

RISK MANAGEMENT IN THE BANKING SECTOR OF MAURITIUS

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Abstract

This study examines the factors contributing to fraud in banks, which has gained mainstream attention recently from high-value fraud events. It revolves around themes of different factors contributing to this issue, especially fraud within the banks that have gained mainstream attention in recent major value fraud events. The factors mentioned in this study are pressure, opportunity, and rationalisation, which are elements of the fraud triangle theory. For this study extension, internal management factors have also been included, including internal audit activities, top management support, and risk management. Data was collected from 160 bank officers from the top 10 banks in Mauritius, and the results were analysed. The main outcome suggests that bank officers are not tempted or willing to commit fraud if their remunerations are satisfactory, and internal management factors play an important role in detecting and preventing banking embezzlement. This study provides insight and awareness of internal banking threats and how to enhance the banking system.

Keywords: *banks, internal frauds, risk management*

I. INTRODUCTION

A nation's economy is highly dependent on its banking sector, and the soundness of this sector relies much more on the efficient and compliant banking operations. Therefore, greater attention should be given to internal banking operations. Due to the lack of internal control factors, the banking sectors of most economies are at risk of internal fraud. There are various types of internal fraud committed by employees, namely, unofficial borrowing, over invoicing, unauthorised stamps, fictitious transactions, fraudulent use of documentation, embezzlement, premature writing off of assets, ghost workers, and bookkeeping falsification. Fraud has proven to be one of the most challenging problems facing the financial sector of most countries. These frauds have led to devastating results for both the banking sector and the broader economy.

Despite the best efforts of regulators and executives, fraud has become one of the most challenging issues facing the banking sector in most countries. These fraudulent transactions have led to huge losses for financial institutions, as well as their depositors. Financial malfeasance, fraud, and forgery have several adverse consequences for all banks' stakeholders and the economy in general. These include large financial losses to banks and other stakeholders, inadequate liquidity, banks' inability to satisfy the demand of their customers and other obligations, poor asset bases, excess liabilities, and insolvency, as well as the depletion of shareholders' equity.¹

Although there are tight regulatory frameworks, bank fraud is still increasing and affecting bank operations. This fraud may arise from external sources as well as internal ones. However, the majority of research demonstrates that internal fraud is the main factor in bank failures because bank employees have more access and temptation. Thus, these fraudulent actions cause the deterioration of banking operations.

The aim of the study is to determine the factors that influence internal fraud in Mauritius' banking sector. Based on the financial malpractices caused by internal factors, to provide awareness and transparency concerning these issues, the research suggested the following specific objectives:

- 1) Investigate whether pressure is associated with banking fraud.
- 2) Examines the extent to which fraud is affected by opportunity.
- 3) Assesses the rationalisation factor that influences banking frauds;
- 4) Examines whether Internal Management factors influence the level of fraud within the banks; and
- 5) Provides recommendations concerning the issue of banking malfeasance.

This paper is organised as follows: Section II consists of the theoretical review of internal banking fraud and the background of previous research which has been carried out on the subject; Section III outlines the research methodology for achieving the purpose of the study, while Section IV analyses the data collected to achieve the objectives of the study, which consists of descriptive and inferential analyses. The last Section provides the conclusion and findings of the study and recommendations to achieve the objectives of the study.

¹ Wahid Omar Abuazza et al., "The Perceived Scope of Internal Audit Function in Libyan Public Enterprises", *Managerial Auditing Journal* 30, no. 6/7 (2015): 560-581.

II. LITERATURE REVIEW

II.A. Theoretical Review

II.A.1. Triangle Fraud Theory

Financial analysts have developed theories to explain the causes and determinants of financial malfeasance. In today's world, the "fraud triangle" is widely used by anti-fraud professionals to illustrate conditions that could encourage individuals or companies to engage in fraud. The model can also be utilised to highlight economic or industry-wide conditions that can increase the overall risk. To identify risk, anti-fraud professionals look for the presence of the following three factors, namely, pressure or motivation, opportunity, and rationalisation.²

- **Pressure**

To initially identify motivations, researchers and anti-fraud professionals typically look for financial pressure or incentives. For example, organisations or employees feel pressure to meet financial targets, to keep pace with competitors, or to make up for poor past performance. Economic conditions such as a financial crisis can make this pressure particularly acute, raising the temptation for fraud. To identify factors that are conducive to fraud, studies search for the relationship between structural incentives, such as executive compensation structures, and incentives to engage in fraud.

