Assessment of Microfinance Fraud Cases: A Philippines Study

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Abstract: This research provides an in-depth overview of ASA Philippines' fraud cases. Researchers were able to better understand the factors that influence employees' inclinations to commit fraud, as well as investigate the numerous fraud patterns discovered and make recommendations to combat them. The study's findings provide researchers with better strategies and recommendations for preventing fraud in the future. This study was based on Donald Cressey's Fraud Triangle Theory (1953). This theory is composed of three components: opportunity, pressure, and rationalization. He claims that pressure from ravenous greed, bad habits, and delusions encourages management and employees to commit fraud. When the internal control system creates gaps that the perpetrators are aware of, fraud opportunities arise. Opportunities and motivation are inextricably linked.

Keywords: Financial Pressure, Fraud, Fraud Triangle Theory, Microfinance Institutions, Peer Pressure, Weak Internal Control.

Introduction

Since its inception in 2004, ASA Philippines Foundation has been among the leading microfinance providers in the country. Its field operation transactions are conducted in cash, with actual face-to-face interactions with clients, giving it a competitive advantage to expand and cover all provinces. However, some staff members have been able to perpetrate fraud as a result of these cash transactions.

This study provides an in-depth examination of ASA Philippines' fraud cases. The study also provides insights into factors that impact employees' inclination to commit fraud, reveals the various fraud patterns revealed and make recommendations for combating them. The findings of this study involved provide researchers with a better understanding, strategies and recommendations to prevent fraud from occurring in the future.

The investigation and data collection were conducted in October 2022 through interviews and questionnaires administered to ASA Philippines employees with firsthand knowledge of fraud incidents from 2006 to 2022, with the highest amounts involved as the target for investigation. The Godoy Case in 2017, in which an Area Head misappropriated about PhP2 million through unlawful financial transfers from one ASA branch to another over a month, is one of the most well-known cases in ASA Philippines.

In addition, the researchers acquired information from Internal Audit reports between 2019-2022. According to the reports, 840 fraud incidents occurred over four years, with misappropriated amounts totaling PhP11.6 million, or 0.03 percent of the Foundation's total assets as of September 2022.

In assessing actual fraud cases in ASA Philippines, this study addresses the need for the organization to focus on combating and mitigating fraud and may help other organisations to do likewise. The study identifies d common fraud cases and the circumstances that influence employees' likelihood of committing fraud.

This study addresses three Research Questions**:**

1. how socioeconomic factors influence the likelihood of employees committing fraud?
2. what circumstances may have contributed to employees' decisions to commit fraud? and
3. what recommended actions could make employees less likely to perpetrate fraud?

Research Contributions

The study's findings will: provide new knowledge for ASA Philippines Philippines and MFIs more generally in the design and application of internal controls in the prevention and detection of fraud, in the process minimizing pejorative reputational effects and enhancing trust in individual institutions and the microfinance industry more generally. It also contributes to the fraud literature literature by interrogating field data at an individual MFI level in an area where most organizations are loathe to share their real-world experience.

Review of Related Literature

Fraud has evolved into a global phenomenon and a major source of concern (Bhasin, 2016). It exists in every country and impacts all types of enterprises, irrespective of size, revenue, or sector (Mangala and Kumari, 2015). It has resulted in significant losses for victims and other stakeholders like investors, creditors, employees, and customers (Nanda, Zenita, and Salmiah, 2019).

According to the 2020 Global Economic Crime and Fraud Survey, asset theft is the economic crime that causes the most harm to businesses among those committed by Philippine organizations. The incidence of fraud and other economic crimes remains high. In addition, external fraudsters and other economic criminals may have been responsible for losses ranging from $5 million to $50 million Php during the previous 24 months (GECS, 2020). Intangible losses, including a loss of public trust, brand damage, low employee morale, and credit loss, in addition to monetary losses, can have a long-term impact on firms (Philippine Star, March 4, 2020).

According to Oraka and Egbunike (2016), fraud is a widespread occurrence that has been around for a long time and is becoming worse. It is a purposeful act that harms a company or economy, frequently in the form of financial losses. It decreases the funds available for the economic development of small and medium-sized enterprises. Fraud harms society mostly through client dissatisfaction, missed chances, unjustifiably inflated costs for products and services, and inadequate facilities. Therefore, fraud, such as fund loss, has an economic cost.

