FRAUD OCCURRENCES IN BANK BRANCHES: THE IMPORTANCE OF INTERNAL CONTROL AND RISK MANAGEMENT

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ABSTRACT

The credit crisis has forced banks to take a critical look at how they manage risk and has exposed some significant weaknesses in risk management across the financial services industry. This study examines the elements of internal control procedures, fraud prevention programs and risk management that might be influenced to reduce the level of fraud occurrence in Malaysian banking sector. A survey was conducted to management of bank that focuses on branch managers and assistant managers at their branches. Based on a regression analysis, the results of the study indicated that only risk management was significant in affecting the fraud occurrence. Implications of these findings are discussed.

Keywords: *fraud occurrence, risk management, monitoring mechanisms, Malaysian banking sector, bank performance*

1.0 INTRODUCTION

Fraud is a serious problem that not only causes direct financial losses, but also jeopardizes an organization's reputation and relationships with external stakeholders, such as customers, suppliers, financiers and business partners. Banking fraud could be divided to two main categories; namely External and Internal fraud. Examples of external fraud are credit and debit cards transactions, or theft done using automated teller machine to obtain cash in advance. Internal fraud relates to employees who can steal cash or inventory from the company or from other employees, or allowing other staff to steal. Internal fraud also called occupational fraud and abuse.

As with any other nation, Malaysia has not been spared its own cases of corporate unethical practices, financial frauds and scandals. Such cases were said to be one of the primary causes of the 1997 Asian financial crisis (Haron, 2010). Furthermore, in the latest Corruption Perception Index 2011 issued by Transparency International, Malaysia is ranked 60th out of 183 countries surveyed with a score of 4.3 out 10. In Malaysia, corporate fraud cases such as Port Klang Free Zone (PKFZ), National Feedlot Corporation (NFCorp), Transmiles, Megan Media, Tat Sang and a few others have raised alarms not just to employees, shareholders and regulators, but also potential foreign and local investors, which in the long run could prevent sustainability of Malaysian economy.

At present there is limited empirical study in Malaysia that has examined the effectiveness of monitoring mechanism towards fraud incidents. Most of the studies were only conducted in the private sectors and less specifically towards banking industry. Bank Negara Malaysia (BNM, 2012) sets out the risk management and internal control measures for licensees which addresses specific risks associated with the conduct of money services business activities namely; (i) Money services business transactions being carried out of money laundering, terrorist financing and other illegal purposes; (ii) Failure of licensees to comply with legal and regulatory requirement applicable to the licensee; (iii) Mismanagement and fraud resulting in losses of monies held in trust for customers; and (iv) Loss of key information of business records maintained being tempered due to unauthorised alteration and manipulation. It is still unclear to what extend the monitoring mechanisms can deter the occurrence of fraud and improve bank performance in the banking sector. Hence, this study hopes to assess the effectiveness of monitoring mechanisms in the context of Malaysian banking system.

2.0 LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1 Types of Fraud

According to Spam laws (accessed on 30 May, 2008), "Fraud involves deception and misrepresentation in order to make money. Deception could involve manufacturing counterfeit credit cards or padding insurance claims, or making false claims to receive mortgage loans you wouldn't have received otherwise." Many authors mentioned that there are unlimited types of fraud. The most important types of fraud are divided in four categories which can occur through employees who are working inside the organization or from any illegal organization outside the firm (Abdul Latif Nabhan, 2009).

Firstly, an asset misappropriation is the most commonly occurring fraud by occupational fraudsters and it is the easiest to detect. Asset misappropriation relates to the company assets which mean "using the company assets for sole purpose of capitalizing unfairly on goodwill and reputation of property owner." (Abdul Latif Nabhan, 2009). Second frequently occurring type of fraud is bribery and corruption. Bribery may be defined as "the offering, giving, receiving, or soliciting anything of value to influence an official act". The other aspect which is the corruption may be defined as "spoiled, trained, vitiated, depraved, debased, and morally degenerate.

Manipulation of the financial statements to create financial change for entity is the least type of fraud occurring in the company. It arises when the top management wants to show earnings in the statements, by changing the nature element in the financial statements which means changing the debt to assets or report the credit as equity to show an increase in the earning of the company to increase year- end bonus, or show favorable loan terms (Abdul Latif Nabhan, 2009). Lastly, internet fraud always most the time involves any component of the internet such as email, web sites, financial transactions, to perform fraudulent transactions, to present deceptive picture to catch victims, or to convey the proceeds of fraud to cheat financial institutions or any other related organizations (Abdul Latif Nabhan, 2009).