- **Opportunity**

Opportunities to commit fraud are high when fraud goes undetected. When it comes to identifying opportunities for fraud, researchers and consultants usually focus on internal structural factors, including internal controls or auditing procedures and look to regulatory oversight, which can affect the risk calculation of employees who are tempted to commit fraud. Financial crises may also increase opportunities to commit fraud.

- **Rationalisation**

When opportunities to commit fraud exist in parallel with motivation, the fraud triangle theory implies a third and necessary component for fraud, that is, the ability for employees to justify their fraud. Employees may have an easy time rationalising fraud, for example, when they believe that executives disregard fraud or perceive that fraud is common across an industry. Anti-fraud specialists also investigate economic factors that can be used to rationalise fraud, such as the belief that fraud is necessary to help a business survive a financial crisis.

² Donald R. Cressey, "The Criminal Violation of Financial Trust", *American Sociological Review* 15, no. 6 (1950), 738–743.

II.A. 2. Internal Audit Activities

Internal audit activities (IAA) are considered independent, objective assurance, and consulting activities designated to add value and improve an organisation's operations. An IAA helps banks to accomplish their objectives by contributing to a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal controls, and governance processes. The audit department implements an approved audit plan and performs several tasks in accordance with its overall strategy. It also evaluates the adequacy of the system of internal controls, thereby recommending improvements to those controls.³

II.A.3. Top Management Support (TMS)

One of the most crucial decisions for any financial institution is to choose an executive management team since there is a direct relationship between the overall position of a bank, the quality of its management team, and the future performance of the bank. Top management support is also associated with effective decision-making to manage risk and to authorise business operational changes. The focal point of banks should be in the form of top management support, motivation misalignment, and monitoring and control strategy.⁴

II.A.4. Risk Management

Banks must prioritise risk management (RM) to mitigate the various critical risks they face in their day-to-day business operations. Risk management in banking also goes far beyond compliance in the sense that banks must focus on strategy operations, price, liquidity, and reputational risk. Being on the lookout for these risks requires a robust and flexible bank risk management program. Fraudulent acts and unauthorised trading are forms of operational risk that have negative impacts on a firm. There are possible sources of losses that are outcomes of various sorts of operational events, such as poorly trained employees, a technological breakdown, or theft of information.⁵

³ Regina F. Bento, Lasse Mertins, and Lourdes F. White, (2018) "Risk Management and Internal Control: A Study of Management Accounting Practice", in M.A. Malina, (ed.), *Advances in Management Accounting*, Vol. 30, (Emerald Publishing Limited, Leeds: 2018), 1-25.

⁴ Sarah A. Holmes, Margaret Langford, O. James Welch, and Sandra T. Welch, (2002) "Associations Between Internal Controls and Organizational Citizenship Behaviour", *Journal of Managerial Issues* 14, no. 1 (2002), 85-99.

⁵ Wan Nailah Abdullah and Roshima Said, "Audit and Risk Committee in Financial Crime Prevention", *Journal of Financial Crime* 26, no. 1 (2019), 223-234.

II.A.5. Corporate Governance

The concept of corporate governance (CG) is critical to the proper functioning of the banking sector and the economy. Banks' safety and soundness are key factors for financial stability. Internal governance weaknesses in banks play a significant role in the financial system, which can result in the transmission of problems across the banking sector and the broader economy. The corporate governance of banks is mandatory for supervisors, regulators, and legislators, as well as for the banks themselves. With respect to all these issues, more economic, legal and interdisciplinary research on corporate governance in banks and financial institutions is needed, and it could also help pave the way forward.⁶

II.B. Empirical Review

II.B.1. Internal Financial Malpractices in the Banking Sector

Banks are usually considered an important and reliable part of the financial sector of any country. However, with the expansion and rapid growth of the banking sector, the financial crimes associated with this line of operation are also increasing. The financial crimes are automated teller machine cards/related fraud, Web-based fraud (internet banking, suppression of customer deposits, fraudulent transfers/withdrawals of deposits, diversion of bank charges (commission and fees) and fraudulent conversion of cheques, theft of foreign currency, lodgement of stolen warrants and presentation of stolen cheques. "These fraudulent activities have devastating consequences for the stability of not only the banking sector, but also for the financial sector as a whole".⁷ For instance, in the Middle East and North Africa (MENA) region, asset misappropriation and corruption are the most common and widespread fraud activities in the banking sector. "Fraud incidents cause significant damages to the national economy".⁸ "The Libyan Investment Authority, for instance, suffered declines to its financial position as banks suffered substantial losses due to internal and external fraud".⁹ "These losses tend to be underestimated because most of the victimised organisations opt not to report fraud incidents out of fear of the negative impact of such reports on the respective sector".