Fraud includes a broad range of illegal activities and acts, such as intentional misrepresentation or deception (Sharma and Sharma, 2017). Potential fraudsters use their knowledge of the fraud enablers, which typically involves a lack of oversight, a complacent tone at the top, their familiarity with the system, prior experience, and similar instances of fraud. They do this to get around laws, accounting standards, and rules , pursue personal gain or alleviate pressure from the environment in which the perpetrator coexists (Dorgham, Al-Halabi & Shanika, 2014).

The International Standard on Auditing (SA 240) defines fraud as a purposeful act involving deceit committed by one or more members of management, those responsible for governance, employees, and third parties to gain an unfair or illegal benefit. People from a variety of social origins, educational backgrounds, and organizational levels commit fraudulent activities. The commission of a fraudulent act is frequently linked to pressure. It is a perception of a chance to get away with something and a mentality that rationalizes the behavior (Rich, 2022). Fraudsters justify their actions in a variety of ways. For instance, employees who steal money from the firm will often justify their dishonesty by saying they are just borrowing money from the business (Said, Alam, Ramli, and Rafidi, 2017).

One can commit fraud in many ways, including embezzlement, insider trading, self-dealing, fabrication of information, failure to disclose information, corruption, and cover-ups (Zahra, Priem, and Rasheed, 2007). Fraud diminishes employee effectiveness and tarnishes the reputation of an organization. Fraud is the type of crime with the greatest economic impact and is the most harmful to society (Fitri, Syukur, and Justisa, 2019). All interested parties must participate in its examination within the context of society. It negatively affects the state because it affects both people and organizations (Pan, Seow, Suwardy, and Gay, 2011).

Fraud is committed by businesses and people to avoid making payments or losing out on services; to acquire goods, money, or services; or to gain a competitive edge. Therefore, the deliberate misrepresentation of assets, or other valuable property held or owned by a financial organization, such as ASA Philippines, is what is meant by the definition of banking fraud (Hussaini, Abu Bakar, & Yusuf, 2018). Similarly, an act of commission meant to bring about an unjust loss for one party and an unlawful gain for the other may be considered fraud. This act may be perpetrated by concealing information or another way (Fynefaceph & Oladutire, 2013).

Examples of fraud include accepting bribes or gifts; diverting a potentially lucrative transaction that would otherwise result in profit for the organization to an employee or person outside the organization; misappropriating money or property and fabricating financial data to hide the act; purposefully hiding or misrepresenting events, transactions, or data; or charging for services or goods that were not provided (Todorović, Tomaš, & Todorović, 2020).

According to Olaoye, Dada, and Adebayo (2014), the following factors have been common corporate contributing factors to fraud: insufficient internal control, untrained or inexperienced staff, job dissatisfaction, poor management, banks' reluctance to report fraud due to perceived negative publicity or image from the public, insufficient training and re-training, failure to engage in regular call-over, and employees' refusal to follow established procedures without receiving a sanction. Because of these factors, it is simpler for economists, academics, government officials, and even the general public to perceive the potential for corporate fraud in normal economic activity (Christian, Basri, and Arafah, 2019).

The promotion of nepotism in office, whereby only those with "high places" or high deposits or people with relations or people holding sensitive political positions are favored, thereby placing less emphasis on merit, professionalism, societal values, a bad economy, and a slow legal process, are social factors that influence fraud (Olaoye et al., 2014). According to a survey related to the factors that motivate people to commit fraud, pressure, opportunity and rationalization had a significant impact (Anindya, Adhariani, 2019).

Employees of organizations whose top executives commit fraud are generally the most harmed, even if they are completely unaware of their superiors' illicit acts. Employees may lose their jobs, retirement funds, or reputations due to fraud (Zahra, Priem, and Rasheed, 2007). Compared to other professional categories, senior managers engage in more fraud that is harder to detect. This is a major issue that affects the entire world (Sheridan, 2018).

The occurrence of fraud among Malaysian bank personnel, according to Said, Alam, Ramli, and Rafidi (2017), was significantly and favorably impacted by opportunity. The likelihood of fraud is increased, per Albrecht's (1996) study, by the indications of subpar internal controls. Contrarily, preventive measures work to thwart, check, and keep the fraudster far from, or prevent the fraud from being committed (Pan, Seow, Suwardy, and Gay, 2011).

Fraud in Microfinance Institutions

Microfinance Institutions (MFIs) assist the poor population that the mainstream banking system ignores. To provide individualized financial services to underserved areas in most countries, microfinance intervention is now frequently used to promote financial inclusion. It has also been extensively used to serve the economically underprivileged and impoverished class. Fraud detection and prevention fall under the purview of MFI management (Schillermann, 2018). Fraud can hurt both new and older MFIs, leading to the closure or downsizing of operations (Kumar, and Conteh, 2015).