2.2 Controlling Mechanisms in Banking Sector

Concept Paper on Risk Management and Internal Controls for Conduct of Money Services Business issued in Sept 2012 details out the proposed regulatory requirements relating to risk management and internal controls for the conduct of money services business, in line with the related operational and governance arrangements as stipulated in the Money Services Business Act 2011 and Money Services Business Regulations (BNM, 2001 & 2010).

Section 36 of the Money Services Business Act 2011 requires all licensees to introduce and maintain robust internal control mechanisms, which include risk management arrangements to ensure the integrity and soundness of its money services business. These requirements also contribute towards strengthening consumer protection and safeguarding the money services business industry from being used as a conduit for illegal activities, money laundering and terrorism financing. The Guidelines setting out minimum standards, that licensee must comply in implementing appropriate risk management and internal control systems for their business.

To manage and address the risks identified, licensees are required to put in place appropriate processes, systems and controls which shall include; (i) establishment of written internal policies and procedures on the conduct of money services business activities, (ii) establishment of checks and balances within the bank , (iii) adequate level of staff competency, (iv) establishment of independent review function

It is the duty of the Board of Directors (BOD) to maintain adequate oversight of the overall AML/CFT measures undertaken by the reporting institution and the duty of the Senior Management to ensure that the Board of Directors is updated with timely information. The BOD should be fully committed in establishing an effective internal control system for AML/CFT. The Board of Directors should set minimum standards and approve the policies regarding AML/CFT measures within the reporting institution, including those required for customer acceptance policy, customer due diligence, record-keeping, ongoing monitoring, reporting of suspicious transactions and combating the financing of terrorism. To ensure effective implementation, the Board of Directors should define the lines of authority and responsibilities for implementing the AML/CFT measures and ensuring that there is a separation of duty between those implementing the policies and procedures and those enforcing the controls. In line with this, the Board of Directors should ensure the:

- compliance officer at Head Office and at each branch or subsidiary is appointed; and
- effectiveness of internal audit in assessing and evaluating the controls to prevent money laundering and the financing of terrorism.

2.3 Internal control

Hall (2004) stated that internal control in its concepts contain "procedures, policies and practices to protect the organization assets, support the firm efficiency in its operation, ensure the accuracy in the accounting records and information, and assess management compliance with the policies and procedures." Accordingly, internal control consists of five components which are, first is the control environment. This type of control is considered the basic of all other components. It sets the manner for the firms in which it must be understood by management and employees of the organization, including the structure of the firm, the participation of the board of directors or the audit committee, management method of operating and assessing performance, and the policies and procedures to manage human resources. The board of directors should implement basic rules in the organization to avoid any conflict of interest such as separating the CEO and Chairperson, set ethical standards to direct the management and the staff of the organization, and establish an audit committee to ensure that annual audit is conducted independently by being involved in selecting independent auditors.

Next is risk assessment. It must be utilized in firms to analyze, identify and manage risks related to financial reporting (Hall, 2004). These risks may be caused by change the way of operating environment in the organization, new joiners that understand internal controls in different way and, introduce new technology without having adequate knowledge about it.

Other type is information and communication. Accounting information systems consist of methods used to classify, analyze, identify and record transactions that occur in the organization. However, this will help the company to recognize assets and liabilities in making decisions concerning the firm operations and preparation of the financial statements (Hall, 2004). Lastly, Hall (2004) stated that monitoring is a process to design internal controls and to assess the operation of the organization. So, auditors monitor the organization activity by using separate procedures to test internal controls and report its strengths and weaknesses to management.

2.4 Fraud Prevention Programs

The risk of fraud can be reduced through a combination of prevention, deterrence, and detection measures. However, fraud can be difficult to detect because it often involves concealment through falsification of documents or collusion among management, employees, or third parties (SAS 99, 2002). Therefore, it is important to place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals that they should not commit fraud because of the likelihood of detection and punishment. Moreover, prevention and deterrence measures are much less costly than the time and expense required for fraud detection and investigation (ACFE, 2012).