⁶ J.N. Taiwo, M.E. Agwu, A.A. Babajide, T.C. Okafor, and A.A. Isibor, (2016) "Growth of Bank Frauds and the Impact on the Nigerian Banking Industry", *Journal of Business Management and Economics* 4, no. 12 (2016), 1-10.

⁷ Osei-Assibey Mandella Bonsu, et. al., "Corporate Fraud: Causes, Effects, and Deterrence on Financial Institutions in Ghana", *European Scientific Journal* 14, no. 28 (2018), 315-335.

⁸ Mohamed Issa, and Waled Al-Azzabi, (2018) "Assessing Awareness and Acceptance of Forensic Accounting among the Libyan Accounting Educators", *International Journal of Economics, Commerce, and Management* 6, no. 4 (2018), 331-348.

⁹ Jawher, J. (2017) 'Corruption is a disease in the Libyan state', *Asharq Al-wasat News*.

“Fraud incidents include money laundering, letter of credit fraud, forged documents theft, assets abuse, bribes, loan fraud, identity theft, and check fraud”.¹⁰ “Internal auditors have successfully managed to detect only five per cent of fraud cases in the MENA region”,¹¹ despite there being a high number of fraud cases and incidents reported in the Libyan banking sector by the Libyan Audit Bureau. This issue raises serious concerns about the effectiveness of the internal audit function in Libyan banks. “Internal audit activities (IAA) in public firms, including banks in Libya, have inadequate top management support”,¹² “although the Libyan banks’ boards of directors are required by the 2005 law to have an internal audit unit in their organisational structure with sufficient training and support”.¹³ The majority of banks and other financial institutions in Libya lacked sufficient understanding of the importance of risk management (RM) and the participation of IAA, which have the potential to diagnose fraud risks and improve services.

II.B.2. Psychological Factors

II.B.2.i. The Relationship between Fraud and Pressure

“Pressure, motive or incentive is what forces someone to commit unethical behaviour”.¹⁴ The findings of Bhasin¹⁵ confirmed those of Said, Alam, Ramli, and Rafidi,¹⁶ that “pressure is a major determinant of fraud”. Contrarily, Sunardi and Amin¹⁷ indicated that “pressure had [sic.] negative effect on the occurrence of financial statement fraud”. “With respect to bank employees, it has been found that larger loans put financial pressure on employees to commit

¹⁰ *Ibid.*

¹¹ PwC (2014) ‘Economic Crime in the Arab World’, *PwC Middle East Economic Crime Survey*, 1-17, <https://www.pwc.com/m1/en/publications/gecs2014reportme.pdf>.

¹² Wahid Omar Abuazza, Dessalegn Getie Mihret, Kieran James, and Peter Best, (2015) “The Perceived Scope of Internal Audit Function in Libyan Public Enterprises”, *Managerial Auditing Journal* 30, no. 6/7 (2015), 560-581.

¹³ Central Bank of Libya, “Commercial banks,” accessed 30 January 2024, <https://cbl.gov.ly/en/commercialbanks>.

¹⁴ Rabi’u Abdullahi and Noorhayati Mansor, “Fraud Triangle Theory and Fraud Diamond Theory. Understanding the Convergent and Divergent for Future Research,” *International Journal of Academic Research in Accounting, Finance and Management Sciences* 5, no. 4 (2015): 38-45, 30-37; Isaac Akomea-Frimpong et al., “Causes, Effects and Deterrence of Insurance Fraud: Evidence from Ghana,” *Journal of Financial Crime* 23, no. 4 (2016): 1-26.

¹⁵ Madan Lal Bhasin, “Combating Bank Frauds by Integration of Technology: Experience of a Developing Country,” *British Journal of Research* 3, no. 3 (2016): 64-92.

