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Prevention and detection of fraud in a Ugandan university organization

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Thesis abstract

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In Uganda, the unemployment rate is already a staggering 9.4 percent among the whole population and among young people even higher, 19.4 percent. This factor, combined with low wages, creates pressure to get some extra income. It has led employees to misappropriate assets from their workplaces. In addition, the culture of impunity and corruption makes it clear that fraud is a serious issue.

Global research shows that fraud is common at academic institutions, such as universities. Fraud in a university environment differs from business fraud. There are no published reports on losses caused by fraud in organizations in Uganda. However, for instance, in the US, approximately 5 percent of companies' turnover is lost to fraud annually.

The purpose of this thesis was to help an academic institution create a fraud risk strategy through fraud risk assessment. The thesis was made for a commercialized university in Uganda. The objective was to provide information about fraud and then find ways to prevent and detect possible frauds.

The framework deals with the definition of fraud profoundly. Uganda's national economy is described to justify the need for more effective fraud prevention. This thesis explains why fraud occurs and then presents ways to mitigate the risk. Detection of fraud is also discussed, so that the organization can operate more efficiently. One chapter is dedicated to discussion on the issue of how to deal with a suspected case of fraud. Different organization members were interviewed to get more information about the situation at the university.

The empirical study shows that because the university is still quite young, proper resources have not been put to place for fraud risk management. The fact that different organization members had disparate information indicates that there is a lack of communication. Fraud is not common at this university, which is surprising due to the fact that previous research claims that fraud is more common at commercialized universities. The thesis writer suggests that the university should start implementing risk assessment and, through that, create a fraud risk strategy.

Keywords: fraud, misappropriation, corruption, internal control, university

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Opinnäytetyön tiivistelmä

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Ugandassa työttömyys on huomattavan korkea, 9,4 %, ja nuorisotyöttömyys vieläkin korkeampi, 19,4 %. Yhdistyneenä alhaiseen palkkatasoon tämä luo paineita lisätienestien etsimiseen. Se on saanut jotkut työntekijät kavaltamaan niiden organisaatioiden varoja, joiden palveluksessa he työskentelevät. Lisäksi rankaisemattomuuden kulttuuri ja korruptio korostavat entisestään petosten olevan maassa suuri ongelma.

Kansainväliset tutkimukset osoittavat, että petos on yleistä akateemisissa instituutioissa, kuten yliopistoissa. Yliopistoissa tapahtuvissa petostapauksissa on eroja yri-
tyspetoksiin nähden. Ugandassa ei ole julkaistu tutkimuksia organisaatioiden petoksien takia menettämistä varoista. Muun muassa Yhdysvalloissa liikevaihdosta menetetään vuosittain 5 prosenttia petoksiin.

Tämän opinnäytteen tarkoitus on auttaa akateemista instituutiota luomaan petosriskistrategia petosriskiarvioinnin kautta. Tämä työ on tehty ugandalaiselle kaupalliseen yliopistolle. Tavoitteena on tarjota tietoa petoksista ja löytää sen kautta keinoja petoksien ehkäisyyn ja havaitsemiseen.

Viitekehyksessä käydään läpi, mitä petoksella tarkoitetaan, ja siihen liittyvä terminologia. Ugandan kansantaloutta esitellään tehokkaamman petosten torjunnan tarpeen perustelemiseksi. Opinnäytteessä käydään läpi syitä petoksille ja annetaan keinoja niiden vähentämiselle. Myös petosten havaitsemiseksi annetaan keinoja, jotta organisaatio voisi toimia tehokkaammin. Viimeinen osio sisältää pohdintaa siitä, kuinka mahdollisesti havaittua petosta tulisi käsitellä. Instituution jäseniä haastateltiin, jotta saataisiin lisää tietoa tilanteesta yliopistossa.

Resursseja ei ole yliopistossa vielä kunnolla kohdistettu petosten riskinhallintaan. Organisaation eri edustajien eriävät mielipiteet osoittavat, että yhteisössä esiintyy kommunikaation puutetta. Petos ei ole yleinen ongelma yliopistossa tällä hetkellä, mikä on yllättävää, koska aiemmat tutkimuslöydökset väittivät petoksien olevan yleisempiä kaupallisissa kuin valtion omistamissa yliopistoissa. Opinnäytteen tekijä suosittelee, että yliopisto aloittaisi riskien arvioinnin ja loisi sen kautta petosriskistrategian.

Avainsanat: petos, kavallus, korruptio, sisäinen valvonta, yliopisto

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Abbreviations

ACFE	Association of Certified Fraud Examiners
AICPA	The American Institute of Certified Public Accountants
ALE	Annual Loss expectancy
CFE	Certified Fraud Examiners
COSO	The Committee of Sponsoring Organizations of the Treadway Commission
CPE	Continuing Professional Education
FEI	American Accounting Association, Financial Executives International
GAN	Business Anti-Corruption Portal
H1	First half of the year
IMA	The Association of Accountants and Financial Professionals in Business
IMF	International Monetary Fund
LCA	Leadership Code Act 2002
NDP	National Development Plan
PFAA	Public Finance and Accountability Act 2003
PwC	PricewaterhouseCoopers
SAS	Statements on Auditing Standards
TI	Transparency International
UGX	Ugandan shilling

1 INTRODUCTION

This thesis was made for a university in Uganda. It seeks ways to prevent fraud from happening in the organization and to get guidelines on how to uncover possible frauds. The guideline should help the organization to plan a personal strategy for themselves to start operating more effectively and efficiently.

1.1 Objective

The amount of corruption and fraud is very high among Ugandan organizations which affects the wellbeing of the whole nation, because these assets that disappear will have a straight impact on tax revenues. Also, the organization itself will have lack in performance, finances and the overall welfare of the work community.

A statistical abstract from 2015 shows that in Uganda the unemployment rate is high (9.4 % in 2013) especially among the youth (19.7 % in 2013) and salaries are extremely low. Average salary is around 110 000 UGX which equals 29 euros per month (Statistical abstract 2015). That has led the people to try to find ways to get “bit on the side” income. This means employees are driven to seek ways to misappropriate assets from the organizations they work in. It is not seen morally as bad as theft from some individual. Also, the management of the company might be corrupted, because they can easily work together with the accountants or the officials. This means the transparency of organizations in Uganda is low.

Ramage (2005) talks about morality and fraud. Morality depends on tradition. Thinking that “small theft” will not have a larger impact helps also to make it more morally acceptable. If organization is not transparent it creates an opportunity for misappropriation. Need for reaching the high targets of employers, which can give you bonuses, will create the need to for instance forge sales numbers.

The need for fraud risk management in Ugandan academic institutions is high because of the economic situation, explained later on in the report. This thesis talks mainly about two forms of fraud, which are corruption (bribery) and misappropriation. Third form is financial statement fraud, but it is not included in the research. In

this thesis, the economic background and the impact of corruption in Ugandan organization will be illustrated. Fraud is also explained in a global scale. After that, guidelines will be presented on how to prevent fraud from happening in the organization and how to detect possible fraud. This will help the organization to create clear fraud risk strategy, that provides instructions for the internal control.

1.2 Subject matter

To prove that somebody actually committed fraud instead of just making a mistake, it is important to define the meaning of fraud in legal perspective (Kovacich 2008, 28). He says fraud is:

“A concealment or false representation through a statement or conduct that injures another who relies on it in acting.”

Kovacich (2008, 28) writes that “intent” must be proven and that is what divides fraud from misstatement. Access to organization’s assets is another factor that portrays fraud (p.32). Asset is something that is owned and has value. Vona (2008, 5) argues that the point of fraud is to conceal intentionally the true nature of a business transaction.

Kovavich (2008, 29) continues that there are three elements which constructs fraud. They are fraud in fact, positive fraud and moral fraud. Fraud in fact means that a person does a transaction because of misrepresentation, for instance cheque fraud. Positive fraud is an act that looks like it is done with a good intention but actually the purpose is to deceive. Moral fraud is still a deception but the nature of it is moral, to give a simple example “Robin Hood”. The person committing fraud can be called fraudster, defrauder or fraud feason (p. 31). Fraudulent act involves bad faith, dishonesty, a lack of integrity or wickedness.

Stewart [referenced 27.11.2016] says fraud is a practical result by false pretense. It is indicated as crime of dishonest conduct by a person. By misleading or taking advantage of a person, a human being or an organization, to do harm that creates financial damage to the other person.

Fraud can be divided into three groups: asset misappropriation, corruption and fraudulent financial statement (Biegelman & Bartow 2006, 27). Misappropriation schemes are the most common forms of fraud, but globally the median losses these schemes create is the lowest (93 000 \$). The occurrence of fraudulent financial schemes globally was the lowest among the three fraud types but the median losses it creates was the highest (1 000 000 \$).

Gee (2012, 3) researched fraud schemes in the U.S. and counted that misappropriation was the most common fraud (83 percent) with median loss of 120 000 \$. Financial statement fraud happened only in 8 percent of the cases, but the median losses were the highest, similar to Biegelman and Bartow, 1 000 000 \$. Corruption was involved in one-third of the cases with the median loss of 250 000 \$.

This thesis will be mostly focusing on misappropriation and corruption in the forms of embezzlement of assets and bribery.

1.3 Previous research

There was not found any research published about this issue in Uganda. Instead only one research was found from UK, but it focuses only on the issues of British universities. This study was made by Stone and Starkey in 2011 and it was called "The possible impact of university corruption on customers' ethical standards". The research brought in to the light an issue of corrupt behavior of students and the impact it will have in their future.

2 THEORY AND BACKGROUND

This section goes through previous studies on the issue of fraud. It includes the country economics of Uganda and the terminology related to fraud. After that the process of fraud risk management is presented in detail.

2.1 The republic of Uganda

This chapter focuses on the economics and politics to give an image of the situation in Uganda. In long term the economy has been developing. Political situation has been stable since the 1980s.

2.1.1 Country economics

Uganda's economic growth rate has gone down to 3.9 % in the first half of the year 2016 (Jacques 2016). That followed from a firm 5.4 % increase in 2015. Reason for this was weakened performance of the agricultural sector. On the other hand, service and industrial sectors performed strongly and added value approximately 5.6 %.