The MFIs have a defined cash management procedure as part of their daily routine. Vaults are provided to branches that do not have depository banks to ensure proper cash management. If the branch depository bank is unable to provide encashment, salaries are distributed through the nearest banks. When there are no bank transactions, salaries and disaster assistance are distributed in cash (De Leon, Decomotan, Ibabao, Sadio, Sondia & Ycay, 2019). Rapid expansion and change increase the relative risks for an MFI. Furthermore, adopting process shortcuts and crucial controls may be motivated by the need to launch new or used products before rivals (Arunachalam, 2011).

According to Kumar and Conteh (2015), environments with sophisticated procedures and a high volume of ad hoc transactions are ideal for fraud. Weak internal control systems, rules, and processes; poor accounting methods; poor client due diligence; weak firm governance; distorted social standards; a protracted court process; and fear of negative press are just a few of the causes. Butcher and Galbraith (2015) hypothesized that because microfinance activities are decentralized, the regulatory environment is insufficient, there are no formal marketplaces, and lower-level employees are more likely to commit fraud, which can then result in "reactive control fraud" by those in positions of authority.

Microfinance institutions must be subject to appropriate levels of monitoring, tracking, detection, authorization, and access rights (Oradian, 2022). According to an analysis by CGAP (Consultative Group to Assist the Poor), there need to be distinct division of labor between employees who originate and approve transactions. A minimum of two passwords should be required to access the system, increasing security. Additionally, an internal division should be established specifically to watch for and deal with fraud. Fraud can cause significant costs for providers if it isn't adequately monitored and actively dealt with, damaging institutions' reputations with the public (Morawczynski, 2015).

A microfinance institution's internal control system consists of policies and procedures designed to provide reasonable assurance that specific entity objectives will be achieved. Internal control is a process carried out by an entity's board of directors, management, and other personnel to provide reasonable assurance that information is reliable, accurate, and timely and that the entity is in compliance with applicable laws, regulations, contracts, policies, and procedures, and the financial reporting is reliable (Breyain, 2021). Without internal control, businesses are vulnerable to various risks that can significantly reduce revenue generation capability. Financial institutions can generate precise and trustworthy information for operational and strategic decision-making by implementing effective internal control (Shagari et al. 2018).

Internal control systems are believed to reduce fraud by eliminating the gaps, also known as the opportunity for employees to conduct fraud, thereby discouraging employees from committing fraud and stealing business assets. The internal control system is a collection of internal controls implemented by the MFI. An MFI can put in place a variety of controls to protect itself. To boost performance, it must safeguard its resources from loss (Ngari, 2017). Internal control, which is critical to the Board's risk management role, is frequently overlooked, due to the Board's inability to comprehend internal control issues or a lack of commitment to their organisation’s position (Kumar, and Conteh, 2015).

Research by Albrecht (1996) indicates that there is a higher chance of fraud when there are indicators of insufficient internal controls. The institution is helped by internal controls to comprehend the organizational structure, work processes, and authority flows. They are not meant to give some certainty that operational goals will be achieved (Kiptoo & Maina, 2018). According to Abei (2021), internal control reduces the fraud motive, opportunity, rationalization, and capability, which has a favorable effect on MFI fraud detection and prevention. She also observed that the main contributors to fraud in MFIs are low compensation, subpar monitoring, and a lack of internal control. High-arrogance fraudsters think their deception will go unnoticed (Nanda, Zenita & Salmiah, 2019).

MFIs require new hires to become familiar with both the controlled environment and the company culture. People who are unfamiliar with their new tasks, such as the systems they use, the services they provide to clients, and the oversight supervisors and members of internal control functions are more prone to lose control. Due to inadequate human resource policies, several with criminal histories have been hired as MFI employees (Arunachalam, 2011).

Internal control, according to Abei (2021), increases fraud prevention and detection in MFIs by lowering the incentive, opportunity, justification, and capability for deception. The main contributors to fraud in MFIs include poor monitoring, insufficient compensation, and a weak internal control mechanism. Therefore, MFIs should make sure that the software and design of their internal control system, monitoring systems, and compensation plans are updated regularly. Additionally, it can guarantee the veracity and correctness of documents, safeguard the company's assets, and promote adherence to the leadership's established rules (Yelvionita, Utami, & Mappanyuk, 2019).

