
Total	8	100.0	100.0	

Source: Primary data**Table 4.12: Age**

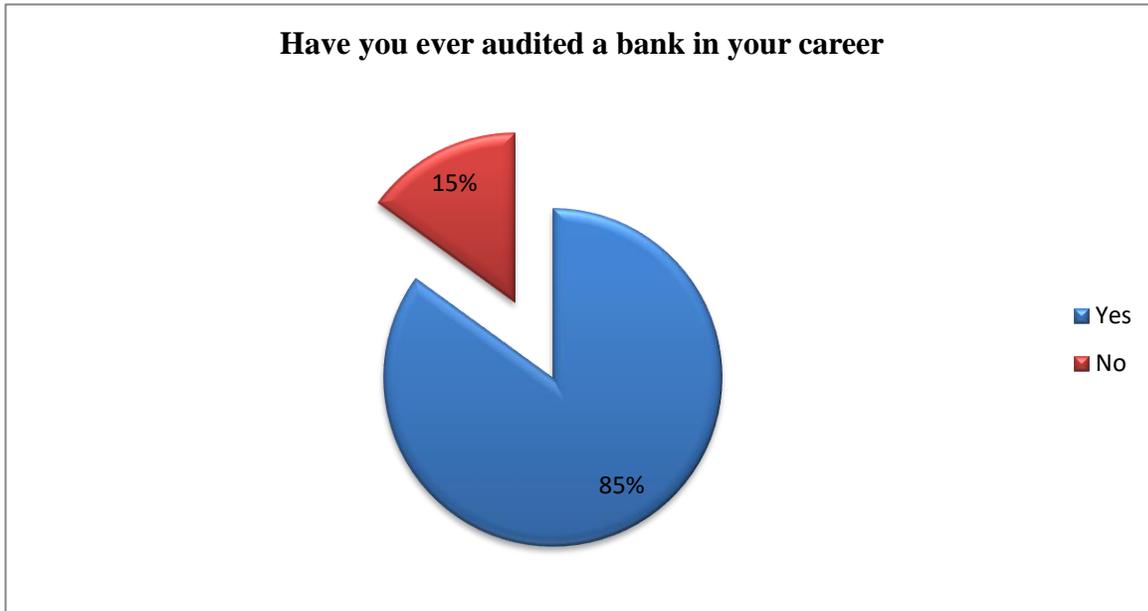
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Below 30	1	12.5	12.5	12.5
Valid 30 to 40	4	50.0	50.0	62.5
Valid 41 to 50	2	25.0	25.0	87.5
Valid Above 50	1	12.5	12.5	100.0
Total	8	100.0	100.0	

Source: Primary data**Table 4.13: Length of service**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Less than 1 year	2	25.0	25.0	25.0
Valid 6 to 10 years	2	25.0	25.0	50.0
Valid Over 10 years	4	50.0	50.0	100.0
Total	8	100.0	100.0	

Source: Primary data

Figure 4.10



Source: Primary data

A total of 85% of the respondents have audited a bank in their career and 15% have not done so. The cross tabulation below between position held and audit experience shows that the only respondent who had not audited a bank before held the position of auditor.

Table 4.14: Have you ever audited bank in your career * Position held Cross tabulation

		Position held				Total
		Auditor	Senior Auditor	Fraud Auditor	Articled Clerk	
Have you ever audited bank in your career	Yes	1	1	2	3	7
	No	1	0	0	0	1
Total		2	1	2	3	8

Source: Primary data

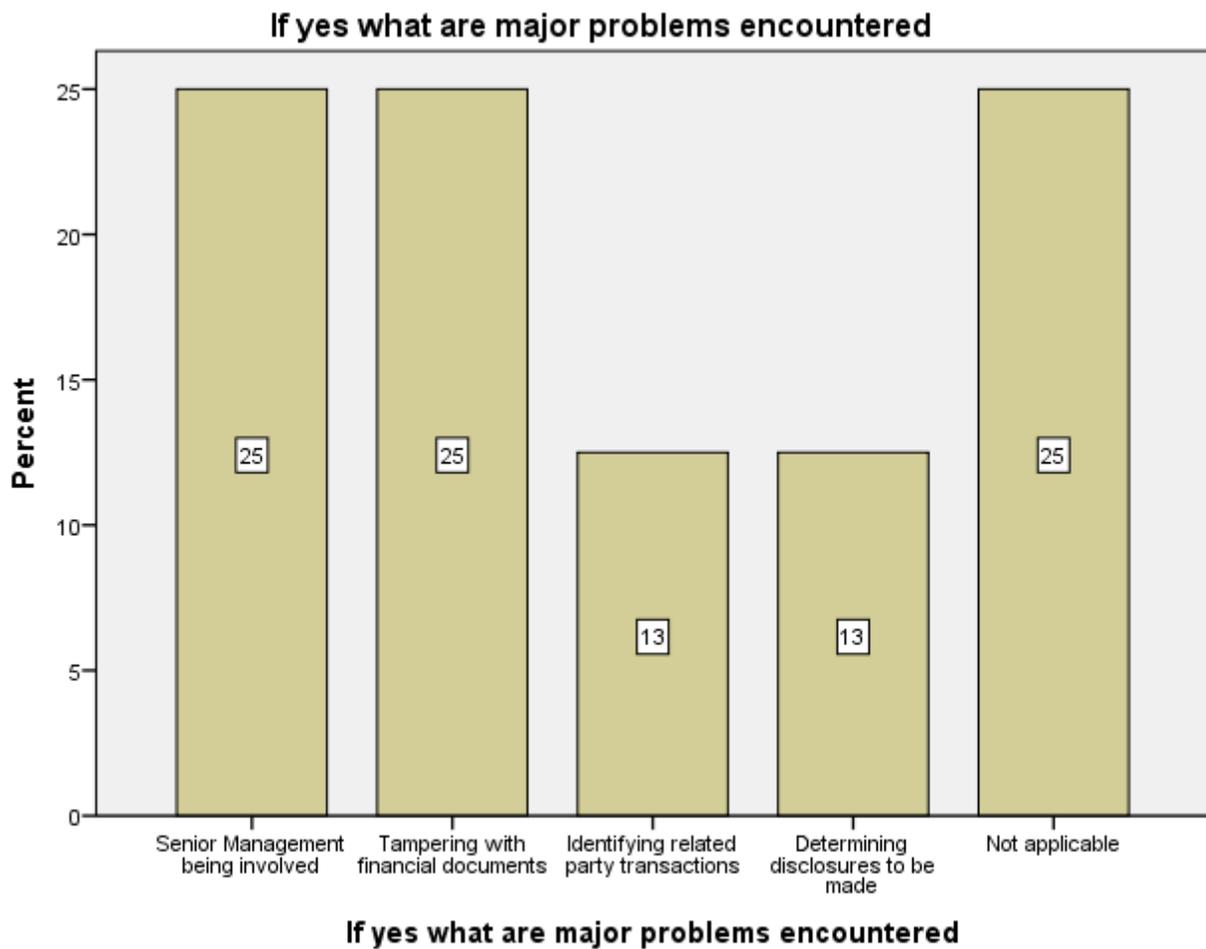
Further cross tabulation between not having held an audit and length of service reveals that the individual is not very experienced as yet as indicated by the individual having worked for less than a year.

