

# The Effect of Administrative Controls on Fraud Detection and Prevention in Barclays Bank Uganda

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**Abstract:** *The study investigated the effect of administrative controls on fraud detection and prevention in Barclays Bank Uganda. The objectives of the study were; (1) to establish the relationship between administrative professional practice and fraud detection and prevention in the bank; (2) to establish the relationship between administrative deterrence measures and fraud detection and prevention in the bank; and (3) to determine the effect of utilizing administrative detection tools and methods to prevent fraud. The study used both descriptive and inferential statistics to achieve the above objectives. Results revealed that; (1) there is a significant and positive correlation between; administrative professional practice and fraud detection and prevention in the bank ( $r = .843, p < 0.0001$ ); administrative deterrence measures and fraud detection and prevention ( $r = .969, p < 0.0001$ ); and utilizing administrative detection tools and fraud detection and prevention ( $r = .992, p < 0.0001$ ). Given the findings, it was suggested that Barclays Bank should strengthen its administrative controls and ensure that systems are in place to detect and/or prevent problems that lead to losses thereby limiting damage to the bank operations. These included; professionalism in organizing work and controlling workers as well as having deterrent measures and technological tools that can help in the internal control function.*

**Keywords:** Administrative controls, fraud detection, professional practice, administrative deterrence, prevention

## 1. Introduction

As the proliferation of the banking sector services increases due to emerging new and competitive banks, administrators in the industry and more especially those in the old mature banks like Barclays Bank Uganda which started way back in 1927, have the responsibility to ensure that there are sound professional administrative controls in place more than before. Therefore the banking administrators have to focus increasingly on the importance of fraud detection and prevention given the present technology that is also exploited by fraudsters as well. This paper therefore highlights the effect administrative controls have on fraud detection and prevention in the Barclays Bank Uganda using one of its busiest branches of Jinja in Eastern Uganda.

Administrative control in this paper is defined as the bank senior manager's responsibility for providing periodical reviews about the overall strategies and policies of the bank; understanding the major risks run by the bank; using acceptable levels for these risks and ensuring that the bank staffs take the necessary steps to identify measure, monitor and control the risks. Bank administrators have the responsibility of ensuring that the policies approved by the Board are delegated and implemented effectively by setting appropriate internal control policies and monitoring the adequacy and effectiveness of the control system.

Professionalism requires those working as professionals to be worth of that trust, to put clients first, to maintain confidentiality and not to use their knowledge for fraudulent purposes.

Therefore, for any bank to survive and easily detect fraud and/or prevent it, the administrators have to proactively

promote high ethical and integrity standards and establish a culture that emphasizes and demonstrates to all levels personnel the importance of internal control. Thus, all personnel at the banking organization are expected to administratively understand their role to be fully engaged in the process.

It is hypothesized in this paper that an effective administrative control that recognizes, within its structures the need to achieve bank's goals have the responsibility to cover all the potential risks that the bank faces that is; credit risk, country and transfer risk, market risk, interest rate risk, liquidity risk, operational risk, legal risk and reputation risk. Once these are done periodically, fraud detection and prevention can easily be minimized or eliminated.

According to Yadav (2007), fraud occurs when a person knowingly provides fabricated information by acting in a manner that is deliberately detrimental to the organization. This includes; misrepresentation of facts, collusion with third parties, misreporting of financial information, dishonestly abusing a position of trust, providing false information, unauthorized transfer of collateral and willfully concealing material breaches of financing terms and agreement.

It is observed here that individuals and organized criminals have historically targeted financial institutions to obtain account information and funds by exploiting vulnerabilities through a variety of fraud schemes. While the nature of fraud faced by each organization can be very different, sound fraud prevention and detection elements are common to all organizations. Barclays Bank in Uganda is one of the many banks in Uganda that have worked administratively

with undisputable reputation and for which fraud, once not detected would have a significant negative impact.

The research by Hopwood et al (2008), in the United States indicated that very many business organizations lose hundreds of billions of dollars per year to fraud. Yet, most frauds against organisations are never reported to law enforcement authorities either because they involve only few hundred or thousand dollars or in order to avoid negative publicity and legal liability on the part of the companies concerned. Besides, such frauds can sometimes be hard to prove without a confession.