Pressure from external sources has reduced because of significant decline in imports (20 %) and growth of exports (0.7 %) (Jacques 2016). This has led to account deficit decreasing 29 %, which means 594 million US dollars in H1 2016. It gives greater stability for the Ugandan shilling.

As a result of easing external headwinds and added vigorous monetary policies, headline inflation is down at 4.2 % and core inflation at 4.1 % in September (Jacques 2016). Gross domestic product is still predicted to be 5.1 % for the current year. It is led by agricultural sector regaining its efficiency on the second half of the year.

For the year 2017 it is expected that the growth will rise up to 5.8 % and in the years 2018–2020 it will rise above 6 % (Jacques 2016). This development is due to hydrocarbon sectors steps forward in export.

However, it is hard to tell if the hydrocarbon sector will bring the wanted growth. Patey (2015) explains in his report that most of the oil wells which were found are already sold to foreign investors and many of the oil wells are geographically located in national parks and other protected areas. As a result of drilling the oil, it would impact negatively the tourism industry and most of the profits from the oil will flow to foreign investors. Also, the value of crude oil has been low for a long time and since Uganda would only participate primary production, that would again indicate low proceeds. Third reason is that globally researchers are seeking other options for source of energy than oil, which can lead to low demand in the future. What also should be noticed is that Ugandans have also divided into two groups in this issue.

Kanabahita (2001) mentions in his report that the time when rain forests were being cut down in an alarming pace all over the world, Ugandan government also decided to sell the ownerships of most of the forests to foreign investors. This led to total deforestation. After that the regeneration of the forest was not implemented (op. cit.). This same scenario could happen with the oil wells.

2.1.2 Policy and politics

As a result of adopting International Monetary Fund (IMF) and World Bank policies in the 1980s, Uganda has brought up producer incentives and improved resource allocation and mobilization in the public sector (Jacques 2016). Economic policy in Uganda is guided by a new National Development plan NDP that was introduced in June 2015. Uganda has remained stable from the political view. This is due to President Yoweri Museveni maintaining firm grip on politics. Though it is necessary to keep in mind possible tensions arising from his succession and changes made in to the constitution for his advantage to remain in power for longer.

2.2 Fraud in nonprofit organizations

In America Holfreter (2008) found out through her survey that it was far more likely that a woman would embezzle NPO's funds but male fraudsters created higher losses. She profiled offenders among other things by their age, gender, academic

background and position in the entity. NPO's rely on public trust which makes them have far more to lose for fraud, because the image includes strong ethics.

The objective of Holfreter's (2008) research was to collect perpetrator-, victim characteristics and the median losses from the offense. She also wanted to prove if tightened internal control reduces the losses for fraud.

The study of Holfreter (2008) indicated that female fraudsters have less education, lower status in the organization and limited access to commit fraud. For men the profile was more "white-collar". There was a straight link with the amount lost with the educational level of the defrauder. High academic background meant higher losses. The same goes with the position in the entity. To be noticed was that it was less likely that a management member would carry out fraud, but the amount embezzled was higher than from an employee fraud case. The median age of a fraudster was middle-aged (43 years).

The victim characteristics of Holfreter's (2008) findings were surprisingly that smaller organizations had more fraud losses compared to the bigger organizations per worker. Total losses were higher for larger entities. There was found to be a link between improved controls and reduced fraud losses. Again it was emphasized that the strict controls of employing new workers was the key in reducing fraud. Also anonymous reporting clearly mitigated fraud losses.

Simmon-Brown (2016) gives examples for fraudsters who embezzle public funds. She theorizes that donations which are given to these organizations, create temptations among people who for instance, have financial issues and access to the organizations accounts. She says that these people lack in remorse and mercy which is hard for others to understand and suspect in organizations like universities that provide goodwill services. It is hard to believe that a person who has worked a long time for the entity could do this kind of immoral act. Below are two cases whereby greed was the driver to commit fraud and the nonprofit organization lacked in separation of duties. What helped the organizations to catch the wrongdoers were tight internal control.

In Simmon-Browns (2016) example the fraudster had worked for the company 22 years and started a cheque scheme. First it was with handling the organizations own expenditures. The fraudster had total control over the cheque account so she was the one writing the cheques as well as receiving cash. The other way was to demand extra payments from the customers for the organization but in reality, the cash went to her account. This was made easy because there was complete and sincere trust towards the fraudster by the employer and the customers. Luckily the organization started to notice these transactions that differed from the normal operation. To catch the wrongdoer the organization had to make an external audit which included reviews on the bookkeeping and documents and even personnel interviews. Finally they were able to catch the fraudster.

Another case Simmon-Brown had come across was an apartment manager who was able to cheat the company by altering ledger to show that some apartments were empty when in reality people were living there. The fraudster received the rents to her own personal cheque account or in cash. To hide the trails, she did not train her subordinate to the bookkeeping, as she was asked to do by the management, so she was the only one managing the accounts. Management started to suspect her through her behavior of taking sick leave and not showing to her managerial-reviews. They saw that there was too many evictions in the building. When they confronted her, she just promised to look into it but instead she never came back to the office again.

2.3 Forms of common frauds in Uganda

Most common frauds in Ugandan organizations are cheque frauds, which can be made in four ways: counterfeit, forge, alter and draw on closed account (Fraud & Anti money laundering [Referenced 29.11.2016]). Still a rare way is credit and debit card frauds, because payments are still made mostly with cheques and cash. One possible way is a deposit slip scam, whereby a person writes a deposit slip which is valueless. Another tactic is the exploitation of assets. The charitable publications scams are committed mainly the same way as in corporations (Greenlee et. al. 2007). Other forms of fraudulent acts are receipt fraud and false accounting (Fraud

& Anti money laundering [Referenced 29.11.2016]). Lastly it has been seen in Uganda that the use of ghost workers is increasing (Rumney 2016). Adding ghost workers is explained as an act whereby payroll clerk adds on the list of employees, workers who do not exist. After that the clerk starts to make salary payments to him/herself in cash or straight to his/her personal account.

2.4 Occupational fraud

Gee (2012, 2) talks about the deception that is committed by organization members, which is occupational fraud. It can be as little as using entity's phone to make personal phone calls and taking office supplies. Lacking in expected work performance, like taking sick leave when actually the employee is not sick or underperform intentionally. Gee sees this as an abuse of the permissions given to the employee. Looking at these cases it is clear that the fraud elements (intent, dishonesty, asset being defraud) can be indicated although they are in a mild form. He says it is left to the organization to choose how to approach these minor offenses, through consideration on the size of the financial impact.

2.5 Fraudulent financial statements

Deliberate misrepresentation, misstatement or omission of financial statement data are indicated as financial statement fraud (Biegelman and Bartow 2006, 27). The most known form is "cooking the books". The purpose of the act is to mislead the reader and create flawed impression of the organization's financial strength. Biegelman and Bartow (p. 27) explain that fraudulent financial statements include for instance overstated revenues or understated liabilities and expenses. SAS 99 (2002) gives guidance for financial statement fraud and it will be presented in the section 2.11.1.

2.6 Misappropriation

Misappropriation occurs, when a person seizes assets or personal estate, which is owned by someone else, but is in his/her possession (Hill & Hill [referenced 27.11.2016]). Or in another case, when a person uses assets, that are not owned by that person, to unauthorized purpose. Biegelman and Bartow (2006, 27) explain misappropriation as theft or misuse of an organization's assets. The difference between misappropriation and theft is that in misappropriation you already have the asset in your possession, while in theft you take the asset from someone.

There are two types of misappropriations, cash and noncash. Cash misappropriation is still divided into three groups, which are larceny, skimming and fraudulent disbursements (Biegelman & Bartow 2006, 166). Larceny means taking money from the entity's accounts. This could happen by simply taking petty cash or making a deposit. Skimming is when an organization member for instance unrecords or understates sales and takes the subtraction to themselves. Fraudulent disbursements are any schemes done to the expenditures. These are for instance false refunds, billing schemes, payroll schemes and overstating expenses. Again the subtraction is taken by the fraudster.

2.7 Corruption

Corruption is an act that is done for the intention to provide some advantage that is inconsistent with official duty and the rights of others (Bouvier [Referenced 27.11.2016]). Bribery is the most common form of corruption. The other two are kickbacks and bid-rigging. Biegelman and Bartow (2006, 165) indicate that corruption includes conflicts of interests between employee and employer.

Bribe is globally a normal business transaction (Biegelman and Bartow 2006, 175). It can be put to the books as facilitation fee. The point in giving bribes is to get influence. It is the cost of doing some task faster or to get it done in general. What makes bribery unethical or even illegal is when it is done hidden from the entity or if it includes government official.

Kickbacks are paid when for instance organization A overcharges or puts forward a bogus invoice for organization B (Biegelman and Bartow 2006, 175). Member in B will help the A in this and gets cut on the profits (kickback) for covering the fraud.

Bid-rigging is when organization A is bidding on a contract with organization B (Biegelman and Bartow 2006, 175). Member from B will help the A to win the contract by giving out inside information and through that receives cut on the profits.

Active bribery is explained by the Anti-Corruption Resource-Centre (U4) [Referenced 29.11.2016] to be the offence committed by the person who promises or gives the bribe. The opposite “passive bribery” is the offence done by the person who demands or receives the bribe.

2.7.1 Corruption in Uganda

Out of 168 countries, Uganda is ranked 139. on Transparency International's (TI) list by Corruption Perceptions Index. Nordic countries are ranked the least corrupt countries in the world. Finland is second least corrupt country in the ranking.

Report of corruption in Uganda done by Business Anti-Corruption Portal (GAN) [Referenced 29.11.2016] shows that corruption embodies one major challenge for people practicing trade. The risk of corruption is high among the police, the judiciary and procurement. Under-the-table cash payments are assumed to be received while performing a service.

Uganda's legal framework against corruption composes from the Anti-Corruption Act 2009, the Penal Code, the Inspectorate of Government Act 2002, the Public Finance and Accountability Act 2003 (PFAA) and the Leadership Code Act 2002 (LCA) [Referenced 29.11.2016]. These regulations provide instruments to deal with embezzlement, exploitation of office and fraud. They also develop transparency and the fight against corruption. Criminalization of attempted corruption, bribery, blackmail, bribery of a foreign public official and abuse of office is done by the LCA.