Table 4.15: Ever audited bank in your career * Length of service Cross table

		Length of service			Total
		Less than 1 year	6 to 10 years	Over 10 years	
Have you ever audited bank in your career	Yes	1	2	4	7
	No	1	0	0	1
Total		2	2	4	8

Source: Primary data

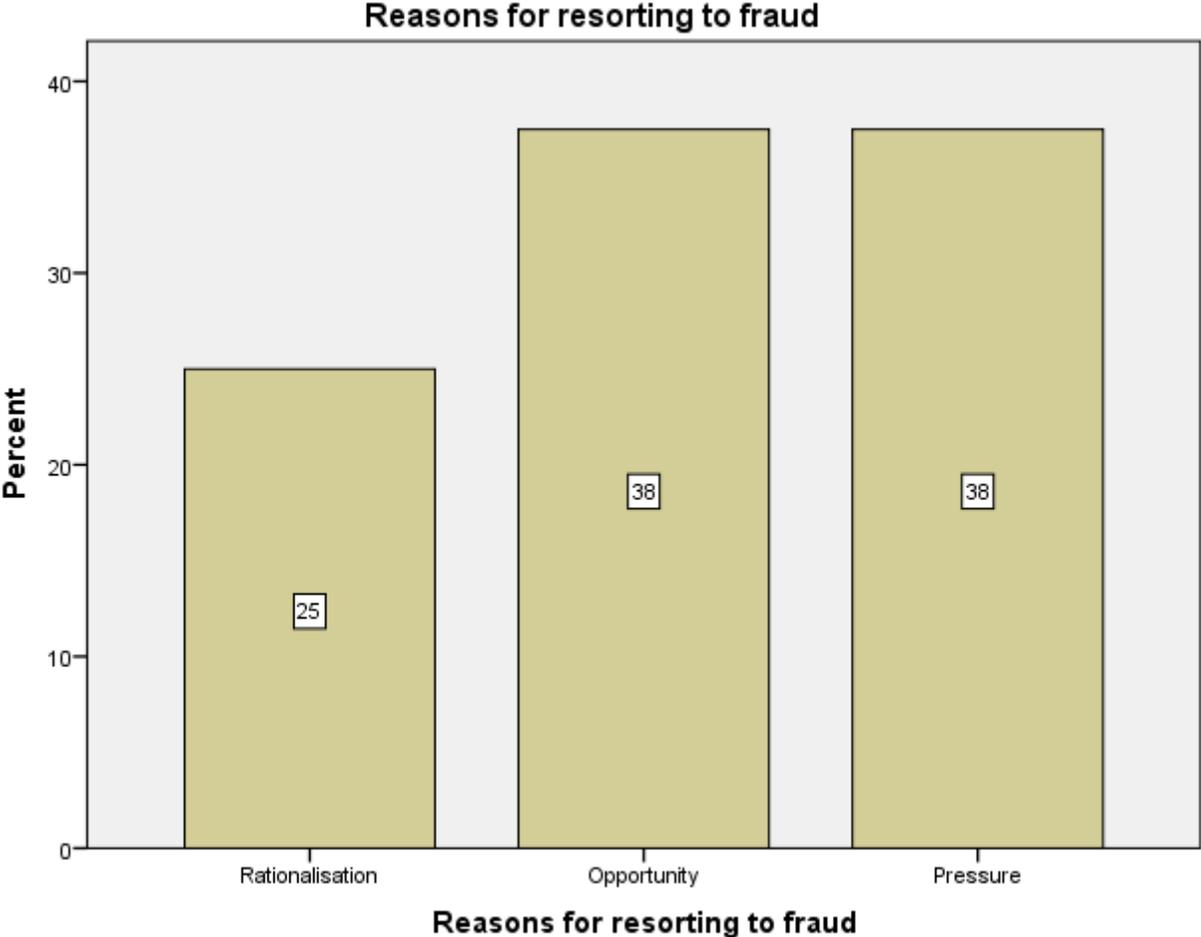
Figure 4.11: Problem faced by auditors



Source: Primary data

Figure 4.11 indicates that of those who stated that they have audited banks before, 25% stated that it faced the problem of the involvement of senior management, 25% identified tampering with financial documents, 12.5% had problems identifying related party transactions as well as determining disclosures to be made and 25% had not audited therefore did not respond to this question.