¹⁶ Jamaliah Said et al., “Integrating Ethical Values into Fraud Triangle Theory in Assessing Employee Fraud: Evidence from the Malaysian Banking Industry,” *Journal of International Studies* 10, no. 2 (2017): 170-184.

¹⁷ Sunardi Sunardi and M. Nuryatno Amin, “Fraud Detection of Financial Statement by Using Fraud Diamond Perspective,” *International Journal of Development and Sustainability* 7, no. 3 (2018): 878-891.

fraud”.¹⁸ It has also been discovered by Hollow,¹⁹ that “financial pressures play a hugely significant role in motivating bank employees and managers to commit fraud at work”.

II.B.2.ii. Relationship between Fraud and Opportunity

Opportunity is a weakness in the internal controls of any organisation that makes it easier for perpetrators of fraud to escape detection. “This may occur due to ineffective internal control, failure to apply the appropriate disciplinary measures, poor regulation and supervision”.²⁰ Reurink found that “weaker internal control, inadequate training and fraud policies are the major causes of fraud in the financial institutions in Ghana”.²¹

II.B.2.iii. Relationship between Fraud and Rationalisation

“Rationalisation is the justification and excuses formulated that makes the immoral conduct lost [sic.] its criminality in the mind of the fraudsters”.²² Sunardi and Amin indicated that “rationalisation relates positively to employee fraud”.²³ “Poor remuneration which may form the bases for justifying the criminal conduct has been found as a major cause of fraud among employees of financial institutions”.²⁴ Reurink also identified “perverse incentive structures in the financial industry which is a condition for rationalisation”.²⁵

II.B.3. Internal Management Factors

II.B.3.i. Relationship between Fraud and Internal Audit Activities

According to the definition by The Institute of Internal Audit (IIA), “IAA centres on the evaluation and improvement of Internal controls (ICS) and RM”. Additionally, “auditing both non-financial items and financial transactions and ensuring obedience with laws and regulations is part of IAA”. “When internal audit uses procedures of risk-based auditing, the function provides assurance

¹⁸ Alexander Ekow Asmah et al., “Antecedents and Consequences of Staff Related Fraud in the Ghanaian Banking Industry,” *Journal of Financial Crime* 27, no. 1 (2020): 188-201.

¹⁹ Matthew Hollow, “Money, Morals and Motives: An Exploratory Study into Why Bank Managers and Employees Commit Fraud at Work,” *Journal of Financial Crime* 21, no. 2 (2014): 174-190.

²⁰ Shabnam Fazli Aghghaleh et al., “Fraud Risk Factors of Fraud Triangle and the Likelihood of Fraud Occurrence: Evidence from Malaysia,” *Information Management and Business Review* 6, no. 1 (2014): 1-7.

²¹ Arjan Reurink, “Financial Fraud: A Literature Review,” *Journal of Economic Surveys* 32, no. 5 (2016): 1292-1325.

²² Isaac Akomea-Frimpong, Charles Andoh, and Eric Dei Oforu-Hene, (2016) “Causes, Effects and Deterrence of Insurance Fraud: Evidence from Ghana,” *Journal of Financial Crime* 23, no. 4 (2016), 1-26.

²³ Sunardi and Amin, “Fraud Detection”.

²⁴ Bonsu, et. al., “Corporate Fraud”.

²⁵ Reurink, “Financial Fraud”.

that risks are mitigated properly, which positively influences corporate governance quality”.²⁶

II.B.3.ii. Relationship between Fraud and Top Management Support

TMS is considered a management-supportive attitude in terms of committing resources, participating in auditing plans, and acting as a role model in the workplace. Previous research stressed that “the role of top management in managing ethical behaviour in the workplace is through behaving ethically and responsibly and also by improving the monitoring and screening mechanisms”. “Because IA plays a critical role and provides constructive services for the organisation’s control environment and risk assessment”.²⁷

II.B.3.iii. Relationship between Fraud and Risk Management

RM refers to a process that of identifying, assessing, and managing risks. “The essence of RM is that it enables organisations to deal with risks in priorities based on their severity within the context of risk appetite, and consequently, selecting an appropriate strategy and response to those risks”.²⁸ “Applying and practicing RM can help organisations to serve various stakeholders’ interests, increase confidence and restore trust among stakeholders that risks are actively dealt with”. Some studies reported that “RM can reduce financial crime significantly”.²⁹

II.B.4. Operational Risk Management (ORM)