Fraud prevention is a defined program of proactive measures to avoid or mitigate fraud; for example anti-fraud policy. An anti-fraud policy also known as the fraud policy statement outlines an organization's attitude to, and position on, fraud and sets out responsibilities for its prevention and detection. It also communicates important deterrence messages to staff and third parties that fraudulent conduct will not be tolerated by the organization and that the fight against fraud is endorsed and supported at the most senior level (Fraud facts, 2010).

In Malaysia, the effort to instil the value of integrity among Malaysian has led the government to establish the National Integrity Plan and Malaysian Institute of Integrity. The plan was launched by the former Prime Minister of Malaysia, Tun Abdullah Ahmad Badawi on April 2004. In the speech delivered by Dato' Sri Mohd Najib Tun Razak (the Deputy Prime Minister) during the Seminar On The National Integrity Plan - Reinventing The Future Through Good Governance in 2005, he pointed out that the National Integrity Plan and its components is a subject that covers a wide spectrum of issues such as fraud, public service delivery system, corporate governance and business ethics, family, and quality of life.

2.5 Risk Management

The credit crisis brings many banks' overall risk governance into question, with some lacking the framework, the policies or the necessary capabilities to achieve a clear picture of the risks they are facing across the organisation. Risk management responsibilities should be streamlined so that risk can be owned and managed within the business unit, but quickly escalated through the risk management function and business units to the Board and its relevant committees when necessary. When they are working well, these "three lines of defense" give primary responsibility for risk management to the client-facing areas of the business; support functions review and check that risks are accepted in line with the institution's policies and appetite; and finally internal audit provides assurance that the internal controls and risk management are operating as expected (KPMG, 2009).

Bank should set realistic limits on risks that fit the culture and risk appetite of both the individual business lines and the overall institution. Senior managers have to strike a very delicate balance in matching the acceptable level of risk exposure to the culture in which that risk is being managed. In simple terms, they should have confidence in their own risk culture and the courage to be able to say: "Although we are making a lot of money here, additional risk will not result in additional value being added to the business in the long term." The job then is to create a system of governance where risk can be managed and where every individual in the organisation understands the appetite for risk and their part in mitigating it. This should help prevent those in the lines of business delegating responsibility for risk management (KPMG, 2009).

The credit crisis has highlighted a number of specific challenges in how banks manage risk, with perhaps the biggest concern being the apparent over reliance on quantitative models in decision-making. While quantitative techniques are likely to have an important role to play, these should be augmented by the judgment of those with extensive risk management and wider business experience. Measuring risk is clearly an integral part of effective risk management and the use of adaptive rather than static tools (such as Value at Risk) should provide more reliable indicators of future performance (KPMG, 2009).

The Basel II capital framework – currently used by the majority of banks – can be strengthened, encouraging management to develop more forward-looking approaches to measuring risk. These would go beyond simply measuring capital and incorporate expert judgment on exposures, limits, reserves, liquidity and capital. According to the Senior Supervisors Group report, those organisations that performed well through the crisis were distinguished by the orderly and timely flow of information. Many banks should consider reviewing their 'information circulatory system' to overcome weaknesses such as: varying volumes and quality of information from different parts of the organisation; timeliness of data; duplication of information as a consequence of having too many different sources; lack of understanding as to what information is needed, who should supply it and where it should be sent (KPMG, 2009).

2.6 Hypotheses Development

In this current study four hypothesis were developed to test the relationship between internal control procedures, fraud prevention program and risk management with fraud occurrence.

Research has shown that an effective internal control can provide advance notice of fraud risk, thereby helping to detect and prevent fraud (Gramling and Myers, 2003). In previous literature, lack of effective controls can lead to various issues including security breaches, subversion of employees and fraudulent activities (Warkentin et al. 2006). In view of the demonstrated significance of the internal control procedures, the following hypothesis is proposed:

H1: There is a significant relationship between internal control procedures and fraud occurrence in Malaysian banking sector.

Previous studies indicate that fraud prevention program is effective in detecting and preventing fraud in organizations (Adams et. al 2006, Carpenter and Mahoney, 2001; Coderre, 1999; Albrecht et al., 2002). However, most of the studies are heavily focus on the private organizations. Although there is a lack of research on the correlation between fraud prevention program and fraud occurrence in the context of public sector, the following hypothesis is put forward:

H2: There is a significant relationship between fraud prevention program and fraud occurrence in Malaysian banking sector.