Other researchers like Naicker (2006) express concern that whereas fraud detection involves identifying fraud as quickly as possible once it has been perpetrated, fraud deterrence are measures to stop fraud occurring in the first place. Additionally, Zhang (2012) concludes that fraud detection and prevention must operate together. Fraud prevention involves good division of responsibilities, supervision of staff, monitoring work performance and also putting measures in place to ensure that even when systems are accessed that there is proper control (Kimani, 2011).

## 2. Literature Review

Fraud according to Yadav (2007) is any behavior by which one person intends to gain a dishonest advantage over another. In other words, fraud is an act of omission which is intended to cause wrongful gain to one person and wrongful loss to the other, either by way of concealment of facts or otherwise. Bank fraud has grown with advent of the banking industry, and has been facilitated by the technological innovations and the widespread use of the Internet. According to Cressey (2003), for fraud to occur the three factors; pressure, rationalization and opportunity should be present. Bank employees have knowledge of the systems as well as classified and confidential information which together with technological advancement can give them the opportunity to commit frauds. All they need is some pressure and the rationalization and that way they become part of fraud cartels that are fleecing millions of shillings from the banks.

The research by Apoorva (2005) categorized the most frequent fraud cases in commercial banks which include; forgery, of signatures, falsification of accounts, theft, criminal conspiracy, cheque kiting (when in-transit or non-existent cash is recorded in more than one bank account), uninsured deposits, credit card theft, duplication of card information (skimming scams), falsification of loan applications, laxity of enforcement and cooperation between cheque manufacturers and financial institutions.

Despite the above, Taylor (2011) expressed worry that the uninformed amongst the general public including financial journalists cannot easily know that the bank is facing fraud as a result of weak administrative controls. This suggests that the effect of administrative control on fraud detection and prevention need to be investigated so as to ascertain the extent to which the served public perceives that administrators have the capacity to detect fraud and prevent and ensure that the customer funds are safe and secure.

## 3. Methodology

This study employed purposive sampling techniques in that it was only customers who had bank accounts with Barclays who were identified and approached to respond to the survey questionnaire. Out of a sample of 80 respondents, only 60 filled and returned the questionnaires.

Therefore, the questionnaires were filled by the selected respondents and it was aimed at getting responses from the respondents about their views about administrative controls in place in one of the sections and fraud detection and prevention in the bank in the subsequent sections. A five point Likert Scale was used for rating the items of the opinion survey (5 = Strongly Agree to 1 = Strongly Disagree).

The questionnaire items under different sections specific to the study objectives were tested for statistical reliability based on the Cronbach Alpha. It turned out to be 0.968 for the questionnaire implying that the study scales were reliable and consistent for use.

After editing, the data analyzed using SPSS program version 20 to test the relationship between the dependent and independent variables, inferential statistics were used i.e. regression analysis and Pearson's correlation coefficient. These were used to test hypotheses based on the study.

## 4. Data Analysis

Descriptive analysis was first employed by identifying the key items in the questionnaire for analysis before the final correlation and regression analyses was performed. The results are indicated as below;

### A. Descriptive statistics on the application of administrative professional practice to detect and prevent fraud

Descriptive statistics was first analyzed for each of the variables. Some key responses on the application of administrative professional practice to detect and prevent fraud were first analyzed as indicated in table 1

**Table 1:** Responses on the application of administrative professional practice to detect and prevent fraud

Item	Responses		
	SA & A	N	D & SD
	%	%	%
Preventive measures are in place to curb fraud	76.6	10.0	13.3
There is diligence when handling bank operations	70.0	10.0	20.0
Know Your Customer (KYC) information on joint accounts is captured	70.0	10.0	20.0
All customers' names are subjected to sanctions screening	70.0	26.7	3.3
Unused cheques of closed accounts are destroyed immediately	50.0	30.0	20.0
Altered cheques are always countersigned	60.0	0.0	60.0
Account statements are issued to customers	63.4	20.0	16.7
Accounts are reconciled after the account statements are issued	40.0	10.0	50.0