Figure 4.12: Reasons for fraud



Source: Primary data

Reasons for resorting to fraud were presented as follows; 37.5% - Pressure, 37.5% opportunity and 25% rationalisation. The figures are presented in Figure 4.12 above. Responses obtained from auditors were more reflective of the economic reality in Zimbabwe, which therefore means information obtained from the banks could be inaccurate to some extent.

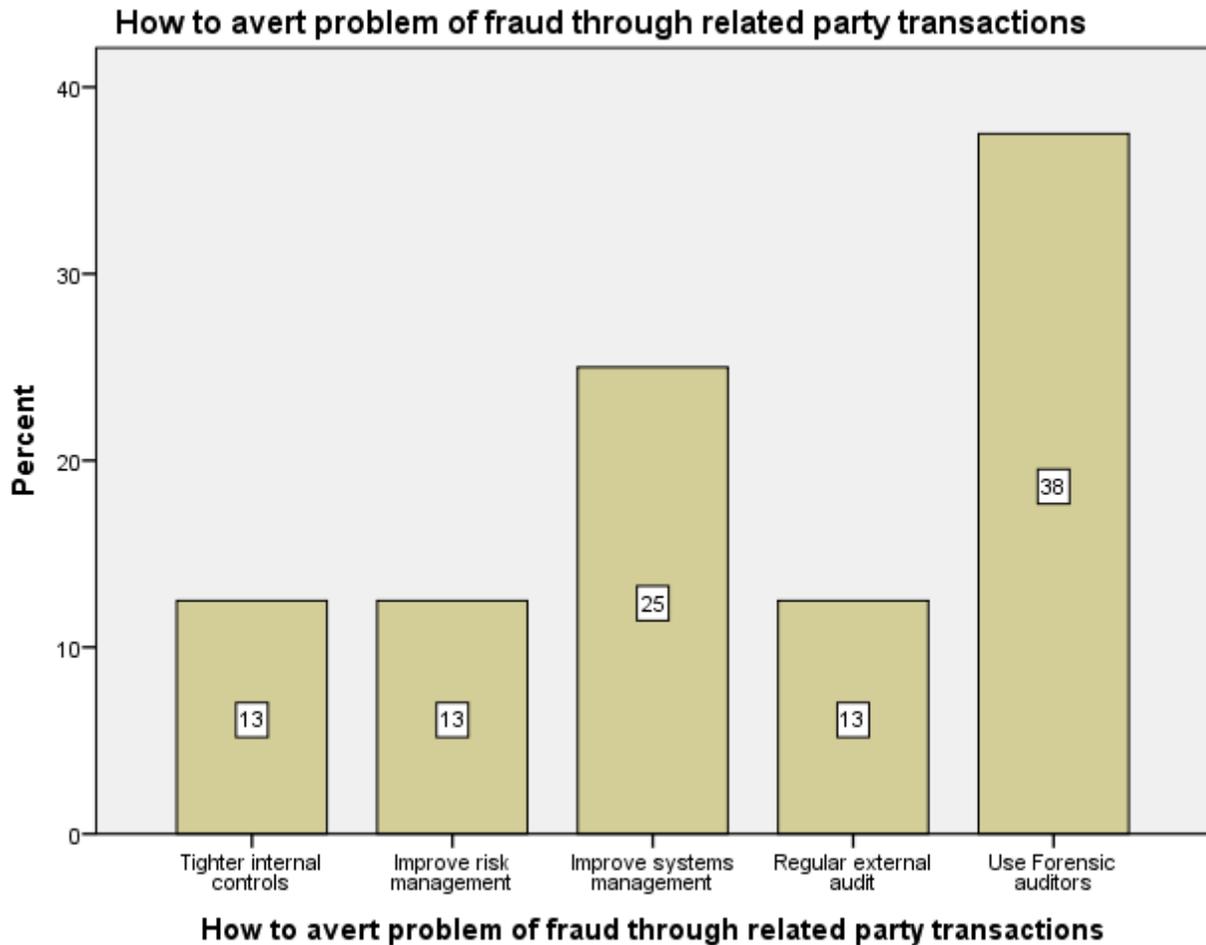
Table 4.16: Likert questions (Auditors)

Variable	Strongly agree (%)	Agree (%)	Disagree (%)	Strongly Disagree (%)
I have audited a bank in my career	62	13	0	25
Bank internal control systems in Zimbabwe are strong	0	38	50	12
Related party transactions are a problem when auditing banks	25	50	12.5	12.5
Bank managers have knowledge of forensic auditors	25	75	0	0
Special services like forensic audits pay more than statutory audits.	50	50	0	0
In Zimbabwe forensic skills are scarce	40	60	0	0
There are benefits for banks engaging forensic auditors	63	37	0	0
Forensic auditing can help avert bank failures	63	37	0	0
Related party transactions promote bank frauds	75	25	0	0

Source: Primary data

Table 4.16 indicates that the majority of respondents (63%) have audited a bank in their career. A total of 50% however disagree that bank internal control systems in Zimbabwe are strong. The majority of the respondents agree that related party transactions are a problem when auditing banks, bank managers have knowledge of forensic auditors, special services like forensic audits pay more than statutory audits and that in Zimbabwe forensic skills are scarce. The majority strongly agree that there are benefits for banks engaging forensic auditors, forensic auditing can help avert bank failures and that related party transactions promote bank frauds.