A sound internal control system is believed to lessen the likelihood of fraud happening though it cannot prevent fraud entirely. Additionally, in sectors that significantly rely on information technology, such as the banking sector, the absence of modern technology-based controls is a key sign of inadequate internal controls (Baz et al., 2017). Digital banking is transforming traditional banks into larger and more efficient places of business. Customers' transactions are simplified by digital banking. They can easily pay their bills, transfer money from one location to another, and check their bank account information (Divya &Tripura, 2022).

The digitalization of society and the economy is being fueled by the suitable state of development of information systems and information technologies, as well as the opportunities offered by the contemporary global information environment. Since the invention of tabulating machines, accounting, and information technology have been closely connected (Spilnyk et al. 2022). Paying for things on their own generally requires actual cash or a check, and getting used to new goods and services usually requires paperwork or personal information. For most client interactions, physical infrastructure like branches and ATMs is necessary (Khalatur et al. 2022). Strengthening financial firms' internal control systems to prevent fraud includes increasing information sharing and increasing customer awareness of proper practices when using digital financing channels (Baz et al., 2017).

Microfinance is based on in-person transactions, which are crucial to the businesses of MFIs’ clients even though they are less obvious. Before beginning to invest in a digital transition, MFIs must first concentrate their limited financial and human capital—again, lending operations to restore positive cash flow—on those activities. According to Kumar et al. (2010), many MFIs see the value of digitization and show a readiness to implement new technologies, such as mobile banking, but one of the biggest obstacles is the lack of the required infrastructure.

Microfinance Institutions' Fraud Trends

Many MFIs admit they have a fraud issue, but they neglect to take the overall risk environment into account. Due to their daily onslaught of tiny frauds affecting loan origination and distribution procedures, MFIs are frequently naïve to the danger of a crushing blow from less frequent, larger-impact fraud schemes (Bell, 2017). Internal fraud and theft are the most difficult security risks, especially if the branch manager and cashier collaborate. This is why MFIs in the

Philippines, like ASA Philippines, perform internal audits every quarter or semi-annual. Typically, the amount of money under investigation ranges from P50,000 to P100,000 (De Leon et al., 2019).

Today, fraud perpetration varies because of the introduction of advanced technologies that fraudsters might use to conceal every trace of their conduct. The likelihood or tendency of people engaging in fraud is inversely correlated with the availability of advanced technology or custom-built systems that enable fraudsters to commit fraud undetected or to obfuscate evidence of their actions (Ozili, 2020). Insufficient resources are allocated to events as a result of these unaddressed dangers in their blind zone, and inaccurate and incomplete data analysis and management decisions are made as a result (Bell, 2017).

According to Kumar and Conteh (2015), Arunachalam (2011), De Leon et al. (2019), and ASA Philippines (2022), the following are the common fraud cases perpetrated in MFIs:

COMMON TYPES OF FRAUD	HOW WAS IT DONE
1. Padding of receipt / paying vouchers	The cashier receives deposits from debtors for loan repayment and other purposes; enters the correct amount in the original voucher, which is returned to the customer; understates the amount written in the duplicate copy; and as a result, there is a cash difference (excess) between the actual cash received and that recorded in the duplicate voucher. Once it has been created falsely, more money is seized for personal advantage.
2. Conversion of cash collected in the field	The loan officer does not deposit the client's repayment funds with the MFI despite receiving payment and providing a receipt. Prepayments from clients or monthly payments could both result in this.
3. Cash in the vault malpractice	The dual control over the safe is violated due to the negligence of the co-safe custodian, who is also a joint key custodian for the safe, and gave his key to the manager, allowing unrestricted access to the safe
4. Ghost Loan	The manager/loan officer creates loans in MFIs customers' names and converts the funds for personal use. He succeeds in concealing the scam by creating more fresh ghost loans while fabricating repayments on the already-established ghost loans.
5. Staff and Client Loan Sharing	Loan officer urges the customer(s) to apply for loans they could share. Credit records are under the name of the client.
6. System Manipulation/Forgeries	The Management Information System (MIS) executives and other employees conspire to modify the database, resulting in a credit to a customer's account. The money is withdrawn using a forged check instrument supplied to the customer.
7. Unclaimed insurance	Benefits not given to customer nominees who, over time, forget to request them.
8. Conversion of deposits, share purchases, and loan repayments	Cash diverted for the personal use of the loan officers by falsifying receipts for deposits, loan payments, and shares of clients.
9. Manipulation of financial data	The manual method of operation creates a perfect setting for financial data manipulation. The manager has no notion of how to organize financial statements and their components.
10. Income General Ledger manipulation	Staff enter accounts in error so they can withdraw money.
11. Kickbacks in the loan administration	Microfinance officers / Loan officers receive a certain amount of money in favor of the client. In return, a client