Customers have arrangements with the bank to always cross check accounts	36.6	30.0	33.3
There is a relevant database that assists the bank in assessing fraud risk.	56.6	30.0	13.3

As indicated in table 1, most of the respondents (76.6%) agreed that there administrative measures in place to detect and prevent fraud in Barclays Bank. Similarly, it is noted that 70% of the respondents agreed that the administrators have diligence when handling bank operations, they keep customer information intact (70%) in line with best administrative professional practice. However, an average number (50%) agreed that the bank manages well unused cheques (50%) and above all have the relevant databases that assist the bank in assessing fraud risk (56.6%). This therefore requires that the bank addresses these aspects to the satisfaction of customers.

#### Testing the relationship between administrative professional practice and fraud detection and prevention in the bank

In order to test the hypothesis that there is a significant and positive relationship between administrative professional practice and fraud detection and prevention in Barclays Bank Uganda Limited, a correlation matrix was analyzed to test the relationship. As indicated in table 2, there is a significant and positive relationship between administrative professional practice and fraud detection and prevention ( $r = .843$ ,  $p < 0.0001$ ). This implies that the more bank institutes administrative professional practice, the more fraud is detected and prevented.

**Table 2:** Correlation matrix between administrative controls and fraud detection and prevention

	Fraud detection and prevention	Detection tools	Deterrence measures	Professional practice
Fraud detection and prevention	-			
Adm. Detection tools	.992**	-		
Adm. Deterrence measures	.969**	.965**	-	
Adm. Professional practice	.843**	.841**	.768**	-

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

#### B. Descriptive statistics on administrative deterrence measures that help in fraud detection and prevention

**Table 3:** Respondents' perception on administrative deterrence measures to detect and prevent fraud

No.	Item	Responses		
		SA & A %	N %	D & SD %
1.	Original identification documents are presented to the bank at the time of entry	63.3	0.00	36.6
2.	Employees suspected of fraud are dismissed	73.3	6.7	20.0
3.	There is periodic rotation of staffs	50.0	3.3	46.7
4.	Fraudsters are immediately reported to the relevant authorities and punished	70.0	3.3	26.6

5.	Armed guards are deployed at every branch to protect the bank	53.3	16.7	30.0
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As indicated in table 3, 63.3% of the respondents agreed that identification documents are used to determine the right customer, 73.3% agreed that employees suspected of fraud are dismissed and that fraudsters are immediately reported to the relevant authorities and punished (70.0%). However, it is important to note that it is only an average number (50%) who agreed that Barclays Bank practices job rotation for its staff and that armed guards are deployed at every branch to protect the bank. The bank again needs to work to ensure that there is regular job rotation and that the armed guards are perceived effective in protecting the bank.

#### Testing the relationship between administrative deterrence measures and fraud detection and prevention

A correlation matrix was analyzed to test the hypothesis that there is a significant and positive relationship between administrative deterrence measures and fraud detection and prevention in Barclays Bank Uganda Limited. As indicated in table 2, the results show that there is a significant and positive relationship between administrative deterrence measures and fraud detection and prevention ( $r = .969$ ,  $p < 0.0001$ ). Therefore the null hypothesis is rejected.

#### C. Descriptive statistics on the utilizing administrative detection tools to prevent fraud

It is deduced from table 4 that 60% of the respondents agreed that the bank has a system in place to detect fraud. Additionally, 66.7% agreed that ultra-violet lighting cheque identifiers and writers are in place, 70% were also in agreement that the bank has surveillance cameras in place, while 73.3% do confirm that the bank has burglar alarms in place. It is noted here that only 40% of the respondents agreed that dormant accounts are monitored regularly which aspect must be worked on by the administrators so as to ensure that the bank has only active clients as required by policy.