Figure 4.13: Ways to reduce related parties Fraud



Source: Primary data

Figure 4.13 above illustrates that 38% of respondents believe that the use of forensic auditors, should be carried out to avert the problem of fraud through related party transactions. A total of 13% believed this could be solved by enforcing tighter internal controls; improve risk management and regular external audit. Further 25% felt that the challenge could be averted by improving systems management within banks.

4.5 Presentation of responses from Reserve Bank of Zimbabwe Staff

Table 4.17 Responses from Reserve Bank of Zimbabwe Staff

Question	Summary of responses
Are related party transactions a problem for banks in Zimbabwe?	<ul style="list-style-type: none"> • Yes, we have constantly had reports from our bank surveillance and audit teams that this is a problem in banks. • It is not so bad, but yes, we have had cases reported to us.
How prevalent is the problems of frauds committed in banks through related party transactions?	<ul style="list-style-type: none"> • Generally the problem of nepotism is rife in Zimbabwe and this is where the problem of related party transactions partly emanates. • We receive reports of such nature at least three times in a year • Recently we heard reports of bank staff who were being victimized for whistle blowing on bank that understated the value of non-performing loans.
Do you have any banks that have failed as a result of related party frauds?	<ul style="list-style-type: none"> • Yes we have at least three banks that have failed due to this problems • Some banks have not failed totally but their smooth operations are being severely affected by this evil.
Where do forensic auditors come into a Zimbabwean bank's affairs?	<ul style="list-style-type: none"> • When there is suspicion of fraud or deliberate misappropriation of funds • When requested to do so as a general "health check" of a bank's financial affairs.
What are you as the regulators doing to avert bank failures emanating from related party transactions?	<ul style="list-style-type: none"> • We are constantly monitoring the performance of banks with a view to assisting in putting tighter control systems in place. • By constant education of the implications of related party transactions not just to the bank involved but to the banking sector as a whole. • By encouraging banks to perform forensic audits as a routine check rather than as a statutory means.

Source: Primary data

4.6 ANALYSIS AND DISCUSSION OF FINDINGS

The findings are discussed and analysed under the objectives for the study, in order to ascertain whether or not such objectives were met by the study.

4.6.1 Objective 1: To examine the nature and extent of related party transactions fraud in Zimbabwean financial institutions.

As alluded to in chapter two, fraud is a legal term that refers to the intentional misrepresentation of the truth in order to manipulate or deceive a company or individual. In addition fraud may be defined as intentional deception, cheating, or stealing. Findings presented in Figure 4.2 concur as indicated that 35% of respondents consider fraud to be misrepresentation of truth, another 35% consider fraud to be deception, whilst 15% said is the intentional stealing and remaining 15%, considered fraud to be a criminal act. It is noteworthy that none of the respondents defined related party transactions (related lending) as fraud. This concurs with results presented in Table 4.7 which point to 50% of respondents in disagreement and 50% strongly disagreeing that all frauds involve related party transactions.

In addition financial reporting fraud (also called management fraud) refers to management behaviour that seeks to inflate reported profits or other assets by deliberately overstating assets and revenues or understating expenses and liabilities in financial statements (Rezaee, 2005; Zahra, Priem, & Rasheed, 2005). Findings presented in Figure 4.3 highlight that a total of 50% identified financial reporting fraud as being the most prevalent of fraud types. This is followed by 20% who believe it is corruption, 20% who believe it is Management fraud and 10% who thought it to be company assets abuse.

When banks undergo severe financial problems and end up in either curatorship or bankruptcy, fraud by senior management may be involved. This is corroborated by responses from the Auditors whose views presented in Figure 4.12 indicate that 25% of the problems they encounter in auditing involved senior management. In Zimbabwe's financial sector this fraud has been attributed to related party transactions that go undeterred, advances made to individuals and companies related to senior management of a financial institution.

Responses from RBZ staff were in agreement when asked how prevalent problems of frauds committed in banks through related party transactions were, responded that generally the problem of nepotism was rife in Zimbabwe and that is where the problem of related party transactions partly emanated. RBZ staff also alluded to the fact that they receive reports of such nature at least three times in a year and also that they have heard reports of bank staff who were being victimized for whistle blowing on such fraudulent cases.

As presented in the literature in chapter two, in the case of one of the banks placed under curatorship; “The Reserve Bank took this action upon determining that Interfin Bank Limited is not in a safe and sound financial condition. In particular the unsafe and unsound condition of Interfin Bank Limited is attributable to inadequate capitalization, concentrated shareholding and abuse of corporate structures, *high level of non-performing insider and related party exposures*, chronic liquidity and income generation challenges, poor board and senior management oversight, as well as violation of banking laws and regulations” (RBZ Press statement, 11 June 2012).

4.6.2 The Fraud Triangle

In chapter two, the researcher outlined Cressey’s research conducted in the 1950s. The research provided the most valuable insight into the question why fraud is committed and was presented in what is known as the fraud triangle with the reasons for resorting to fraud being postulated as pressure, rationalisation of personal ethics and opportunity to commit the crime.

Respondents from the Auditors presented in Figure 4.13 reveal that the reasons for resorting to fraud were identified as pressure (38%) opportunity (38%) and rationalisation (24%). Responding to the same question, bank staff revealed the following as reasons; pressure (25%), opportunity (25%) and rationalization (50%). An interesting correlation to this response is found in Figure 4.9 where on being asked about possible strategies for reduction of fraud, a total of 20% of the bank staff respondents believed that paying employees well could reduce the incidence of bank fraud committed through related party transactions. One wonders if bank staff

truly believed that inadequate pay systems contribute to fraud. This is in stark contrast to the findings by Ramaswamy (2005), discussed in chapter two. Ramaswamy states that poor corporate governance and accounting failure is one of the reasons why fraud cases emerge. This is because poor corporate governance leads to the ability of certain individuals or a group of people with the same interest to act upon it to commit fraudulent activities in the company. Even if a company applies good internal control systems, the management still is the major factor influencing their implementation. In this case governance is a responsibility of management and therefore, the definition that this form of fraud is mainly financial reporting fraud where management attempt to overstate profits by the understatement of non-performing insider loans which are supposed to be written off as provisions or even outright losses (Banking regulations, 2002).