Gifts and donations must be declared under the LCA if their value exceeds five currency points [Referenced 29.11.2016]). One currency point is 20 000 Ugandan shillings. In euros this means 26.31 €.

The challenges that corruption creates aggravates because of weak law enforcement (Business Anti-Corruption Portal (GAN), [Referenced 29.11.2016]). That encourages the culture of impunity. What makes an act even more difficult to determine as corruption is that facilitation payments are not mentioned in Ugandan law.

2.7.2 Financial corruption in universities

Stone and Starkey (2011) argue that corruption is increasing in universities globally. They also say that the corrupt behavior that students adapt in university will follow them later on in personal life and in business world. From their own experience, they found out that lecturers were demanding additional fees from students for personal tuition. From postgraduates it was observed that they even asked the lecturers to write their theses.

Stone and Starkey (2011) found out, from researching literature from this topic, that the pressure that students face to pass exams with good results led them to bribe the lecturers. Also the probability for a student to become fraudulent was linked to higher education.

Looking at the staff in universities, Stone and Starkey (2011) discovered that registrars were taking bribes from applicants whose credit units and results were not sufficient. This was done so the students could initiate studies nevertheless. In these cases, parents are also usually involved. Family from the elite level wants to maintain their reputation by buying degrees for their children. During the studies staff can take bribes from student, so they would do falsification on student's data. Staff that handles payroll can create ghost workers and pay the salaries of those ghosts to his/her own account.

The main problem for corruption was argued by Stone and Starkey (2011) to be the commercialized universities. Those universities depend highly on student fees and grants from various organizations. Skimming the research funds is one tactic that in

a concealed way, moves those funds to the researchers and supervisors own personal use.

Business Anti-Corruption Portal (GAN) [Referenced 29.11.2016] explains that corruption is widespread among public sector. This is because the registry and licensing services are not well organized. The people paying bribes will get services faster. This service sector is ranked the sixth most corrupt institution in Uganda. This has straight impact on starting businesses, which is necessary to improve Uganda's infrastructure.

Another way to get more funds, Stone and Starkey (2011) found, was through government funding. It is done by having close relationships between the university's senior management and government committees. This kind of lobbying helps the whole university to get more capital.

2.8 Anti-Corruption Act of Uganda

The main points in the law concerning organizational fraud in Uganda are presented below. These chapters focus mainly on the corrupt or fraudulent acts of officials. Below is a chart of penalties and the maximum penalty given from each wrongdoing.

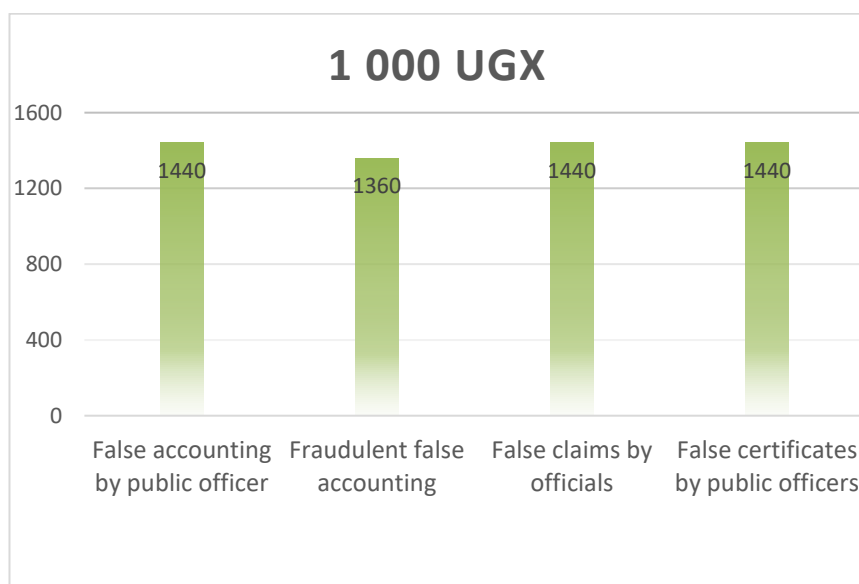


Figure 1. The highest penalties for fraudulent acts.

2.8.1 False accounting by public officer in Uganda

Anti-Corruption Act of Uganda, part II, section 22. indicates the following:

A person who, being an officer charged with the receipt, custody or management of any part of the public revenue or property, knowingly furnishes any false statement or return of money or property received by him or her or entrusted to his or her care, or of any balance of money or property in his or her possession or under his or her control, commits an offence.

The punishment of the conviction is imprisonment not exceeding three years or a fine not exceeding seventy-two currency points. One currency point is 20 000 Ugandan shillings. In euros this means 379 €.

2.8.2 Fraudulent false accounting in Uganda

These following actions are indicated as accounting defraud in the Anti-Corruption Act of Uganda, part II, section 23.:

- destroys, alters, mutilates or falsifies any book, document, valuable security or account which belongs to or is in the possession of his or her employer, or has been received by him or her on account of his or her employer, or entry in that book, document or account, or is privy to any such act;
- makes, or is privy to making, any false entry in any book, document or account; or
- omits or is privy to omitting, any material particular from any such book, document or account

The punishment of the conviction is imprisonment not exceeding seven years or a fine not exceeding one hundred and sixty-eight currency points. One currency point is 20 000 Ugandan shillings. In euros this means 884 €.

2.8.3 False claims by officials in Uganda

Anti-Corruption Act of Uganda, part II, section 24. indicates the following:

A person who, being employed in the public service in such a capacity as to require him or her or to enable him or her to furnish returns or statements touching any sum payable or claimed to be payable to himself or herself or to any other person, or touching any other matter required to be certified for the purpose of any payment of money or delivery of goods to be made to any person, makes a return or statement touching any matter which is to his or her knowledge, false in any material particular commits an offence.

The punishment of the conviction is imprisonment not exceeding three years or a fine not exceeding seventy-two currency points. One currency point is 20 000 Ugandan shillings. In euros this means 379 €.

2.8.4 False certificates by public officers in Uganda

Anti-Corruption Act of Uganda, part II, section 25. indicates the following:

A person who, being authorized or required by law to give a certificate touching a matter that may affect or prejudice the rights of any person, gives a certificate which is, to his or her knowledge, false in any material particular, commits an offence.

The punishment of the conviction is imprisonment not exceeding three years or a fine not exceeding seventy-two currency points. One currency point is 20 000 Ugandan shillings. In euros this means 379 €.

2.9 What makes a good fraudster?

Perri and Brody (2012) found out through their study that there is endless amount of tactics to abrogate skepticism towards the offender. Fraudster uses persuasion and different techniques to influence the victim. For higher status defrauders' authority is one way to cone people. For instance, a lecturer can demand student to give bribe. The student might feel like she/he must do it, because she/he feels that

the lecturer has the control. Also identical characteristics can create trust between the fraudster and the victim. Violent behavior at specific points can manipulate weaker victims. Even psychopathic traits and narcissistic behavior can be seen on some white-collar criminals.

Gee (2012, 9) identifies anomalies that fraud inspector or management should observe. Outliers are people who have fallen out from the system. For instance, employees who start to separate themselves from the rest of the work group. Also the opposite, inlier is someone who is trying to get to the group where he/she does not belong to.

Midkiff (2004) provided a checklist for NPO's that shows the employer what signs to look from the employee and the work environment, that might indicate that the employee is planning to embezzle funds. They are presented below.

- ☐ Budget cutbacks
- ☐ High turnover
- ☐ Refusal to take legitimate fringe benefits
- ☐ Overhighlight on short-term fund-raising goals
- ☐ Poor monitoring in a remote event or promotional locations
- ☐ Bounced cheques
- ☐ Things do not add up
- ☐ Hotline tips
- ☐ Lifestyle or attitude changes
- ☐ Inattention to details
- ☐ Not conducting background checks on people responsible of money handling
- ☐ Keeping issues secret
- ☐ Unsuccessful to investigate and then prosecute to the fullest extent of the law

2.10 Prevention of fraud

This section goes through the causes for fraud, methods to mitigate and avoid fraudulent acts and supporting organizations. Association of Certified Fraud Examiners is the main organization in fraud research. Fraud affects the reputability, legitimacy and profitability of the entity. To understand the circumstances where fraud takes place, fraud triangle is presented. Finally, corporate governance and internal control are discussed to show subjects to develop.

2.10.1 Learning about fraud in the organization

In 1996 KPMG, an auditing company, made a survey regarding fraud in entities of South Africa. They discovered that 66 percent of the respondents had previously experienced fraud. Looking at the future they asked if the companies' management thought if fraudulent acts would increase or decrease. Shockingly 88 percent replied that it would most likely increase. Survey still continued with the question of why do they think fraud happens in the organizations? Respondents could not give any reasons for it and instead they could only show methods of detection and ways to mitigate circumstances where fraud occurred.

Fraud is deleterious especially in developing regions like the countries of Africa (Rossouw, Mulder & Barkhuysen, 2000). Fraud has created a cycle whereby the lack of shareholder trust on the financial status as well as reputation of the entities, makes them unwanted investment subject. This leads to more fraudulent acts to be committed because of poor performance. Dee (2012, 10) says that organization must understand fraud and update information of the fraud cases in their industry. This helps to separate inconsistencies in the business that are acceptable and which should be considered as possible fraud.

Rossouw et. al. (2000) interviewed South-African fraudsters who were imprisoned. They were convicted from different types of asset embezzlements. The target was to find reasons that motivated and rationalized the act of fraud. They discovered that there were two types of reasoning, self-centered (greed) and other-centered

(help someone else). Prisoners also told, that fraud was committed because of pressure (forced) or out of own choice (voluntarily).

- Case of self-centered fraud could be for instance, when a person wants to make high amounts of money. It is not that the person really needed the embezzled amount.
- To give an example of other-centered fraud is that someone is trying to help the family in a bad financial situation.
- A situation of being pressured towards fraud could be when a political situation unstabilizes the country economics. "Preparing for a rainy day".
- Voluntarily committing fraud can give a person for instance, the thrill of coning people and to have control.

Conclusion was made that there are no simple and straightforward solution or explanation for fraud (Rossouw et. al. 2000). Instead this kind of linear thinking can create more opportunities for fraudsters. This is why there has to be a cocktail of multi-disciplinary and inter-disciplinary approaches.