Effective management of operational risk has always been a fundamental element of a bank’s risk management programs. In September 1998, the Banking Committee on Banking Supervision (BCBS) published a document concerning Operational risk management (ORM) in which operational risk was treated as a self-contained regulatory issue. It was noticed that significant losses in the banking industry were due to failures to implement proper operational risk assessments and could have been avoided had they been identified, analysed, monitored, and controlled properly. Along with this, corporate governance (CG) also contributes to effective ORM. Due to weakened ORM, fraud and forgery cases were rapidly increasing in the Pakistani banking sector

²⁶ Rainer Lenz and Ulrich Hahn, “A Synthesis of Empirical Internal Audit Effectiveness Literature Pointing to New Research Opportunities,” *Managerial Auditing Journal* 30, no. 1 (2015): 5-33.

²⁷ Vikash Kumar Sinha, and Marika Arena, “Manifold Conceptions of the Internal Auditing of Risk Culture in the Financial Sector,” *Journal of Business Ethics* 162 (2020): 81-102.

²⁸ Wan Nailah Abdullah and Roshima Said, “Audit and Risk Committee in Financial Crime Prevention,” *Journal of Financial Crime* 26, no. 1 (2019): 223-234.

²⁹ Malik Shahzad and A. Rehman, “Barriers to Service Quality in the Banks of Pakistan: A Comparative Study of Islamic and Conventional Banks,” *Business and Economics Journal* 6, no. 4 (2015): 1-7.

for many years. As argued by Bastomi, Salim, and Aisjah, “poor CG and risk management are the main causes of bank frauds”.³⁰

II.B.5. Relationship between Fraud and Corporate Governance

Poor corporate governance (CG) has been identified as a key factor in almost all known instances of financial sector distress in Nigeria. “The collapse of banks in the past has been attributed partly to huge financial losses resulting from weak corporate governance”.³¹ According to Shahzad and Rehman, “risk management and CG are interdependent and interrelated”.³²

II.B.6. Assessment of literature

This section provides a clear understanding of the factors that influence the level of fraud in the banking sector. It can be noted that risk management and corporate governance are the major contributing factors to banking fraud. An ethical management team, along with good governance, can surely prevent financial crimes in banks. According to the research of Avortri and Agbanyo, the factors of pressure, opportunity, and rationalisation influence banking fraud.³³ The estimation was done using structural equation modelling with the maximum likelihood estimation technique. In continuation of these arguments, the next sections provide the research methodology being used to investigate the factors affecting internal fraud in the banking sector of Mauritius and cover the current banking situation in Mauritius.

III. RESEARCH METHODOLOGY

This study adopted a quantitative strategy to collect data, where primary data was collected through a questionnaire. For this study, six hypotheses have been used as detailed below.

H_1 : There is an association between pressure and internal banking fraud in Mauritius’s banking sector.

H_2 : There is an association between opportunity and internal banking fraud in Mauritius’s banking sector.

³⁰ Mohamad Bastomi et al., “The Role of Corporate Governance and Risk Management on Banking Financial Performance in Indonesia,” *Jurnal Keuangan dan Perbankan* 21, no. 4 (2017): 670-680.

³¹ Kanu Clementina and Idume Gabriel Isu, “Security Challenge, Bank Fraud and Commercial Bank Performance in Nigeria: An Evaluation,” *Journal of Business and Management* 5, no. 2 (2016): 1-21.

³² Shahzad and Rehman, “Barriers to Service”.

³³ Christine Avortri and Richard Agbanyo, “Determinants of Management Fraud in the Banking Sector of Ghana: The Perspective of the Diamond Fraud Theory,” *Journal of Financial Crime* 28, no. 1 (2020): 142-155.

H_3 : There is an association between rationalisation and internal banking fraud in Mauritius's banking sector.

H_4 : There is a relationship between IAA and internal banking fraud in Mauritius' banking sector.

H_5 : There is a relationship between TMS and internal banking fraud in Mauritius's banking sector.

H_6 : There is a relationship between ORM and internal banking fraud in Mauritius' banking sector.

The population targeted for this study was the bank officers of the top 10 banks in Mauritius, 3000 in number. The table below shows a population size of 3000 employees from 10 different banks' departments.