In resonance with the bank staff assertions of pay packages influencing the resorting to fraud, Loebbecke & Willingham (1998) concluded that the probability of material misstatement in financial statement due to fraud is a function of three factors. These include;

- The degree to which those in authority in an entity have reason to commit management fraud,
- The degree to which conditions allow management fraud to be committed, and
- The extent to which those in authority have an attitude or set of ethical values that would facilitate their commission of fraud.

The combined findings would point to support Donald Cressey's fraud triangle. All three variables Pressure, Rationalisation (of personal ethics) and Knowledge (opportunity) to commit fraud were believed to be reasons enough for individuals to resort to fraud. In addition, Cressey explains that employees and managers who have been around for years know quite well where there are weaknesses in the internal controls and have gained sufficient knowledge of how to commit crime successfully. Findings reveal that the length of service for the majority of bank staff is 10 years and above.

4.6.3 Objective 2: To determine the extent of the cost and benefits of periodically appointing forensic auditors in the auditing of banks' related party transactions, in addition to statutory audits.

Findings in Figure 4.8 reveal that 60 % of respondents believe non engagement of both statutory external auditors and forensic auditors is due to its expensiveness, 30% believe that statutory external auditors can do the job and 10 believe that it is not necessary to have both. However, a total of 40% of the respondents believe that in order to reduce bank fraud committed through related party transactions, yearly forensic audits should be conducted. A total of 25% believe it should be through frequent audits, 20% stated that this should be done through paying employees well, 10% said through tightening control and 5% believed it could be through tougher controls (Fig 4.9). The findings support the use of forensic auditors.

In chapter two the researcher showed that forensic and investigative accounting is the application of financial skills and investigative mentality to unresolved issues, conducted within the context of the rules of evidence. As a discipline, it encompasses fraud knowledge, financial expertise, and a sound knowledge and understanding of business reality and the working of the legal system (Bologna & Lindquist, 1987).

Forensic auditing is focused on the identification, interpretation, and communication of the evidence of underlying strategic economic and reporting events. It not single-event based, like a fraud examination, and a forensic audit is not used to render an audit opinion. As such, forensic audits are easily adapted to a principles-based accounting environment with broad guidelines applied to a variety of accounting investigations without using rule-based audit approaches or more narrowly-focused fraud practices (Smith and Crumbley, 2009).

Findings revealed in Table 4.7 solicited responses to how far respondents agreed or disagreed with a set of statements which relate to their organisations. The majority of the respondents strongly agreed that bank managers have knowledge of forensic auditors. A total of 65% of respondents, however, believed that forensic auditors were expensive. An almost equal number

believed that forensic skills are scarce in Zimbabwe. A total of 30% strongly agreed, 35% agreed and 30% disagreed. On the issue of affordability of engaging both forensic and statutory external auditors, 40% agree that engaging both was unaffordable, 10% strongly agree, 30% disagree and 20% strongly disagree. The majority, however still agree that there are benefits for engaging forensic auditors. A total of 80% felt that forensic auditors could have helped avert bank failures. Similarly, the majority strongly agree that there are benefits for banks engaging forensic auditors, forensic auditing can help avert bank failures and that related party transactions promote bank frauds.

4.6.4 Objective 3: Suggest possible solutions to avert the problem of bank failures caused by related party transactions fraud in Zimbabwean banks.

It appears from the findings that amongst banks the opportunities to commit fraud are rampant in the presence of lax or weak risk management and inadequate attention to internal controls. When motivation is coupled with such opportunities, the potential for fraud is increased. This is substantiated by responses to the question of how bank staff would rate the level of fraud in banks. Findings indicated that a total of 50% of the respondents rated fraud as high, 30% as very high and 25% as low (Figure 4.5). In addition, on being asked about the frequency of instances of fraud in the institutions in which they work, 70% stated that it has happened twice a year, 20% stated it was monthly and 10% said it was once a year (Figure 4.6). Also, 100% of the respondents revealed that more than 10 cases of fraud had been reported in the last five years (Figure 4.7).

Asked what measures respondents felt could be taken to curb fraud, especially of the related party transactions type, respondents from RBZ believed that this could be done through constantly monitoring the performance of banks with a view to assisting in putting tighter control systems in place, constantly educating banks of the implications of related party transactions not just to the bank involved but to the banking sector as a whole and encouraging banks to perform forensic audits as a routine check rather than as a statutory means. However, both banks employees and auditors believed the use of forensic auditors to be the most effective way.

The literature review revealed that in the United States of America management's reports on internal controls evaluated by the external auditors brought about these changes of note as possible solutions to avert the problem of bank failures caused by fraud namely;

- More independent boards of directors (especially the audit committee).
- Increased involvement of the audit committee (especially oversight of management and anti-fraud programs).
- More financial experts on the audit committee.
- More independent reporting lines (external and internal auditors report directly to the audit committee).