Vona (2008, 10) indicates that each fraud scheme has variations and those variations have many scenarios. The industry and the country also give an impact to the type of fraud. The data profile of each case is unique.

Gee (2012, 10) talks about data mining as an effective data analysis tool. Data analysis means evaluation of data through analytical and logical reasoning. Data mining is when there is excessive amount of data, so advanced statistical tools are used to find trends, patterns and relationships. The point is not to test hypothesis, meaning that no specific result is anticipated. Other tools to use in data analysis are for instance business intelligence, text analytics and data visualizations (p. 10). Through these analyzes hypotheses are found. Next step is to do a confirmatory data analysis whereby founded hypotheses are tested to prove or disprove them. Qualitative analysis is used audit the controls, procedures and processes. Gee (p. 12) admits that data analysis has its risks. Errors might occur and even fraud in the statistics is possible if many members have access to modify the data in software. In chapters 5. – 16. Gee goes through different schemes and which kind of analyzes apply for each case.

Attewell (2010, 52) argues in his research that statistics could be a way to learn about criminal acts. He compares it with the statistical models used in medicine and health. By this he means immoral acts from small embezzlement to well-planned scams should be compared to factors such as age, gender, profession and location.

2.10.2 The fraud triangle by ACFE (2016)

Association of Certified Fraud Examiners (ACFE) presents the fraud triangle (2016). To commit fraud an ordinary person must be present with three factors: pressure, opportunity and rationalization. Vona (2008) argues that each element should be identified. This is because at least one of them has the strength to make the defrauder commit the act and make him or her not worry about detection. Below is a figure of the fraud triangle.

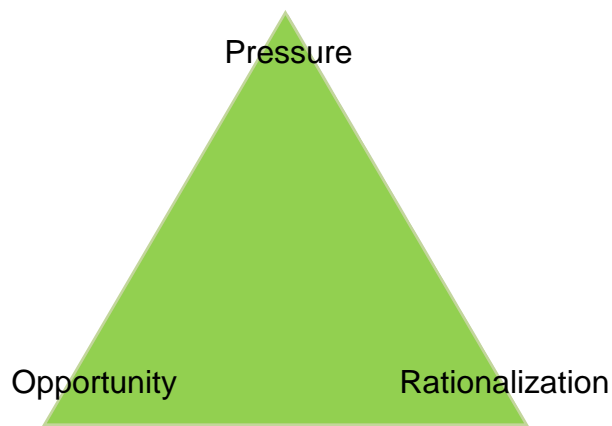


Figure 2. The fraud triangle.

Pressure is the first leg that motivates the crime. The individual might be in a situation where she/he has a financial problem. This leads to the consideration of committing illegal act. These problems can be divided to personal (for instance debt) or professional (e.g., job or business is in jeopardy).

Second leg is the opportunity. It means that a person has the potential to take advantage of her/his position of trust. There should also be opportunity to do it in secret.

The third leg is rationalization. Fraudsters might make the act more acceptable for themselves by thinking that the fraud is done only because of bad set of circumstances. Also person who has not had any criminal background can see fraudulent act as morally acceptable. They might also try to justify the act in many ways. These can be for instance “I was borrowing the money”, “I was entitled to the money”, “I am underpaid” or “I had to provide for my family”.

2.10.3 Dimensions to fraud by Coleman (1989)

Coleman (1989) gave another three dimensions to explain why a person commits a fraudulent act. They are motive, opportunity and lack of feelings of guilt. He says that the motive to commit fraud should be more significant than the punishment from the wrongdoing. Opportunity is also mentioned in his theory. In addition, he gives three factors to it. Firstly, the fraudster has to have trust or access to persons in position of trust. Secondly, the fraudster has to have a higher understanding of the control systems in the organization. Thirdly, the fraudster should have access to the entity's assets. The last dimension is psychological. There should not be guilt that would deter the fraudster to commit the immoral act. Here Coleman mentions rationalization as a way to rid themselves of from the feeling of guilt.

Comparing Coleman's (1989) and the more current researchers' opinions of fraud, the difference comes in the fact that Coleman does not see corruption as a form of fraud. This is why his dimensions to fraud does not apply to corruption. It can be seen for instance, that Biegelman's and Bartow's (2006, 27) definition of fraud is always connected with ACFE's fraud triangle.

2.10.4 Managerial honesty

Clor-proell, Kaplan and Proell (2015) made an experiment on managerial honesty by testing undergraduate and graduate students. Researchers gave two tasks, making a recommendation and reporting the cost. Students were divided into owners and employees. Hypothesis was tested only on to the employees. They tested if the

employees choose to report costs higher which would give them additional compensation or lower which resulted in lower additional compensation. The impact on the owner would be vice versa.

For instance, if the actual cost was 100 million UGX and employee reported the costs as 150 million UGX, employee would retain 50 million on additional compensation. This means the owner would lose 50 million UGX. In reverse, if employee would report the costs to be 50 million UGX, she/he would lose 50 million UGX and the owner would gain 50 million UGX.

Clor-proell et al. (2015) tested this in four periods. Each period was created to be more and more difficult to reach the target. They also manipulated the students by promotion availability.

Results show that promotion availability has more powerful effect on reducing fraud in extremely difficult targets than under easy targets (Clor-proell, et al. 2015). But when the owner-students were asked about the fairness they said that difficult targets were less fair than the easy ones. This research and other studies indicates that the use of targets can have negative side effects in organizational settings. To continue, the experimentation shows that adding the promotion availability can mitigate the risk of fraud.

It is recommended that researchers should increase their understanding on individuals' decision making to commit fraud and study settings which promote fraud (Clor-proell et al. 2015). Individuals personality also influences the decision making. Environmental features like reputation, investigation, isolation can remove or lead to fraudulent act.

2.10.5 The effect of fraudulent act on entity

Fraud affects vast range of stakeholders consisting of board members, top managers, employees, auditors, creditors and shareholders (Clor-proell et al. 2015). Clor-proell et al. (2015) presents in their article, previous research results from Certified Fraud Examiners (ACFE) who have discovered that respondents of their inquiry for

report to the nations on occupational fraud and abuse (2012) estimated annual financial losses of 5 percent for “typical organization”. To continue Pricewaterhouse-Coopers (PwC) also discovered in their report Global economic crime survey (2011) that 34 percent of respondents for their surveys said that one or more fraud cases were reported in their organization.

Previous years surveys indicate that employee fraud is the most common type (Clorproell et al. 2015). Researchers have studied mostly fraudulent financial reporting (cooking the books), which is common. Because of that, there has been lack of research on employee fraud. The difference between these two cases are that fraudulent financial reporting creates gains for the whole organization, whilst employee fraud benefits only the individual on the expense of the organization.

Biegelman and Bartow (2006, 26) show statistics of the impact of fraud in the United States of America. Lack of confidential reporting mechanisms in an organization was shown to have 56 500 \$ median financial losses to fraud. Having an anonymous reporting hotline would help the institution. This was proved from a study that employees, customers and vendors would give tips to the organization. 60 percent of the tips came from the employees. The amount of fraud loss by management member was 14 times more than by an employee. Also the median recovery from the losses was only 20 percent and still 40 percent of the organizations did not recover anything.

Greenlee et. al. (2007) found out through surveys that nonprofit organizations lost even more assets (median of 100 000 \$) due to embezzlement in United States. Corruption gave the median losses of 190 000 \$.

2.10.6 Internal control

Internal control is a leadership and management model, which objective is to help the organization to reach its targets (Biegelman & Bartow 2006, 107). They talk about the importance of a proper code of conduct or ethics policy which leads the organization to be more honest and unified. Biegelman and Bartow (p. 108) explain

that the process starts by identifying the possible ways of fraud so the risks can be mitigated.

Kovavich (2008, 29) writes that entity's policies, procedures and processes must be known by the fraudster so the immoral act can be called fraud. A wrongdoer could just defend themselves by saying it was a mistake that they did not know. This is why it is so important to have adequate internal control and training that this scenario can never happen.

Biegelman and Bartow (2006, 109) argue that a compliance officer is needed in larger organizations. They should be in charge of compliance training, establish compliance committee, to demonstrate sincere ongoing effort to comply with applicable laws. Compliance officer should develop current policies and procedures towards more enhanced compliance effort.

Biegelman and Bartow (2006, 111) continue about the importance of due diligence and background checks. All major business decisions should be made with due diligence and proper knowledge of the contractual partner with the interest of the organization in mind. Rae and Subramaniam (2008) found out in their study that policies on approvals, authorizations, reconciliations, verifications and segregation of duties should be planned well and to be strictly followed by the employees. These will give the organization a strong internal control base and shows to indicate that fraud risk decreases. Organizational justice perceptions need to be build up together with the employees (Rae & Subramaniam). There should be open communication between different organization members and they need to understand the importance of performance evaluation and rewarding. Any unreasonable pressure through unjust processes or unrealistic performance targets should be avoided. Employees should feel free to notify the management about unfair treatment.

Biegelman and Bartow (2006, 112) explain the largest pitfalls in standard controls. Separation of duties should be clear, for instance a person ordering should not be the receiver of the item. This creates a risk of over ordering items for your own personal use. Inexperienced accountants might not have sufficient understanding of dubious business. Problem with roles being not well defined can lead to some tasks being neglected or done by a person who has their own personal interest on the

case. Lack of coordination with internal audit can lead to the data being valueless. There should be a clear process presented on acquisitions and mergers. Again this could reflect to the case of duties not being separated. Manual workarounds in accounting create a risk of information being easily altered.

Individual code of ethics should be created for the organization (Biegelman & Bartow 2006, 112). This will be a “moral compass” for the members. It should promote ethical issues and integrity.