Recognition of risk management as a separate managerial function entails many advantages. Inclusion of risk management as a strategy in the general management function helps to enhance the value (Suranarayana, 2003). According to Jorion (2001), the success of organizations depends upon the risk management and manufacturing firms are still in primitive stage to understand properly the firm's sensitiveness to different types of risk. Lam (2001) also supports the view that risk management reduces earning volatility, maximizes value for shareholders and promotes job security and financial security in the organization. Effective risk management can align with the business assumptions and proactively help in overcoming the possibilities of the business failures. In view of the demonstrated significance of the risk management, the following hypothesis is proposed:

H3: There is a significant relationship between risk management and fraud occurrence in Malaysian banking sector.

3. RESEARCH METHODOLOGY

3.1 Research Design

The survey instrument was customized to determine the effectiveness of the monitoring mechanism towards bank performances in Malaysian banking sector. Thus, this study relies upon primary data which is collected through the distribution of a structured questionnaire to the selected bank's branches throughout Malaysia. This questionnaire was developed through a literature review and a mix and match approach is used to adapt wherever necessary to suit the local context in Malaysian banking sector.

A sample of 150 branches was randomly selected from Malaysian banking sector. The method chosen to collect data was a fourteen-page questionnaire to be personally served and postal mail distributed to the Branch Manager, Assistant Branch Manager and other relief Assistant Manager for of the sample selected nationwide. For this study, each questionnaire was accompanied by a cover letter Accounting Research Institute (ARI) letterhead, which stated brief explanation on the purpose of the study, request for co-operation, guarantee confidentiality and anonymity, the benefits on filling up the questionnaire and the instruction about filling the questionnaires. The questionnaires were in English version.

3.2 Sample Selection and Data Collection

The management of the Malaysian bank's branches is distributed into two types of Branches that focus on Mortgage loan and Branches that focus on Hire purchase loan. The sample of the Branches for the study was drawn from management level at Branches that focus on Branch Manager and also Assistant Branch Manager. The sample consisted of 150 bank's branches which consist of Branches that processing Mortgage loan and Branches that processing Hire Purchase loan nationwide in Malaysia. Although the sample of this study was randomly selected, purposive sampling was applied to the respondent. Thus, the questionnaire is distributed only to those respondents that would yield the information that would meet the purpose of the study. However, from the 150 samples selected, only 102 responses were received bringing the response rate to 68 percent. Sekaran (2007) stated that a sample size which was larger than 30 and less than 500 was appropriate for most research. Therefore, the size was considered acceptable for this study.

3.3 Questionnaire Design

The fourteen-page questionnaire instrument was designed with six sections. The first section determines the level of score of good governance in the context of Malaysian banking sector. Meanwhile, the second section gained responses regarding the effectiveness of the internal control procedures in the organization. The third section investigates on the level of the staff awareness as well as the effectiveness of the fraud prevention program. The risk management aspect is covered in section four. The perception towards bank's performances which consist of Branch performance, loan quality (Non-performing Loan) and fraud incidents are covered in section five. Finally, in section six, the respondent is required to provide an information on the number of cases of fraud occurred and amount involved in their organization for the last ten years (i.e. for the period between 2002 and 2012).

The survey instrument also collected general information from the respondent regarding their demographic profile. They were required to give some basic information such as type of organization, size of organization, organizations' specialization, years of experience and position level. This information would be useful when performing descriptive analysis.

3.4 Variable Measurements

This study outlined four independent variables and one dependent variable to be measured. All variables are subject to the reliability and the validity of a pre-test before the main survey was conducted. A pre-testing study of ten questionnaires was given to the internal auditor, middle management level and branch management of that has direct controlled over respective Bank's Branches. They have review the questionnaire and give recommendation on how the question should be presented to avoid the sensitivity issues to the respondent in general banking sector especially when it involving fraud issues. From the feedback, the questionnaire has been changed accordingly to meet the expectation of this study.

The pre-testing study was carried out for the purpose of ensuring the reliability and the validity of the elements used in this study. In addition to that, the pre-testing study is also carried out to foresee the obstacles and make correction in the data collection method.