**Table 4:** Use of administrative detection tools and methods to prevent fraud

No.	Item	Responses		
		SA & A %	N %	D & SD %
1.	System for detecting fraud is in place	60.0	10.0	30.0
2.	Ultra-violet lighting cheque identifiers and writers are in place	66.7	10.0	23.3
3.	Surveillance cameras are installed in banking halls and ATM points	70.0	10.0	20.0
4.	Burglar alarms are in place	73.3	10.0	16.7
5.	Dormant accounts are monitored regularly	40.0	23.3	36.7

#### Testing the relationship between utilizing administrative detection tools and measures and fraud detection and prevention

To test the hypothesis that there is a significant and positive relationship between utilizing administrative detection tools and measures and fraud detection and prevention in Barclays Bank Uganda Limited, a correlation matrix. As indicated in table 2, the results show that there is a significant and positive relationship between utilizing administrative detection tools and fraud detection and prevention ( $r = .992$ ,  $p < 0.0001$ ). Hence the null hypothesis is rejected.



### Testing the overall effect of administrative controls on fraud detection and prevention in Barclays Bank Uganda

In order to test the overall effect of administrative control on fraud detection and prevention in Barclays Bank Uganda, simple regression analyses were first performed for each of the variables. The results indicate that administrative controls have an overall effect on fraud detection and prevention ( $F = 26.518$ ,  $p < 0.0001$ ). Subsequently, the analyses of the simple regression for each of the variables indicate that administrative control against has a significant effect on each of the variables with; administrative professional practice ( $\beta = .843$ ,  $t = 8.291$ ,  $p < 0.0001$ ); administrative deterrence tools ( $\beta = .768$ ,  $t = 6.340$ ,  $p < 0.0001$ ); administrative detection tools and measures ( $\beta = .841$ ,  $t = 8.213$ ,  $p < 0.0001$ ).

## 5. Discussion

The results of this study emphasize what many researchers have found for example Krstić (2009) defines financial report fraud as an intentional and deliberate misstatement or omission of material facts or accounting data which means that administrators are able to detect and prevent this type of act. Equally, Coenen (2008) emphasizes the intentional misstatement including omissions of amounts or disclosures in the financial report to deceive financial statement users. This research therefore adds that administrative control is a very important tool in the detection and prevention of fraud in Barclays Bank Uganda. As indicated in the analysis, administrative controls can help to ensure that thorough reporting procedures and activities of the bank are monitored regularly, safeguard bank assets, allow action to be taken against undesirable performance and prevent or detect fraud and error. The result documented here therefore demonstrates that an old bank such as Barclays Bank has to ensure effective administrative control systems so as to reassure customer confidence that fraud can easily be detected and prevented. It is the administrative controls that can help build an effective internal control system with control structures defined at every level. These should include; top level reviews, and appropriate activity controls for different departments, divisions, branches etc. An effective administrative control requires that there is appropriate segregation of duties and that personnel are not assigned conflicting responsibilities. The administrators in such large banks have the responsibility to ensure that professional practice prevails, administrative deterrence measures and those modern tools and methods are used to safeguard the customer savings and remain as a bank of repute. The overall effectiveness of the bank should be monitored on an ongoing basis. Put another way, monitoring of key risks should be part of the daily activities of the bank as well as periodic evaluations by the business lines and internal audit. A bank that is prepared to excel in the present times of intensive competition as observed earlier in this paper should have supervisors whose job is to ensure that all systems of control work and that they provide adequate communication of information between levels of management so as to emphasize a fraud free bank. Finally, senior management should have the responsibility for implementing strategies and policies approved by the Board and develop processes that identify measure, monitor

and control fraud risks. Only by doing so can the banks remain trusted by its clients.

## 6. Conclusion

In conclusion, an effective administrative control has a significant effect on fraud detection and prevention as this study documents. Since banking is a rapidly evolving industry, banks must continuously monitor and evaluate their administrative control systems in light of the changing internal and external conditions. They must also enhance these systems as necessary to maintain their effectiveness. This is through professional practice, administrative deterrence and utilizing detection tools.

Perhaps many banks that have experienced losses from internal control problems did not effectively work on the three variables examined in this study. Barclays Bank therefore should put in place effective administrative controls that can appropriately follow up on problems identified by all including auditors and have periodic tracking devices that can help confront important issues so as to detect and prevent fraud in a timely manner.

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