Biegelman and Bartow argue that the best way to introduce a culture of compliance is through functioning internal control and antifraud program. They represent in their book a 14-step program which is provided through The American Institute of Certified Accountants’ Management Antifraud Programs and Controls (2002). The program is designed to detect and prevent fraud. The steps are presented below:

1. **Setting the tone at the top.** Directors and officers should provide example of ethical behavior.
2. **Creating a positive workplace environment.** Studies have shown that pleasant work environment has less occurrence of wrongdoing.
3. **Hiring and promoting appropriate employees.** There should be a proper background check for all the employees and effective policies should be put to place. These tools will lower the change of engaging with or upgrading an unsuitable person who lacks in honesty and trust.
4. **Training.** Senior members should be trained regularly as well as new employees. Induction should include entity’s values and code of conduct. Also the duty of reporting fraudulent acts and what are included in those acts should be explained to the members.
5. **Confirmation.** It should be made clear that all members are held accountable to act within the code of conduct.
6. **Discipline.** The reaction towards incidents of fraudulent acts will give strong cautionary message to the whole organization. It should be noticed that consequences of committing fraud should be communicated in the induction. Fraudulent acts and the punishments can be shown as a no-name example.

7. **Identifying and measuring fraud risks.** The primary responsibility for establishment and monitoring of fraud risk assessment and prevention activities is upon the management. The institution should consider their vulnerability towards fraudulent activity.
8. **Mitigating fraud risks.** Reducing fraud risk can be done by changes in the institution's activities and processes. Situations and acts that create unacceptable risks should be ceased.
9. **Implementing and monitoring appropriate internal controls.** After the fraud risk assessment has been made, the organization can identify procedures that will mitigate the identified risks. These procedures are for instance processes and controls. Information system should be secured and monitoring activities should be put to place. These will make the internal control more effective.
10. **Audit Committee.** This board should look at the effectiveness on identification of fraud risks by the management. Then they should assess implementation of antifraud program. This is viewed from the point of employees as well as management. Lastly the focus should be on creation of the tone at the top.
11. **Management.** Previously discussed monitoring processes and controls should be implemented by the management. Management can also participate in fraudulent act. If this is a high risk, audit committee should perform the monitoring processes and controls of senior management.
12. **Internal Auditors.** Internal auditors are not obliged by the law but they can be highly valuable in overseeing the organizations operations. They work as detectives of fraud as well as deterrence measure.
13. **Independent Auditors.** Independent auditors can provide impartial assessment of the entity's process for identifying, assessing and responding to the risks of fraud. There should be an open dialogue between them, audit committee and board of directors.
14. **Certified fraud examiners.** A larger scale organization with many sectors, has a need for third party to assist audit committee and board of directors. Certified fraud examiners have extensive knowledge and specific experience about fraud. This expertise might not be available elsewhere within

the entity. They can advise on the risks and resolve allegations or suspicions of fraud.

2.10.7 Corporate governance

Biegelman and Bartow (2006, 44) talk about corporate governance as a system between management and all the other interested parties. A system that checks and balances with the aim of generating an effective, efficient and law complying entity.

2.10.8 Association of Certified Fraud examiners (ACFE)

ACFE is the largest anti-fraud organization in the world (Association of Certified Fraud examiners (ACFE) [Referenced 7.1.2016]). It is located in USA and provides anti-fraud training and education. Members are entities and people with experience in the field. ACFE gives qualifications for Certified Fraud Examiners (CFE). They promote integrity, objectivity and professionalism.

2.10.9 The Committee of Sponsoring Organizations of the Treadway Commission (COSO)

For entities to adapt compliance, accountability and ethical conduct, an organization has been initiated to assist. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2016) brings together five private sector institutions and associations. They are American Accounting Association, Financial Executives International (FEI). The Association of Accountants and Financial Professionals in Business (IMA) and The Institute of Internal Auditors. Together they provide guidance and development on enterprise risk management, internal control and fraud deterrence. They produce guides and articles that entities can purchase. For instance, in 2012 they released guide for risk assessment and 2016 a fraud risk management guide.

2.10.10 Fraud risk assessment

ACFE provides a fraud prevention check-up test [Referenced 28.12.2016], which shows the organization's level of fraud risk. After the test is done, any score under 100 indicates that there is a lack in fraud prevention processes. In the worst-case scenario, these gaps could cause even legal problems so they should be fixed immediately.

Gee (2012, 5) gives a formula for risk. $\text{Risk} = \text{Impact} \times \text{Probability}$. This means that risk assessment should compare the threats and vulnerabilities. These two necessarily do not go hand in hand. Threat might be high but the vulnerability low, so a company might not respond to the risk if for instance the way to mitigate risk causes more costs than the fraud creates or the likeliness of the fraud is low.

Looking at Coleman's (1989) dimensions to fraud, it suggests three "avenues" to fight fraud. One is to subvert the motivation for fraud. Next thing to tackle is how to diminish the opportunities for committing fraud. And finally, how to invoke those feelings of guilt towards the fraudulent act.

A periodic fraud risk assessment should be conducted by the management (Biegelman and Bartow 2006, 129–130). All levels of the entity should be assessed and previous results should be recorded. They argue that only inside evaluation can truly measure the organization's risk of fraud. Three types of risk should be considered when conducting a risk assessment. They are presented below.

- **Financial reporting risk.** This is a risk whereby a senior management commits an offense or the possibility for fraud in the financial statement. It is indicated to be a low-occurring fraud, but devastating when it appears. Responsible for reducing this risk are the board, the audit committee and internal auditors with the CEO and CFO.
- **Operational risk** means that the entity itself commits fraud by e.g. avoiding taxes or deceiving stakeholders. This is another risk, which the senior management is responsible of.
- **Compliance risk** happens through corruption, internal asset misappropriation or external fraud anywhere in the company. This is the most various

section, because there are countless ways that the organization can be defrauded by the employees or outsiders.

This thesis focuses on the last risk (compliance). Below is presented the process of fraud risk assessment. It indicates the difficulty of compliance risk assessment, because there are many factors to consider.

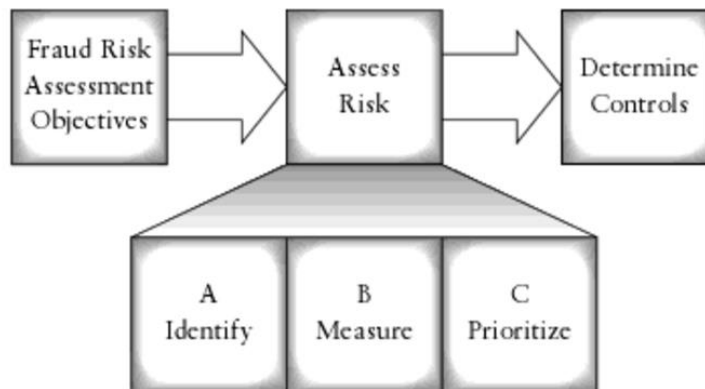


Figure 3. Fraud risk assessment objectives (Biegelman & Bartow 2006, 130).

The fraud risk assessment has three functions, which are identification of fraud risks, analysis for their probability and finally the determination of the impact. Examiner should look at frauds which affected the business in the past, which are common in the industry and geographically prevalently occurring. This is not compliance audit, rather it looks at the liability of an entity. The goal of the process is to determine:

- ☐ possible areas where fraud could take place
- ☐ the likelihood of fraud
- ☐ the cost of fraud
- ☐ the proper corrective measure and the cost for it

Next are presented methods to rate the likelihood and impact of a fraud risk.

2.10.11 Quad method

This is the simplest way to rate the probability of a specific type of fraud (Camgemi & Singleton 2003, 71). In a scale of 1 to 10, 1 is highly unlikely, 5 is neutral and 10 is highly probable. Here the impact and likelihood is rated, which puts the fraud to

one of these four boxes (presented below). This can be used in five areas of an entity: sales and collection, purchasing and payments, inventory and warehousing, payroll and expenses or financial statement reporting. Appendix 1. shows a hypothetical example of this method. Below is a figure with the explanations for each Quad.

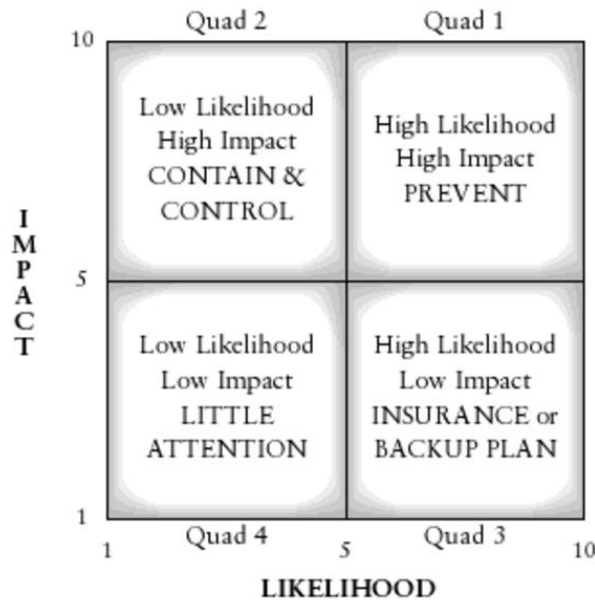


Figure 4. Quad method (Camgemi & Singleton 2003, 71).

The Quad method is criticized, because of its' simplicity (Biegelman & Bartow, 134–135). Appendix 1. has an example of quad method. Considering appendix 1. the frauds 3. and 6. are not so far apart so that the other should have a higher priority. Also, it should be questioned that should 1. and 6. be prioritized the same.

2.10.12 The staggered box method

The issues rising from quad method can be corrected through replacing quadrants with a staggered chart (Biegelman & Bartow 2006, 135–136). It has 25 boxes with four shades that represent levels of risk. The difference is that these are not presented in squares, shown in appendix 2. Looking at the box in upper left, the system staggers down every two squares. Appendix 2. shows the difference in outcome compared to quad method.

Using the staggered box method seen in appendix 2., it can be noticed that the issues mentioned before with quad method are solved. Now 3. and 6. have the same priority and 1. and 6. are in the same column.

To continue, Biegelman and Bartow (p. 136) argue that there are still some problems with 25-box method. Looking at ratings 4 and 5 for impact, there is no absolute objective difference between them. Or the probability between 1 and 2?

2.10.13 The “Chessboard” method

Biegelman and Bartow (p.136) continue that to answer the questions appearing from staggered box method, is to move forward from step to step geometrically rather than arithmetically. In business, a person has to acknowledge the pecuniary aspect. This is why the frauds should be considered in currency. In Uganda this would be 10 000 UGX fraud, 100 000 UGX fraud, 1 000 000 UGX fraud and etc. Appendix 3. gives an example of “chessboard” method, which corrects all the defectiveness the other methods had.