As explained in the earlier chapter, the study intended to determine the effectiveness of monitoring mechanism towards fraud occurrence in the Malaysian banking sector. Fraud occurrence are measured based on the respondents' feedback gathered in section six of the questionnaire which required the information on number of fraud incidents occurred in the last ten consecutive years.

The independent variables refers to the monitoring mechanism that influence the number of fraud incidents in the public sector is determined as internal control procedures, fraud prevention program and risk management. The elements covered under internal control procedures cover control environment, risk assessment, control activities, information and communication and monitoring. Then, the fraud prevention program assesses the effectiveness and the awareness of its establishment. Finally, the risk management will assess the risk element for each branch in the Malaysian banking sector. Each variable is evaluated based on a seven-point Likert scale (1- strongly disagrees and 7- strongly agrees). These variables been adopted from previous research that focus on good governance, internal control (policies & practices) and fraud prevention program towards fraud incidents in public sector of Malaysia. In addition, this study also adapts the banking guidelines and procedures on banking institution to synchronised with the local banking environment.

4. DATA ANALYSIS

4.1 Descriptive Analysis

Figure 1 shows the summaries of fraud cases based on mortgage loans. The highest percentage of fraud cases in the branch with mortgage loan is the money laundering (46%) with 13 cases reported amounted RM25 million. It followed by loan (credit) fraud (29%), asset misappropriation (13%) and financial statement fraud (9%).

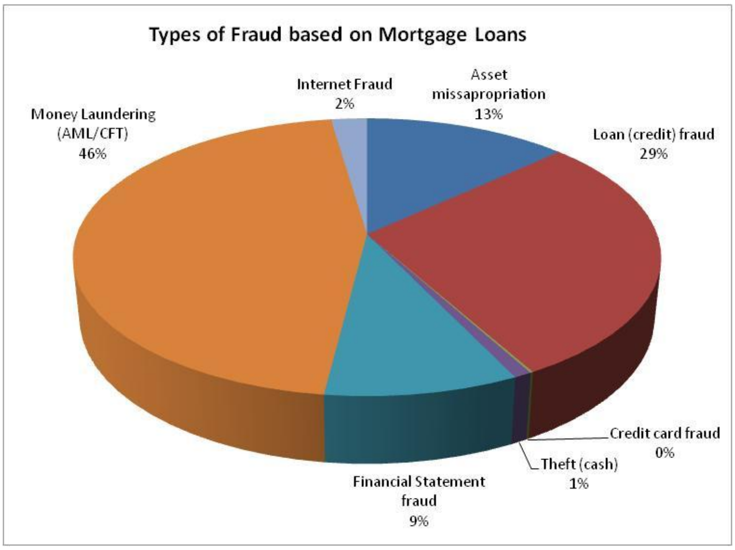

Figure 1: Summaries of Fraud Cases based on Mortgage Loans

For branch with hire purchase, the highest percentage of fraud case among the overall fraud that based on number of cases is indicated by loan (credit) fraud (69%) followed by asset misappropriation (8%), credit card fraud (7%) and 6% for money laundering (AML/CFT) and internet fraud.