A total of 40% of the respondents believe that in order to reduce bank fraud committed through related party transactions, yearly forensic audits should be conducted. A total of 25% believe it should be through frequent audits, 20% state through paying employees well, 10% said through tightening control and 5% believed it could be through tougher controls. (Fig 4.9)

In Zimbabwe, however it appears nothing has been done to come up with legislature that deals with fraud and other white collar crimes as they relate to the auditing profession. Only the Zimbabwe Republic Police (ZRP), has a separate unit, (The Criminal Investigations Department Serious Fraud section), to investigate white collar crimes, but there are no clear procedures on the investigation and prosecution of white collar crimes. Therefore, the authorities need to address this problem as matter of urgency as there appears to be an increase in the prevalence rate the of white collar crimes in Zimbabwe, with outstanding such crimes being unearthed in January and February 2014, covering mainly parastatals and state owned enterprises, such as Air Zimbabwe, Premier Service Medical Aid Society (PSMAS), Zimbabwe Broadcasting Corporation (ZBC), National Social Security Authority (NSSA) amongst others.

Although stating the expense of the use of forensic auditors, the majority of respondents, still agree that there are benefits for engaging forensic auditors. A total of 80% felt that forensic auditors could have helped avert bank failures. On the issue of risk management system in place, 45% strongly agree that banks have risk management system in place and 55% agree to this.

Table 4.13 indicates that the majority of respondents (63%) have audited a bank in their career. A total of 50% however disagree that bank internal control systems in Zimbabwe are strong.

Figure 4.13 above illustrates that 38% of respondents believe that the use of forensic auditors, should be carried out to avert the problem of fraud through related party transactions. A total of 13% believed this could be solved by enforcing tighter controls; improve risk management and regular external audit. Further 25% felt that the challenge could be averted by improving systems management within banks.

4.7 Summary

The combined findings from the study point to support of the theoretical framework as presented in chapter 1 as well as the Donald Cressey's fraud triangle. All three variables Pressure, Rationalisation(of personal ethics) and Knowledge and Opportunity to commit were believed to be reasons enough for individuals to resort to fraud. The majority of the respondents strongly agreed that bank managers have knowledge of forensic auditors but the use of their services is expensive. Although stating the expensiveness of the use of forensic auditors, the majority, however still agreed that there are benefits for engaging forensic auditors and that forensic auditing could help avert bank failures. Similarly, the majority believed that uncontrolled related party transactions presents a greater opportunity for bank frauds by management and that regular forensic audits should be carried out to avert the problem of fraud through related party lending.

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the conclusions drawn from the findings, as they relate to the objectives of the study. Furthermore recommendations are also made for the regulators and bank management in order to help manage the problem of related party lending which has proven from the current study and other studies the world over that they are a real problem for banks especially if the banks are owned by indigenous people. Forensic auditing could be advocated to the shareholders as they are usually the “biggest losers” whenever frauds are perpetrated by the bank management who would usually make sure all traces of such fraud are completely covered.

5.2 Conclusions

The objectives of the study were:

- a) To examine the nature and extent of related party transactions fraud in Zimbabwean financial institutions.
- b) To determine the extent of the cost and benefits of biannually appointing forensic auditors in the auditing of banks’ related party transactions, in addition to statutory audits.
- c) To suggest possible solutions to avert the problem of bank failures caused by related party transactions fraud in Zimbabwean banks.

On the nature and extent of related party transactions fraud no conclusive evidence from the bank respondents as they could not divulge such information as it was considered highly sensitive and could have resulted in the reprisal of some of the respondents were of junior

positions, and the managers were also afraid that such information could trigger investigative actions from the Reserve Bank of Zimbabwe, as respondents were afraid to be called whistle blowers. However, conclusive evidence was obtained from the auditors who have previously audited banks, who indicated that the most common problem when auditing banks' related party lending transactions was the involvement of management. This clearly showed the problem of related party lending frauds were existent, this is however indirectly supported by the banks when asked about the level of fraud and a total of 80% of respondent agreed that the level of fraud is high and such fraud cannot be employees fraud.

The cost of engaging both statutory auditors and forensic auditors concurrently was found to be prohibitive though the study could not establish the absolute costs, it was found that generally forensic audits are more expensive because of their nature as they are normally considered special engagements which usually apply substantive procedures and therefore involve a lot of work hence many audit hours. Even the auditors concurred that unlike statutory audits special engagements like forensic audits were said to pay well hence more costly for their clients as a massive 100% of the respondents either strongly agreed or just agreed to the notion of forensic audits paying well for the auditors. The cost of engaging both could be very high but if the check would be of related party transactions and the banks would be forced to adhere to the set standards in the Banking regulations of 2000, then the cost could be manageable as lending limits to related parties could be contained.

Possible ways to avert bank failures were also found from the study with the majority of the respondents advocating that there should be the engagement of forensic auditors, where these were especially encouraged by respondents from the regulators who did not propose a consideration as a regulatory matter but rather having it as being optional to appoint forensic auditors as self check mechanisms. Other options to avert the problem of related party lending abuses could be having a strict code of corporate governance or even the amendment of the current Banking Act, in order to incorporate how the law should deal with white collar crimes such as fraud in order that the problem can be handled legally.

5.3 Recommendations

Based upon the findings of this study, the following are the recommendations pertaining to the problem of forensic audits as a way to avert the problem of related party transactions, which have in past led to bank failures.

- a) The findings showed that periodic engagement of forensic auditors who examine a bank's related party transactions is a likely effective tool to contain related party lending. Therefore, the researcher recommends to bank institutional investors to consider the engagement of forensic auditors at least once in two years in the banks that they control.
- b) Bank management should engage in ethical practices that do not prejudice their stakeholders who include, shareholders, depositors, and the banking public as their unethical actions results in losses; when they lend to related parties without doing the due diligence exercise and the treatment of such borrowers unfairly, this exposes the banking public and other banks to systemic failures ("snow-ball effect") when their banks fail as a result of very high non-performing insider loans.
- c) Based upon the response from the RBZ, the researcher recommends education of the banking industry stakeholders who include the senior management of the effect and dangers of having uncontrolled related party lending.
- d) The major problem which was also identified by the study was about weak corporate structures and the inadequacy of the regulator in the effective monitoring of banks, in order to strengthen this task there is need at the national level to empower the RBZ so that it can perform its function of financial oversight and regulation of the financial sector including banks well.
- e) Though it was not part of the study there is need to properly criminalise fraud by bank managers and come up with clear prosecution procedures as most of the cases where financial institutions failed it has not resulted in service of justice to the injured parties whilst the perpetrators of the offence continue in freedom.