Looking at the Appendix 3. 10 000 UGX fraud (8f) that happens 100 times a day (1i) would cost the organization 300 000 000 UGX. This equals the same as 100 000 000 UGX fraud (5i) that happens once every 100 days (4f). This means, that they should be targeted as equally important.

In his book, Broder (2000, 24) says that this method makes it easier to estimate the risks and find similar influences on different frauds. These can be even brought together from separate departments. This mitigates the risk of error in the strategy while categorizing the frauds by rank.

2.10.14 Response to fraud risk

The fraud risk assessment results should receive precise analyzing. After that decisions have to be made (Biegelman and Bartow 2006, 138). Biegelman and Bartow give four responses that can preclude the risk:

- Avoid the risk: a total discontinuation of the practice that causes the risk
- Transfer the risk: insurance in case of fraudulent act
- Accept the risk: no response until the fraud happens
- Control the risk: to reduce the risk to an acceptable level, put controls in place

2.10.15 Training as a fraud prevention and detection method

Biegelman and Bartow (2006, 296) argue that training is an absolute requirement in fraud prevention and in the creation of culture of compliance. It should be given to the CEO as well as down to every level of organization members. The difference becomes noticeable on the length and type of training.

These trainings could be in a university organization: employee training by the senior management, experts or professionals guiding the senior members, web-based training and special courses or included lessons in the beginning of the studies for students. If the organization has their own specialist with certification (certified fraud examiner), her/him should have Continuing Professional Education (CPE) given each year. The senior management, no matter certified, should have CPE at least 40 hours per year. This should include 4 to 8 hours of fraud prevention related material.

Biegelman and Bartow (2006, 297) name four main parts of effective fraud awareness training for employees:

1. The definition of fraud should be simple: fraud is lying, cheating and stealing from the entity.
2. Talk about the negative impacts fraud creates on the organization's finances and reputation.
3. Show cases of various fraudulent acts that members might discover. These could be for instance cheque forgery, skimming the funds, bribery or ghost workers.
4. Give the members clear instructions on how to react to detected fraud.

They continue that the training should not be recriminatory but instead factual. This should be explained by telling that fraud leads to reducing of raises, jobs, benefits, or even salary cuts. Overall morality in the organization and personal integrity will deteriorate.

Kovacich (2008, 35) explains that the training of employees should be as simple as possible. A slideshow that has only three pages could be enough. Example is shown below.

1. A summary of the anti-fraud program.
2. A summary of the definition of what is considered as fraud. This includes requirement for the employees to report these acts.
3. A summary referencing policies and contact persons responsible of fraud risk management.

2.11 Detection of fraud

Greenlee et. al. (2007) found out that nonprofit organizations used mostly external auditors (86 %) to find the frauds. Another tactic was to work out who are the key employees and bonding with them to get them to operate against fraud (60 %). Thirdly used method was the hotline (40 %). The smallest percentage (21 %) of use was on background checks.

Greenlee et. al. (2007) also got answers from the respondents to how they discovered the frauds. 43 percent were coming upon through tips. Employees were reporting half of them. Internal audit managed to detect on average only a quarter of those frauds. Other to give tips was vendors and customers. It should be noticed that vendors' tips led to the highest value frauds to be discovered. 22 percent of the fraud cases were caught by unintentionally. External auditors helped only to find 12 percent of the frauds. This means that two thirds of frauds were being discovered through tips or by accident, which is alarming.

Vona (2008) says that there are two fundamental approaches to fraud detection. First one is to discover frauds passively by testing the internal control and the second is to react to allegations or tips.

Hubbs (April, 2012) writes in his article about his own experience in the field as fraud investigator. Most commonly in his work he comes through cases whereby the embezzlement accompanies with human resource issues, like watching chargeable channels that are paid through company-issued credit card that the employee has an easy access to. Other cases involve for instance bullying or harassment. He calls these workplace deviant behaviors. These acts violate company policies, laws and socially acceptable workplace behaviors. He argues that discovering these behaviors could lead to fraudulent acts.

In another article from Hubbs (August, 2012) discusses about fraud brainstorming. This means that the audit team tries to think like a fraudster. They should also learn the processes in the organization to understand where the frauds could be found. He argues that too many auditors just state in their audit plan that *"the audit staff will remain vigilant for fraud during the course of the audit"*. This means that in most cases they are just simply being lucky if they discover fraud. But he continues by admitting that finding fraud is challenging. Brainstorming should only include the audit team, not the CEO or other senior management. This is because they might leak information or be corrupted themselves. For fraud brainstorming he gives a list that should be followed:

1. Gathering the right people (confidentiality)
2. Evaluating the processes
3. Players (employees, management, stakeholders, etc.)
4. Information and environment
5. Creating possible fraud schemes
6. Generating audit procedures build on to the schemes
7. Developing fraud triggers

2.11.1 Statements on Auditing Standards No. 99

The American Institute of Certified Public Accountants (AICPA) released SAS No. 99 in 2002. It is called Consideration of Fraud in a Financial Statement Audit. It was established to guide auditors' in executing that obligation of getting reasonable assurance on whether the financial statements are free of material misstatement, whether caused by error or fraud. In practice this means external auditors need to have greater involvement. In 2002 SAS 99 superseded SAS 82, which meant that auditors got improved tools and guidance for effective fraud detection. However, SAS 99 focuses mainly on financial statement fraud.

SAS 99 (2002) includes description and characteristics of fraud. It explains the value of professional skepticism. It indicates the risks of material misstatement because of fraud. It demands the consideration of fraud risk factors. Identification of risks that may lead to material misstatement because of fraud should be considered. These risks should be then assessed and taken into account in the programs and controls. After that a response to the results are required. When the audit has been done, the evidence should be evaluated. If possible fraud is detected it should be communicated at least to the management and the audit committee. Finally, the consideration of fraud by the auditor's must be documented.

2.11.2 What to look for from the records

Gee (2012, 9) gives a list of red flags to look for. A clear sign is if the amount of transactions differs negatively as well as positively from the normal. Unreasonable or unexplained items occur in the list of goods or sales charts. There should be supervision over unusual relationships between items and unexpected timing of transactions. Items should be numbered and they should be sequential. Any gaps or duplicates must be checked. Any payment methods that differ from the normal should raise up questions. Any other inconsistency should also be evaluated.

2.12 How to deal with committed fraud

If it still happens that fraud is carried out, every organization should design a personal plan on how to react on different types of frauds committed by different organization members.

Trevino (1992) studied the theories of social effects of punishment. She says in her article that punishments will shape the perceptions of the entity as just or unjust. Penalty was shown to work as an example to other individuals when the punishment target had similar characteristics with them. Certainty and severity are both important factors of punishments to reduce the likelihood of misconduct. Another deterrence can come from the other group members. Negative effect on relationships and loss of status or respect can inhibit fraudulent behavior. Informal sanctions were shown to have 2 ½ times greater impact than formal. Informal sanctions meant in this case for example, gossip and ridicule. The problem with informal sanction is that it can only happen if the group members see the act of the fraudster as a violation.

Greenlee et. al. (2007) asked nonprofit organizations about how they deal with the perpetrators. The options were criminally or civilly. 72 percent said that they fired the person and 7 % had no consequences. To compare, for-profit organizations terminated 88 % and gave no punishment in 6.5 percent of the cases. These cases of no later sanctions meant, that the perpetrator would disappear, quit or (less likely) was forgiven. It was shown to be more common to give a criminal prosecution to the larger scales' frauds (median of 140 000 \$). Still only 70 percent of those fraudsters were found guilty. Mostly this was due to lack of evidence. Finally, they asked from the respondents what percentage of the loss was recovered. Here they discovered that only 34 percent recovered the entire amount and 50 percent recovered absolutely nothing. This indicates that the median loss was 25 350 \$. Entities having insurance recovered 57 percent of the loss.

Barra (2010) carried out a study on which method will have a greater effect on reducing fraud, penalties or tightened internal controls. She found out through this study that utilizing an internal control that incorporates separation of duties will increase the cost of committing fraud for the employee. This means that employees

are less likely to commit fraud. Penalties was shown to have no impact on the likelihood of committing fraud. If penalties are used, they should be lower for the employees than for the management members. Different penalties are put to place to set a fair example in the organization.

Members of the organization are divided into two groups, managerial and non-managerial members. Barra (2010) also weighted the impact of collusion. Collusion is a factor that makes the implementation of internal control and giving penalties challenging. For instance, a management member and an internal auditor (non-managerial member) can work together. Thereby the internal auditor covers up the manager's actions. Greenlee et. al. (2007) discovered that 18.6 % of frauds in organizations were involving collusion. The median loss through this kind of fraud was 4 times more than perpetrated by a single individual.

Herath and Rao (2009) discovered that that certainty of detection of fraud was a stronger deterrent than severity of punishment. In the matter of fact punishments seemed to have a negative effect on the behavior of entity members. This indicates again that internal control should be developed to the fullest capacity.

Robinson (2008, 67) warns about the risk of "making an example". Entity might give greater punishment for an individual to illustrate other members what could come about from fraudulent act. Problem with this approach is that the entity might give a bad image to the employees through penalty that is seen unfair. Otherwise the employees could see that this greater penalty is given only once as an example. Another issue is following the same line of harsh punishments. Looking at the possible fraudster, it can be seen that knowing about the extreme punishments would not remove any of the fraud triangles' three legs of pressure, rationalization and opportunity. Instead it could even make it more rational in the eyes of the fraudster. Robinson (2008, 67) explains that the consistency of penalties would set better image on how the entity tackles fraud.

3 RESULTS AND DISCUSSION

This section goes through the methods that were used in this research. After that the replies from the interview are presented. Last to conclude is the comparison of findings through the interview and theory.

3.1 Methods

This thesis will be made mostly by using qualitative research. Sharan (2014, 3) explains qualitative research to be a way to uncover the meaning of a phenomenon. It is a type of analysis that includes philosophical orientations and approaches (Sharan, 19). All qualitative study is interpretive (Sharan, 22). It is divided in two main terms qualitative research and qualitative inquiry (Sharan, 21). Sharan continues that qualitative research can be divided still in many ways. Patton (2002) breaks them still to 16 theoretical traditions while for example Cresswell (2007) presented five approaches. Those five approaches are narrative research, phenomenology, grounded theory, ethnography and case study.