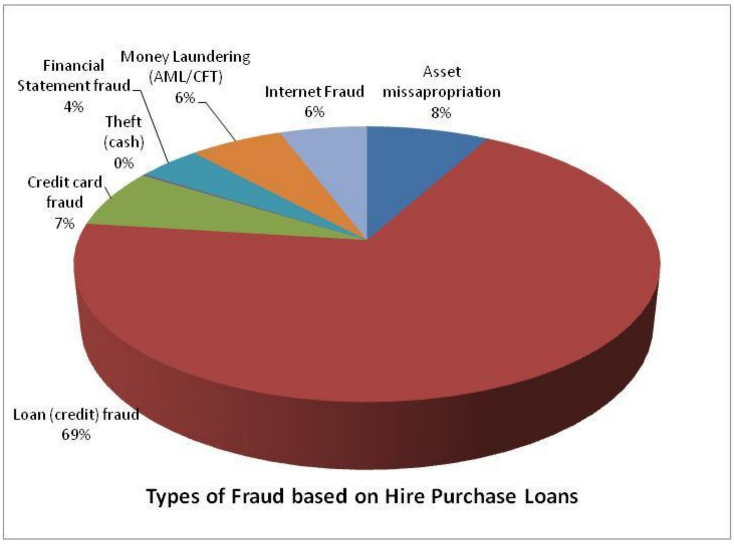

Figure 2: Summaries of Fraud Cases based on Hire Purchase Loans

4.2 Statistical Analysis – Reliability Test

According to Pallant (2007), the ideal Cronbach's alpha coefficient of a scale should be above 0.700. However, Nunally (1967) suggested that a modest reliability ranging between 0.500 and 0.600 would be suffice. Before proceeding to test the hypotheses in this study, a Cronbach's alpha test was performed to ensure that the questionnaire instrument developed in this study is reliable. The effectiveness of monitoring mechanism towards fraud incidents in the questionnaire survey were measured based on a 7-point likert scale of 1 as 'strongly disagree' to 7 as 'strongly agree'.

Table 1 shows the statistical test of reliability of ethical orientation constructs. The exploratory factor analysis (EFA) was employed to identify the underlying dimensionality of the internal control procedures. The Cronbach's alpha reliability coefficient for internal control procedures is .648. This result indicates that the internal consistency for the 15 items in the questionnaire is good and reliable.

The item-total correlation indicates the degree to which each item correlates with the total score. The range of the item-total correlation for internal control procedures is from .146 to .387. The alpha item deleted score specifies the extent to which each item contributes to an increased alpha coefficient. On the other hand, the fraud prevention program had a Cronbach's alpha reliability coefficient of .926. This indicates that the internal consistency for reliability for all 10 scaled items of the fraud prevention program is excellent and reliable.

In addition, the risk management had a Cronbach's alpha reliability coefficient of .828. This indicates that the internal consistency for reliability for all 7 scaled items is excellent and reliable.

Table 1: Reliability Test

Reliability coefficients	Cronbach's Alpha	N of Items
Internal Control Procedures	.648	15
Fraud Prevention Program	.926	10
Risk Management	.828	7

4.3 Factor Analysis

An exploratory factor analysis, using varimax rotations was performed to understand the structure of correlations of each variable. The Kaiser-Meyer-Olkin coefficient for these dataset is .831 for internal control, .862 for fraud prevention program, .750 for risk management and 0.731 for fraud occurrence, indicating that the data could be used to proceed with the exploratory factor analysis (Hair et al., 2010). In addition, the Bartlett test of Sphericity for internal control (Chi-Square = 804.51, d.f. = 105, $p < 0.01$), fraud prevention program (Chi-Square = 780.57, d.f. = 45, $p < 0.01$) , risk management (Chi-Square = 369.06, d.f. = 21, $p < 0.01$) and fraud occurrence (Chi-Square = 944.15, d.f. = 55, $p < 0.01$) are statistically significant.

The results of the internal control variable also showed this variable only has one factor construct with 15 items (six items are dropped due to low coefficient value). As for the fraud prevention program, it was identified that this variable only has one factor construct with 10 items. In addition, from the factor analysis of risk management, it was identified that this variable only has one factor construct with 7 items (one item is dropped due to low coefficient value).

4.4 Correlation Analysis

For this study, a Pearson Correlation test is used to see whether there are any multicollinearity problems occurring among the variables. If the correlation between the variables is more than 0.7, then one of the variables should be omitted or a composite variable should be structured from the value of the highly correlated variables.

Table 2 shows the summary of result when the bivariate analysis is done to test the correlation between one variable to another. The statistical results show that the correlation values among the variables ranged between .196 and 0.618. This indicated that there was no multicollinearity problem among the variables since none of the correlation was more than 0.7.

Internal control procedure is significant with fraud prevention program and risk management. In terms of the correlation of fraud occurrence, the results indicate that there is significant relationship with internal control procedures, fraud prevention program and risk management.

Table 2: Pearson Correlation Matrix among Variables

	IC	FP	RM
FO	-0.020**	0.013**	0.233**
IC	1	0.529**	0.196*
FP		1	0.210*
RM			1

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

*. Correlation is significant at the 0.05 level (2-tailed).