5.4 Chapter Summary

This chapter started with looking at the conclusions drawn from the study and went on to give recommendations for actions by both the management of banks as well as the regulators of the financial sector (RBZ). It can also be noted that the study identified the fact that related party lending fraud or fraud in general was found to be high mainly as a result of nepotism and corruption which has greatly affected the Zimbabwean society cutting across all the sectors of the economy, where even auditors are now prone to this cancer of corruption.

5.5 Further Research

The study was not conclusive in all respects with regards the same problem of forensic auditing of related party transactions as away to avert fraud that is perpetrated through these transactions. Similar studies could be done with banks that have previously experienced bank failure and was resuscitated by the RBZ by way of liquidity support or curatorships so that the actual severity of the problem can be ascertained with banks that have previously failed.

References

ACFE, Report to the nation 1996, 2002, 2004 (USA).

AICPA and ACFE Join Forces to Prevent Fraud. *Journal of Accountancy*, Jan 2007, Vol. 203 Issue 1, p32-33.

Alan Bryman & Emma Bell (2007): *Business Research Methods*. Oxford University Press Inc., New York.

Albrecht, W. S., Albrecht, C. C., and Albrecht, C. O. (2004). *Fraud and Corporate Executives: Agency, Responsibility*. *Journal of Forensic Accounting*, June, p. 109–130.

Albrecht, W. Steve; Albrecht, Chad; Albrecht, Conan C. (2008), *Current Trends in Fraud and its Detection*. *Information Security Journal: A Global Perspective*, Jan. 2008, Vol. 17

Albrecht, W.S. (2005). *Identifying Fraudulent Financial Transactions: A Framework for Detecting Financial Statement Fraud*. Brigham Young University.

Banking Act Chapter 24:20 (Act16 of 2004), Government printers, Harare

Banking Regulations of 2000, Statutory Instrument 205 of 2000, Government printers, Harare

Bologna, G.J. and Lindquist R.J. (1987). “Fraud Auditing and Forensic Accounting: New Tools and Techniques”, Hoboken, New Jersey: Wiley Publication.

Brickey, Kathleen F. (2008). *From Boardroom to Courtroom Governance Scandals*. *Journal of Corporation Law*, Spring 2008, Vol. 33

- Cain, S. (1999). Fraud in the workplace. Orange County Business Journal, Vol. 22, No, 16, pp. 78.
- Cobb, C. D., Spring 2002, “Quantitative Inquiry: Methods and Techniques of Educational Research”, Committee of sponsoring Organisation (COSO) Landmark study on fraud in financial reporting 1998.
- Code of practice on lending to related parties (2010), Central Bank of Ireland
- Consolidated Supervision Guidelines: 2012:03, (2012) Central Bank of Barbados
- Consolidated Supervision Guideline (2008), Reserve Bank of Zimbabwe
- Cressey, Other people’s Money (New York Free press, 1949).
- Crumbley DL (1995) Forensic accountants appearing in the literature. New Accountant 10(7):25
- Crumbley DL, Heitger LE, Smith GS (2005) Forensic and investigative accounting. CCH Group, Chicago, IL
- David, A. (2005). Low Level Fraud is a High Level Issue, Supply Management. [Online] Available:<http://www.highbeam.com>. (Last update 26th November 2008).
- Durant A (2002) <http://www.acfe.com/fraud/view.asp?ArticleID=307> ACFE, 2002, p1
- Edwin H. Sutherland, White- Collar crime (New York Free Press, 1949).
- Frank E. Hartung, Crime law and society page (124-126) Detroit: Wayne State University Press 1965.

Fraud and corruption control, Guidelines for best practice (2005), Crime and Misconduct commission.

Fraud: <http://www.journalofaccountancy.com/Issues/2009/Jun/Fraud>. Accessed 5 Feb 2014

Fraud: <http://www.journalofaccountancy.com/Issues/2009/May/Fraud>. Accessed 5 Feb 2014

Gray D (2008) Forensic accounting and auditing: compared and contrasted to traditional accounting and auditing. In: ABR &TLC Conference Proceedings, 2008, USA. High-Tech Fraud Prevention

Garry M. Cunningham & Jean E. Harris Global Perspective on Accounting Education (Vol 3, 2006, 27-48). International Journal of Business and Management (www.ccse.org/journal.html) vol. 4, No 11. Nov. 2009

http://www.journalofaccountancy.com/Issues/2008/Oct/High_Tech_Fraud_Prevention

<http://www.uow.edu.au/commerce/accy/current/UOW010315.html>

http://www.intelligententerprise.com/020528/509feat3_1.jhtml;jessionid

International Monetary Fund (2006): Economic Structural Adjustment Fund Report. Washington D.C, IMF.

Jean E. Harris. Enron and Arthur Andersen, Global Perspectives on Accounting Education (Volume 3). The Case of Crooked E and Fallen A.

KPMG: Fraud Survey 1994, 1998, 2002, 2003, KPMG, Darwin. Lennar CEO & Barry Minkow (29 May 2008) Article on Fraud Discovery.

Loebbecke, J.K, Eining, M.M. and Willingham, J.J. (1989). Auditing: a Journal of Practice & Theory, Fall, pp. 1-28.

Norman Jaspan and Hillel Black (1960), The thief in white- Collar.