The division of Cresswell (2007) into five approaches will be used in this thesis. Narrative research gives a timeline where you can see the escalation that leads to fraud. Phenomenology will show that people understand the morality of fraudulent act differently. Grounded theory will be used to argue against or for the findings from the literature research. The strategy of ethnography gives an explanation why people act the way they do in the setting where they are. For example, the types and amounts of fraudulent acts differs a lot in Finland and Uganda. Thesis research will include a case study in a form of an interview where different kinds of members from the university will be asked various questions. These members will be lecturers, students and finance department personnel. These interviews will give a comprehensive view of the phenomenon.

Quantitative analysis will be needed to indicate how misappropriation will have an impact on the financial status of the company.

The data for this thesis will be collected by going through scientific research, articles, and books, which talk about fraud and some studies that concentrate on developing countries. Furthermore, the causes that leads to false acts will be examined. Based on different organizations members' experiences, the thesis will include a comparison between them and the collected data from the literature search.

3.2 Interviews

Interviews were carried out in a commercialized university. Appendix 4 has the list of questions given to the interviewees. Different organization members were interviewed, including students, payroll clerks and internal auditor. Bachelor level students were interviewed in one group that had 17 students. The interview was carried out by the thesis writer giving a question and then opening a discussion. Payroll clerks were three and they were interviewed similarly with open discussion between people. Last interview with the internal auditor was one on one whereby the auditor replied straight to the questions.

Questions were specified and some were left out in the interviews of students. This was because the students were not from the field of business administration and the form of the questions were intended to be more professional.

Answers and opinions differed highly between the members. Also to be noticed was that literature research indicated higher risk of fraud in commercialized universities while interviewees where not agreeing with this assumption. Similarly the topic of penalties had dissenting opinions.

Existence of fraud in the institution and implementation of fraud risk management

All the members agreed that fraud does happen in the organization and that the strategy for fraud risk management was not put to place. Some changes had been made in the organization, for instance more strict guidelines that must be followed, a fraud hotline and background checks for new members.

Level of internal control

Internal control was told to be developing because the university is still quite young, though the members rated it to be 4/5. Internal control includes all the actions mentioned in question 6. There are also weekly checks on procurement.

Transparency and level of communication

Transparency of the organization was rated on average 2/5 among the students, internal auditor gave 3/5 and payroll said on average 4/5. These big differences raise a question that is there open communication in the organization.

The use of programs and controls checkup test

The 14-step program from AICPA has not been used but internal auditor mentioned it will be used to help build up the fraud risk strategy and that it is a useful method. The responsibility of fraud prevention and detection was said to be on the vice chancellor by the students, payroll said it is the internal auditor but there should be a separate officer in charge of minimizing fraud risk. Internal auditor said that senior management is responsible and they delegate tasks to internal audit department.

Reasons for fraudulent act through morality and the cultural aspect

Talking about the moral and cultural aspect of fraudulent acts everybody agreed that it is not acceptable in any case or that it is cultural. To be noticed was that looking at social classes in most cases fraudsters were from middle or upper class. This indicates that creed is one main factor pushing towards fraud. Other factors they mentioned were low income, lack of transparency, non-independent audit department, organizational structure, weak controls, opportunity, rationalization, poverty.

Commercialized universities' level of fraud compared to government institutions

Interestingly all the members said that commercialized universities were not experiencing as much fraud as government owned. This they explained by that the owner of the university is trying to make profits so the need of exterminating fraud is higher, whilst government owned organizations have fraud in all levels of the organization structure. Also internal control is highly lacking. In the previous research made in

United Kingdom that indicated commercialized universities have higher need of funding from sponsors which creates pressure to forge results etc. In Uganda the situation is different because most of the funding comes straight from study fees.

Identified cases of fraud

Students said that bribery exists in the university but the other members did not have information on it. Again this is an indication that the communication is not open and there is a lack in transparency. Internal auditor told that there have been fraud cases of embezzlement, cheque frauds, close relationships between government officials and senior management and nepotism. For nepotism, internal auditor gave an example of choosing suppliers that are relatives or friends rather than the most affordable offer. Between there bribes can be given. Payroll staff could not mention any fraud cases.

Penalties and other correcting actions

Penalties are mentioned to students but they said those are rare and even the punishments can be avoided through bribes. All the members still thought that penalties are a good example for others. Internal auditor said training and transparency are better ways to prevent fraud. All the members agreed that there should be more resources to fraud prevention because it would still be less costly than the finances lost to fraud. The other ways fraud affects the organization was said to be lack of stakeholder trust, change in image and for example management can silence employees or the trust between staff will affect the relationships.

3.3 Conclusion

Comparing the literature research and the interview data, they show large differences. Main disagreement comes between Stone's and Starkey's (2011) argument on commercialized universities being more corrupt. This is due to the fact that their research was carried out in developed country (UK) so that must be remembered while comparing to Uganda which is still developing.

It is still questionable that would the programs and tools given by antifraud organizations in developed countries work in Uganda, where fraud is still carried out mostly by embezzling tangible assets and giving bribes. Also, the ring of people committing fraud together can be wide and include different organization members. Surprisingly very few of the previously mentioned fraud cases had been committed in this university.

Barra's (2010) research on penalties for fraud was shown to have no impact on the likeliness of fraud. Interviewees said that penalty is a good method to prevent fraud by setting an example to others. Students added that even the penalties can include bribery to reduce them.

Fines given in Uganda seems unfear. For a big international corporation paying this amount is a minor punishment. Looking at a small company owner this could be equivalent to turnover of multiple months. In many cases companies will put the blame on the accountant when both of the counterparts were working together for a goal of embezzling assets.

Interviewed university seemed to lack in antifraud planning. This process should be started immediately by creating fraud risk strategy and then making sure it is properly implemented. At the moment, different interviewees were giving broad answers that were not agreeing with each other's. This organization has already decided to put resources on fraud prevention and detection. SAS No. 99 is being properly followed by having segregation of duties and authorizations which are checked weekly.

Effective fraud prevention and detection strategy will help the whole entity financially as well as bringing closer the members. It will make the trust of stakeholders stronger.

4 SUMMARY

Fraud is defined as disguising or dishonest representation through a statement or conduct that infringes another who relies on it in acting.

This thesis was made to describe fraud and the scope of it. This includes definition of fraud and related terms, detection and prevention tactics along with supporting organizations. Through this assignment, the university can start the program of anti-fraud management.

Anti-fraud management includes fraud risk assessment through which the organization can create a fraud risk strategy. The objective is to at least mitigate or even eliminate the risk of fraud. Using different data analysis tools the management or audit department can profile fraudsters and situation where deception might take place. Internal control and code of conduct are developed by using the collected data. Separation of duties is an important part of the planning and collusion should be taken into account. Fraud training is a vital part to ensure that members work together to mitigate fraudulent acts. Profiling applicants is important to prevent unreliable members to enter the organization.

It is agreeable that commercialized universities create an opportunity for the staff and students to commit fraud. Funds and grants are moving in the organization, so without proper control and separation of duties it is possible. Through the interview, it was seen that government universities still had more fraud, because of lack of control.

The purpose of antifraud planning is to create trust for stakeholders, perform stronger financially and improve togetherness between the various organization members. The fraud risk strategy should be based on the 14-step antifraud program. Dealing with committed fraud, should be assessed for each case separately. Global research indicates that tightening internal control seems to be more effective than giving punishments. In contrary the interviewees expressed stronger trust on penalties. Someone could argue that tackling fraud takes too much resources and it is impossible to entirely abolish fraud, but previous studies indicates that it is more affordable than allowing defrauders succeed.

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APPENDICES

Appendix 1. Quad method example

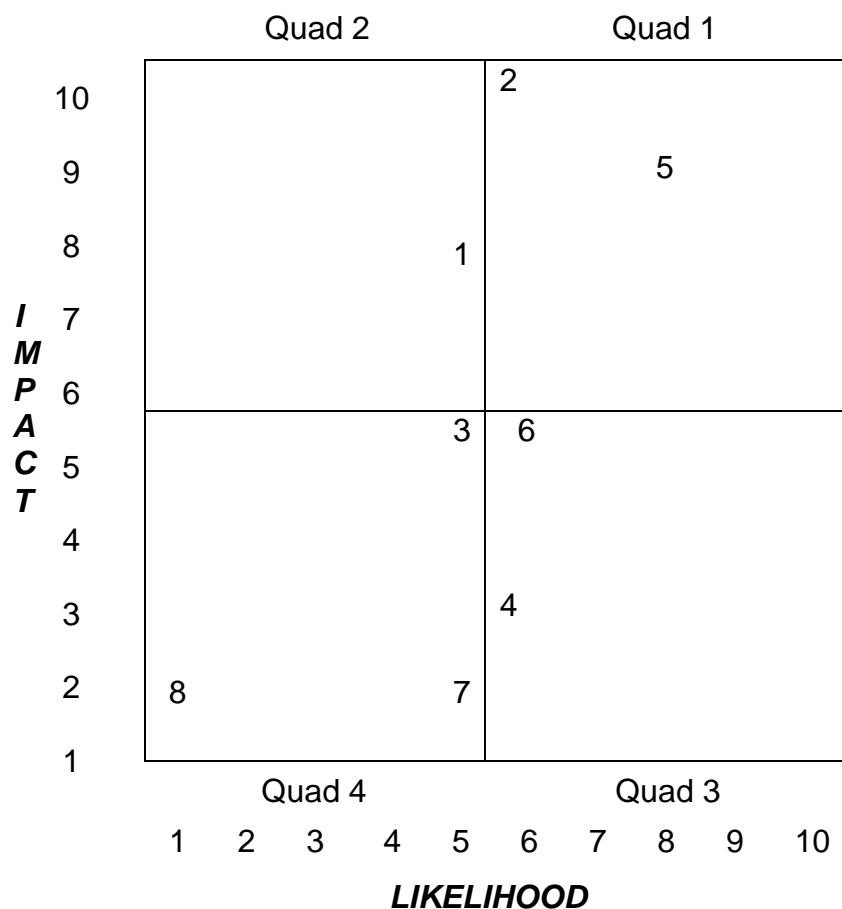
Appendix 2. Staggered box method example