Table 3.1.
Stratified Random Sampling

Department	Retail Banking	Credit Analysis Team	Compliance Unit	Risk Management Team	Internal Audit Team	Total
Number of people	900	500	600	500	500	3000
Sample Size	90	50	60	50	50	300

The Statistical Package for Social Science (SPSS) version 20 was utilised to analyse the data collected.

IV. RESULTS AND DISCUSSION

IV.A. Descriptive Analysis

IV.A.1. Respondents' Profiles

The study targeted 300 individuals, 160 of whom filled and returned the questionnaires, a 53% response rate. The respondents' age, department, years of service in the banking sector, position, highest qualifications, and monthly salary are analysed in Table 2. According to the data, the majority of the respondents, 52% of the responses, were between 41 and 50 years old, representing. This high proportion from this age group could be because the survey targeted mostly senior and top management officers, who are generally older and have greater experience. This was evident from the respondents' years of service, where most of them had 10 to 20 years of service. Based on the data collected, the fewest responses were from the credit analysis team, and the most responses were from the retail banking, representing 13 and 51 in number, respectively. This can be explained by the distribution of the

questionnaire, where most of the targeted officers were from retail banking, which is normally more exposed to risks and banking fraud, is included. On another note, team leaders have responded more than the other officers (68%), certainly because they were more easily available and able to communicate with us as compared to the other top management officers having busy schedules.

IV.A.2. Psychological Factors

The officers' responses to the factors, pressure, and opportunity are as follows: 42% of bank officers strongly disagreed that pressure at work gives rise to non-ethical behaviours, and 13% were equally uncertain and agreeable with this statement. This variability among the respondents may be explained by the different positions held, implicating different levels of pressure, obligations and reporting. Political and social influences have also been mentioned as contributing factors to pressure and influencing fraud. In line with this, 68% of bank officers agreed to this and affirmed the statement. On the other hand, opportunity has also been mentioned as a contributing factor towards internal bank frauds, and as can be seen from the above responses, the maximum percentage ascertains that weak internal control, poor supervision, and improper documentation give the opportunity for fraud in banks. These statements have been further analysed in the section below.

IV.B. Inferential Analysis

Further analysis was performed to see if there is any association between the variables of the study, namely, the Chi-square test, cross tabulations and Pearson Correlations.

IV.B.1. Relationship between Fraud and Pressure

"Pressure relates to the factors which give rise to non-ethical behaviours". To analyse this statement, a Chi-square test was performed with the hypothesis below:

H_0 : There is no association between pressure and internal banking fraud in the banking sector of Mauritius.

H_1 : There is an association between pressure and internal banking fraud in Mauritius's banking sector.

As per the above Chi-Square test, the P-value is less than 0.05, that is, the null hypothesis is being rejected, implying that there is sufficient evidence in the sample in favour of H_1 . In other words, there is an association between pressure and internal banking fraud in Mauritius's banking sector. Therefore, it can be concluded that pressure at work is a contributing factor in bank fraud from the perspective of bank officers in Mauritius. Pressure at work can be of any type and at different levels, and thus there can be varied parameters.

IV.B.2. Relationship between Fraud and Opportunity

The P-value obtained from the above test is greater than 0.05; that is, the null hypothesis is not rejected. Therefore, it can be concluded that poor supervision and weak internal controls will not influence the bank officers in Mauritius to commit fraud.

IV.B.3. Relationship between Fraud and Rationalisation

According to the above test, the P-value (0.078) shows that there is no relationship between rationalisation and banking fraud. The null hypothesis has been rejected. Based on the monthly salary level, it can be deduced that rationalisation does not influence employees' perspectives, and hence it has no effect on their ethical behaviour. However, it is undeniable that a small proportion of the respondents agreed that poor remuneration can be a cause to commit fraud, taking into account the varied salary range.

IV.B.4. Relationship between Fraud and Internal Audit Activities

After conducting the Chi-Square test, a P-value of 0.001 was obtained below the significance level (0.05). Thus, the null hypothesis has been rejected; that is, there is a relationship between IAA and internal banking fraud in the banking sector of Mauritius.

IV.B.5. Relationship between Fraud and Top Management Support

The P-value obtained is greater than 0.05. Thus, the null hypothesis cannot be rejected, which implies that there is no relationship between TMS and internal banking fraud in the banking sector of Mauritius. The participation of top management has been identified as an important factor in the identification and prevention of fraud. However, according to this study, TMS has no effect on internal banking fraud, which could be explained by the strong involvement of the internal audit and bank employees being strictly guided to follow the laws and procedures as required. Therefore, the contribution of top management may not be a substantial reason for internal banking fraud among Mauritian bank employees.