Ramaswamy, V. (2005). Corporate Governance and the Forensic Accountant.

Rasey M (2009) History of forensic accounting, 30 June 2009.
http://www.ehow.com/about_5005763_history-forensic-accounting.html

R. Cull, S. Haber & M. Imai (2007), Related lending and financial development

Sarbanes Oxley Acts (SOX), 2002 Sequence Inc: Are we really getting tough on Financial Fraud
by Tracy L. Coenen.

Singleton T, Singleton A, Bologna J, Lindquist RJ (2006) Fraud auditing and forensic accounting, 3rd edn. Wiley, Toronto, ON

The Fraud Examiners:
<http://www.journalofaccountancy.com/Issues/2003/Oct/TheFraudExaminers.htm>. Accessed 7
March 2014

The state of schemes, ten things about financial statement fraud, 2nd edn. Deloitte Forensic Center, <http://www.journalofaccountancy.com/Issues/2009/May/StateofSchemes>

World Bank (1981): Trends in Developing Economies. The World Bank Washington D.C.

World Bank (2007): Finance for All? Policies and Pitfalls in Expanding Access, World Bank Policy research Report, Washington D.C.

APPENDICES

Appendix I: Questionnaire 1- For banks

Introduction

My name is Tonderai Kapesa; I am studying for a Masters of commerce degree in Accounting with the Midlands State University. I am carrying a research titled, “*Forensic auditing of related party transactions in Zimbabwean banks to avert fraud.*” I hereby solicit your participation by responding objectively to the questions that follow. All information gathered will be treated as confidential and for academic purposes only.

Part A: Demographic Information

For questions that have alternative answers, please tick (✓) the box that corresponds to your response.

1. Department
2. Position held
3. Highest Qualification
4. Gender: Female Male
5. Age: Below 30 30-40 41-50 Above 50
6. How long have you worked for this bank?
Less than 1year 1 to 5years 6 to 10 years over 10 years

Part B – Open and close ended questions

Fill the blank spaces provided and tick where appropriate

7. What do you consider fraud?
8. Which type of fraud is most prevalent in your institution?
Financial reporting fraud company assets abuse corruption
Other (specify)
9. How would you rate the level of fraud in Zimbabwean banks?
Very High High Low Very Low

10. How often do you have instances of suspected fraud in your institution?

Monthly Twice a year Once a year Longer than a year

11. How many fraud cases (if any) have been reported in your institution in the last five years?

Above 10 between 5-10 between 1-5 None

12. What makes banks not engage both statutory external auditors and forensic auditors?

.....

13. What can be done to reduce bank fraud committed through related party transactions?

.....

Part C Likert Scale questions

14. Show how far you agree or disagree with the following statements which relate to your organisation (*Tick the appropriate box*).

(**SA**-strongly agree, **A**-agree, **D**-disagree and **SD**-strongly disagree)

	SA	A	D	SD
All frauds involve related party transactions				
Related party lending promotes bank fraud				
Bank managers have knowledge of forensic auditors				
Forensic auditors' appointment is expensive				
Forensic auditing skills are scarce in Zimbabwe				
It is unaffordable to engage both statutory and forensic auditors				
There are benefits for engaging forensic auditors				
Banks know the benefits of forensic auditing				
Forensic auditors could have helped avert bank failures				
Bank failures caused by related party lending cannot be averted				

Thank you for your time!

Appendix II: Questionnaire 2- For auditors

Introduction

My name is Tonderai Kapesa; I am studying for a Masters of commerce degree in Accounting with the Midlands State University. I am carrying a research titled, “*Forensic auditing of related party transactions in Zimbabwean banks to avert fraud.*” I hereby solicit your participation by responding objectively to the questions that follow. All information gathered will be treated as confidential and for academic purposes only.

Part A: Characteristics of Respondents

For questions that have alternative answers, please tick (✓) the box that corresponds to your response.

1. Position held
2. Highest Qualification
3. Gender: Female Male
4. Age: Below 30 30-40 41-50 Above 50
5. How long have you worked in an auditing firm?
Less than 1year 1 to 5years 6 to 10 years over 10 years
6. Have you ever audited a bank in your career life? Yes No
7. Did you have problems pertaining to related party transactions audits? Yes No
8. If yes what are the major problems you encountered?
.....
.....

9. Show how far you agree or disagree with the following statements which relate to your work
(Tick the appropriate box).

(SA-strongly agree, A-agree, D-disagree and SD-strongly disagree)

	SA	A	D	SD
I have audited a bank in my career				
Related party transactions are a problem when auditing banks				
Bank managers have knowledge of forensic auditors				
Special services like forensic audits pay more than statutory audits.				
In Zimbabwe forensic skills are scarce				
There are benefits for banks engaging forensic auditors				
Forensic auditing can help avert bank failures				
Related party transactions promote bank frauds				

10. What do you think should be done to avert the problem of fraud through related party transactions?.....

Thank you for your time!

Appendix III: Interview Guide – For RBZ Staff

Introduction

My name is Tonderai Kapesa; I am studying for a Masters of commerce degree in Accounting with the Midlands State University. I am carrying a research titled, “*Forensic auditing of related party transactions in Zimbabwean banks to avert fraud.*” I hereby solicit your participation by responding objectively to the questions that follow. All information gathered will be treated as confidential and for academic purposes only.

Interview questions

- 1) Are related party transactions a problem for banks in Zimbabwe?
- 2) How prevalent is the problems of frauds committed in banks through related party transactions?
- 3) Do you have any banks that have failed as a result of related party frauds?
- 4) Where do forensic auditors come into a Zimbabwean bank’s affairs?
- 5) What are you as the regulators doing to avert bank failures emanating from related party transactions?

Thank you. Have a pleasant day.