Appendix 3. Chessboard method example

Appendix 4. Occupational fraud and abuse classification system

Appendix 5. Interview questions

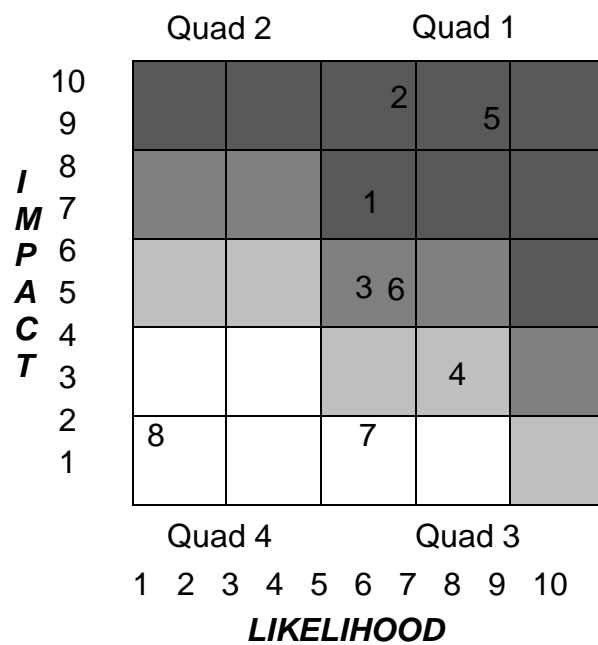
APPENDIX 1: Quad method example



This exhibit shows, with their X and Y values charted, hypothetical examples of frauds.

1. Ordering for personal use. (likelihood 5, impact 7)
2. Falsifying deposit slips. (likelihood 6, impact 10)
3. Thefts from petty cash. (likelihood 5, impact 5)
4. Bribes from students to lecturers. (likelihood 7, impact 3)
5. Skimming research funds. (likelihood 8, impact 9)
6. Ghost workers. (likelihood 6, impact 5)
7. Falsification of financial figures. (likelihood 5, impact 2)
8. Kickbacks. (likelihood 1, impact 2)

APPENDIX 2: Staggered box method example



APPENDIX 3. Chessboard method.

To give an example of chessboard method, the impact (i) of fraud is divided to:

- ☐ $1i = 10\,000\text{ UGX}$
- ☐ $2i = 100\,000\text{ UGX}$
- ☐ $3i = 1\,000\,000\text{ UGX}$
- ☐ $4i = 10\,000\,000\text{ UGX}$
- ☐ $5i = 100\,000\,000\text{ UGX}$
- ☐ $6i = 1\,000\,000\,000\text{ UGX}$
- ☐ $7i = 10\,000\,000\,000\text{ UGX}$
- ☐ $8i = 100\,000\,000\,000\text{ UGX}$

Then the frequency (f):

- ☐ $1f = \text{one time in 300 years}$
- ☐ $2f = \text{one time in 30 years}$
- ☐ $3f = \text{one time in 3 years}$
- ☐ $4f = \text{one time in 100 days}$
- ☐ $5f = \text{one time in 10 days}$
- ☐ $6f = \text{one time per day}$
- ☐ $7f = \text{ten times per day}$
- ☐ $8f = \text{100 times per day}$

Now it is possible to calculate the Annual Loss expectancy (ALE) of each type of fraud. It is shown on a “chessboard” grid of 64 squares.

		Frequency (f)							
		1	2	3	4	5	6	7	8
I M P A C T (i)	1					300K	3M	30M	300M
	2				300K	3M	30M	300M	3B
	3			300K	3M	30M	300M	3B	30B
	4		300K	3M	30M	300M	3B	30B	300B
	5	300K	3M	30M	300M	3B	30B	300B	
	6	3M	30M	300M	3B	30B	300B		
	7	30M	300M	3B	30B	300B			
	8	300M	3B	30B	300B				

APPENDIX 4. Occupational fraud and abuse classification system

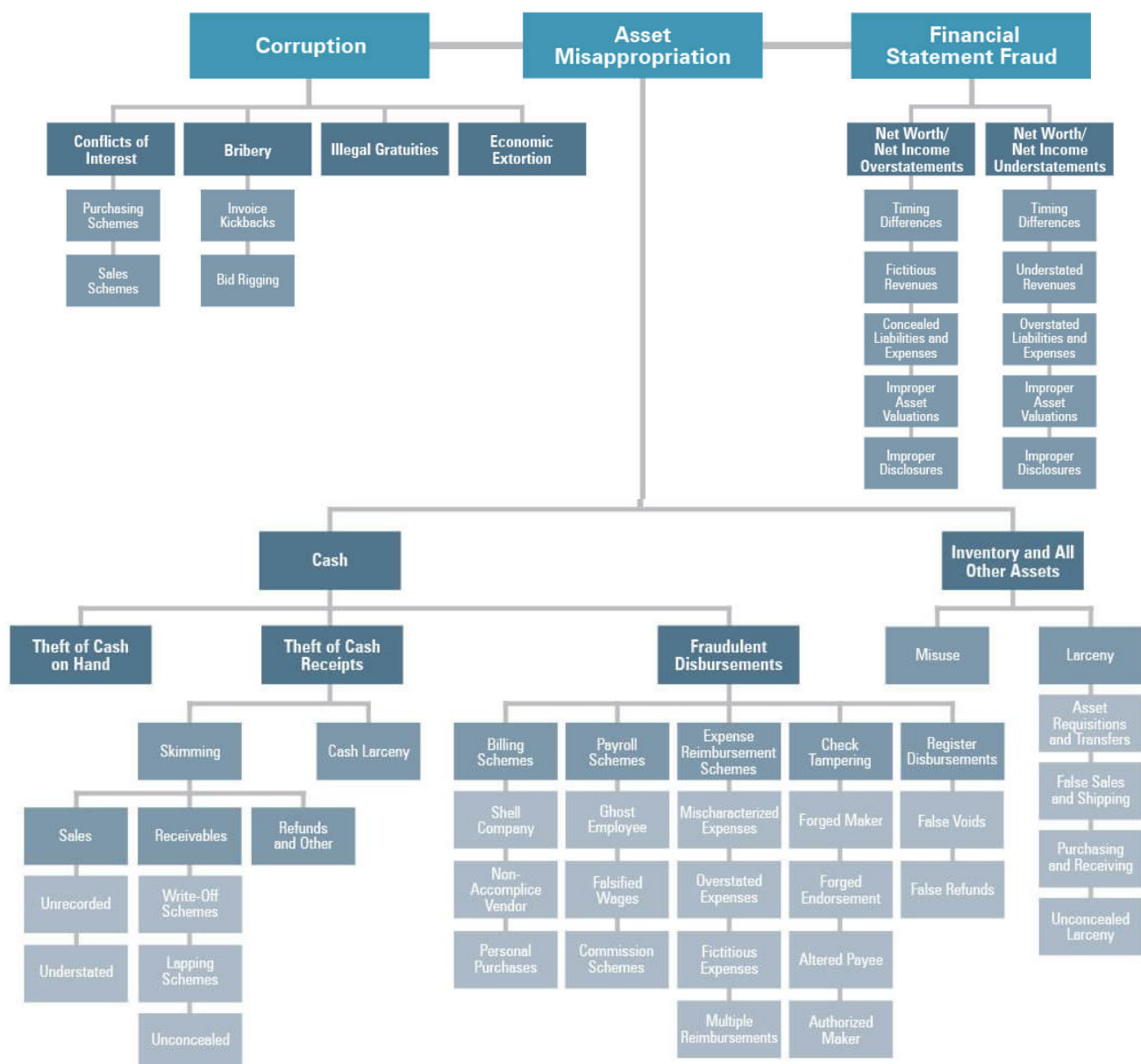


Figure. Occupational fraud and abuse classification system (ACFE 2016).

APPENDIX 4. Interview questions

1. Have you ever experienced fraud or misappropriation in the organization?
2. Do you have fraud risk strategy in the organization?
 - Has it been:
 - i. Written
 - ii. Presented
 - iii. Verbally
 - iv. Training
 - v. Meeting
 - vi. Booklet
 - vii. Online
3. If yes, how has it been implemented?
 - Changes in guidelines
 - Transparency
 - Punishments
 - Reporting of actions (hotline)
 - Internal control
 - Organization ethics (code of conduct)
 - Organization structure
 - Fraud risk assessment
 - Background checks
 - Something else, what?
4. Internal control is a leadership- and management model, which objective is to help the organization to reach its targets. Does your organization have an effective internal control? What kind of substantial/concrete changes has it given?
5. Rate it from 1 to 5. Five being that organization has proper strategy, implementation has been put to place and results are noticeable. Comments?
6. Are these actions being followed in the organization?
 - approvals, authorizations, reconciliations, verifications and segregation of duties
7. Is there open communication in the organization? Can employees report for instance, unfair treatment?
8. Has the 14-step program provided by The American Institute of Certified Accountants' Management Antifraud Programs and Controls been taken place?

9. Is fraud in any case morally acceptable? "I was borrowing the money", "I was entitled to the money", "I am underpaid" or "I had to provide for my family"
10. Is fraud culturally acceptable? Or is there a difference in social classes?
11. Who is responsible on fraud prevention and detection in university organization?
12. Is bribery common in your university?
13. How would you rate the transparency of the organization from 1 to 5? Five being that there are no suspicious/hidden actions being done.
14. Have you ever heard of cases of fraud in the entity?
 - ghost workers, skimming research funds, close relationships between university's senior management and government committees...
 - cheque-, card-, deposit slip-, receipt frauds
 - false accounting
 - exploiting assets
 - Something else, what?
15. What are the main reasons leading towards fraud?
 - commercialized universities
 - risk of unemployment
 - Low income
 - Creed
 - Opportunity
 - "Small theft"
 - Transparency
 - Non-independent audit department
 - Complex organizational structure
 - Lack of control
 - Something else
16. Are there any penalties mentioned or given?
 - Do you think they are useful? If not, what would be a better option?
17. What is your view on the issue of that fraud prevention takes time and resources?
18. How does fraud affect the organization? (work environment, relationships, finances)