IV.B.6. Relationship between Fraud and Risk Management

Risk Management has always been a major influence on the level of fraud in the banking sector. In previous studies, corporate governance has also proved to be important in preventing fraud. By performing the Chi-Square test, the P-value (0.001) is less than the significance level of 0.05, which means that the null hypothesis is rejected. There is a relationship between ORM and internal banking fraud in Mauritius's banking sector, and this is in line with the above

statement. It is also noted that risk management and CG are interdependent and interrelated, and both contribute to the success of the banking sector.

V. CONCLUSIONS AND RECOMMENDATIONS

According to the data collected and analysis conducted, the majority of the bank officers agreed that both a lack of internal controls and poor supervision contribute to the opportunity for fraud. In other words, from their point of view, failure to apply the appropriate disciplinary measures and poor regulation may lead to banking malfeasance. However, no relationship was found between opportunity and banking fraud according to the test. As a matter of fact, in today's world, refusing any superior orders may lead to negative outcomes for employees. Although those instructions may be against the code of banking ethics, bank officers could be tempted to commit fraud, leading to the abuse of power.

When opportunities to commit fraud exist alongside motivation, employees may have an easy time rationalising fraud. This is often affected not only by an individual's moral compass but also by the ethical culture within an organisation and the person's perception about the fairness and equality of rewards. On a positive note, bank officers in Mauritius have pushed back against these arguments and report that there is no relationship between rationalisation and banking fraud. According to them, poor remuneration will not influence the level of fraud in banks, and the majority of them are the ones getting a monthly salary below Rs50, 000. Consequently, it can be assumed that being paid lower than expected will not lead to fraudulent conduct.

Effective internal controls are the foundation of a safe and sound banking system. A properly implemented and consistently enforced system of operational and financial internal control helps a bank's board of directors and management protect a bank's resources, produce reliable financial reports, and support compliance with laws and regulations. Effective internal controls also decrease the probability of significant errors and irregularities and assists in their timely detection when they do occur. According to the previous study's arguments, IAA is an important factor in detecting and preventing banking fraud in Mauritius.

Although internal controls and internal audit are closely related, they are distinct from each other. An internal audit is a check that is conducted at specific times, whereas internal controls are responsible for ongoing checks to make sure operational efficiency and effectiveness are achieved through the control of risks. The board must ensure that senior management regularly verifies the integrity of the bank's internal controls. According to the survey's results, no relationship between top management and fraud has been noted.

Applying and practising RM can help organisations serve various stakeholders' interests, increase confidence, and restore trust among stakeholders that risks are actively dealt with. Previous studies have demonstrated that RM could reduce financial crime significantly. From the perspective of bank officers in Mauritius, there is a relationship between RM and fraud, specifically ORM. Along with RM, another contributing factor identified was CG, which also influences the level of banking fraud. The linear relationships were also tested among the variables, and the results were mostly weak, moderate, positive and negative linear relationships, whereas a strong and positive relationship was noted between ORM and frauds.

This study has provided many ways to improve the banking sector in Mauritius by unpacking the different perspectives of bank officers. To prevent organisations and management from committing fraud, there must be robust internal controls and compliance with the law, as well as severe penalties for committing fraud to reduce it. There must be favourable employee policies to allow employees in need to get financial assistance from the company instead of committing fraud. There must be strong fraud deterrence policies so that employees do not even think of committing fraud because of the substantial consequences. There must be proper ethical training for all employees to make them aware of the banking code of ethics, which would eventually help to change the fraudulent mindset. It is the duty of top management to place an effective risk management system, that is, along with awareness of risks faced by the bank, employees must also be aware of the system which is placed to monitor and control risk. Strengthening internal controls and ensuring compliance with laws and regulations are the central objectives of internal audit activities to ensure transparency. There must be surprise checks and audits, management audits are also encouraged, and there must be strong fraud deterrence policies so that no employee can think of committing fraud. There must be an effective internal control system to provide bankers with reasonable assurance that the banking operations are in order, and this can be a motivation to be compliant. There must be a segregation of duties to reduce the opportunity to commit and conceal fraud or unintentional errors.

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