Notes: IC: Average Internal Control, FP: Average Fraud Prevention Program, RM: Average Risk Management, FO: Average Fraud Occurrence

4.5 Regression Analysis on Fraud Occurrence

Table 3 shows the multiple regressions to inquire if the independent variable is significantly associated with the level of fraud occurrence in Malaysian banking sector. Based on the results, the regression was statistically at 5% (F = 3.079, p = 0.008[b]). The multiple R (R= 0.392[a]) showed a correlation between predictor variables and the dependent variables, thus indicating that the linear regression predicted respectable results. The R^2 value indicated that about 15.3 percent of the variance in the level of fraud occurrence was explained by the four predictor variables. The adjusted R^2 was 0.104 which mean that the regression model explained 10.4 percent of the various variables in the level fraud occurrence in Malaysian banking sector.

Table 3: Regression Analysis on Fraud Occurrence

Variables	Standardized Coefficients	Std. Error	t-stat	p-value
Constant		1.562	.975	.332
IC	-.017	.279	-.149	.882
FP	.128	.283	1.045	.298
RM	.264	.130	2.775	.007*
TOL	.274	.257	2.950	.004*
BGrade	.082	.205	.895	.373

R	=	0.392^{a}
R^2 (Adjusted R^2)	=	0.153 (0.104)
F-statistic (p-value)	=	3.079 (0.008^{a})

** Significant at the 0.01 level

* Significant at the 0.05 level

Notes: IC: Average Internal Control, FP: Average Fraud Prevention Program, RM: Average Risk Management,, TOL: Type of Loan, BGrade: Branch Grade.

Therefore, from Table 3 shows that the results hypothesised that risk management had a significant relationship with fraud occurrence in Malaysian banking sector. However, internal control procedures and fraud prevention revealed an insignificant result. The results demonstrated that this study supported hypothesis of there is a significant relationship between risk management and fraud occurrence in Malaysian banking sector (H3).

5. SUMMARY AND CONCLUSION

This study examines whether the fraud incidents in Malaysian government was influenced by the monitoring mechanisms. The first hypothesis was developed to determine the effectiveness of internal control procedures. The result shows that there is an insignificant relationship between internal control practices and fraud occurrence. The results may indicate that, although the organization has a good internal control procedure, it can be deteriorated over time, either because of technological advances or human intervention. For instance, Enron had effective internal controls and mostly correct financial reporting, but management overrode internal controls to create periodic and selective financial statement falsifications (Hurley & Boyd, 2007). As such, there is a possibility that the management overrode the internal control or there is an existence of collusion between employees or third parties such as vendors, clients or politicians in the Malaysian banking sector.

Then, the second hypothesis was developed to determine the effectiveness of fraud prevention programs towards fraud occurrence. The fraud prevention program introduces the strategies taken to prevent and detect fraud in the organizations. The result from the study indicates that, there is an insignificant relationship between fraud prevention programs towards fraud. This means that an increase in the fraud prevention program could not lead to a decrease of fraud occurrence. The result is not consistent with the study conducted by Adams et al (2006). It may be due to different fraud prevention programs (method) used by different types company that may show of a different outcome in term of fraud prevention.

The third hypothesis was developed to determine the effectiveness of risk management towards fraud occurrence. Effective risk management is good to align with the business assumptions and could help in overcoming the possibilities of the business failures. The result from the study indicates that, there is significant positive relationship between risk management and fraud occurrence. This is supported by the previous study by PwC (2011), the fraud in private sector is related with risk management.

Due to the sensitivity and confidentiality, the study was assessed solely based on the perception of the respondents. The respondents of this study might or might not have disclosed the actual truth when answering questions such as the fraud incidents. Therefore, problems might encounter due to different perceptions, so that it could be bias findings that are in favor to the respondents. On the other hand, this study was assessed solely on a major bank in Malaysia nationwide due to time constraint and it is hard to get cooperation from all of the banks in Malaysia. So, one major bank which is the biggest in term of size and its assets has been selected as a sample. It also to preserve the structure and internal guidelines used to develop the questionnaire for this study.

The future study should look at the other factors that may influence the occurrence of fraud such as the role of BNM and other regulatory bodies, and the advanced technology used in the banking sector. The study is purposively focusing on the perception of branch management which consists of branch manager and assistant branch manager towards the fraud occurrence in their organization. However, future research may include other staff in order to reflect a better picture of the organization. Moreover, it would be interesting to investigate a real-life fraud cases as it can be seen as an opportunities for improving the current fraud standards.

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