	can ask a favor to increase their loan on the next cycle, which leads to anomalous transactions.
12. Unauthorized withdrawal of clients' savings	Staff forge clients' signatures to withdraw the savings of clients.
13. Unreturned savings of clients	Clients' savings during the closing of accounts are not returned by staff.
14. Unremitted savings of clients	Staff do not remit clients' savings collected in the field.
15. Stealing rebates from clients	Rebates given not entered into clients' accounts.
16. Diverting cash fund transfer for own use	Fake fund transfer from one branch to another done by an Area Head supervising 3-5 branches.
17. Manipulation of e-payment transaction	E-payment transactions not deposited into branch bank accounts.
18. Falsified or altered receipts	Reimbursement of expenses with falsified or altered receipts.

According to Mangala and Kumari (2015), fraud prevention methods aid in predicting fraud before it occurs. To avoid fraud, one must first consider the effects, techniques of commission, and measures of prevention. Furthermore, the information received should be entered into the system to execute fraud protection procedures, and monitoring should be performed to prevent fraud from recurring. Fraud detection and prevention are inextricably linked. Detection methods aid in the detection of fraud and its reporting to the proper authorities.

Fraud can be best controlled if supervisors and auditors begin to think like the perpetrator because such a trend will push these parties away from theories and practice, as well as rules and traditional control thinking, to exploit the management control system in a way that can meet captive needs, thus being able to detect all inherent weaknesses of the system in force that constitute a fundamental basis for fraud (Dorgham et al., 2014).

Employees find it difficult to conceive or act beyond their regular organizational activities and recognize likely financial fraudulent threats due to inadequate training, job stress, job mismatch, absence of compliance, and industry competitiveness, according to Sharma and Sharma (2017). Jiang (2022) posited that when individual employees are under a lot of pressure at work, they are more likely to commit fraud. Organizations can protect themselves from this behavior by closely monitoring their employees' assigned workloads and performance expectations. Personality traits that may reduce or increase one's tolerance for fraud are honesty, pride, dogma, and vanity (Knechel & Mintchik, 2020).

Fraud in ASA Philippines

In ASA Philippines, the most common situations that lead employees to be more financially pressured and eventually commit fraud are hospitalization of immediate family, financially supporting sibling's education, and engaging in a Ponzi scheme (employee or their family). Peer pressure includes vices, gambling, and seeking social acceptance. The most common gambling activities are "online sabong', cockfighting, drag racing, and online games. Work pressures encountered by employees are pressure to meet deadlines in closing transactions and pressure to maintain good performance by covering up past due and nonmoving accounts. Excessive lifestyles such as spending beyond means, buying items considered as wants rather than needs, frequent night bars and parties, and engaging in risky behavior and illicit affairs are the most common circumstances that lead to fraud.

According to Reurink (2016), Ponzi schemes are frequently characterized as investment scams in which investors' returns are generated by new investor capital rather than the success of the scheme. Ponzi schemes are similar to pyramid schemes. In a pyramid scheme, victims are invited to recruit salespeople to sell products that are not sellable. Buyers of the selling privilege compensate those who recruited them. Each recruit pays for sales materials and the right to sell the product. The recruit then attempts to sell this right to another recruit and receive payment from the latter. In reality, the right to sell a product that is rarely or never sold is being sold. Recruits make payments to the parties who recruited them. Each recruiter keeps a portion of the money received from the recruit and pays the remainder to the people who recruited them. As a result, the top of the pyramid collects from a seller below; the amount collected varies according to the position of the person in the pyramid. Those at the lower level pay those at the higher level a percentage of the amounts their recruits pay and are paid by those at the lower level. The scheme comes to an end when the number of potential buyers of the privilege to sell is depleted (Frankel, 2012).

Furthermore, weak internal control can lead to fraud in any of the following situations: a) supervisors do not conduct monitoring visits in the groups and branches as prescribed in the Foundation's operational guidebook; b) inability to identify in a timely way weak and incapable staff as well as supervisors; c) difficult geographical locations and branch inaccessibility to communication; d) familiarity with colleagues resulting in closeness beyond professionalism leading to breaking of a chain of command and nepotism ("*palakasan*"); e) supervisors' reluctance to implement the required protocol on cash management such as the preservation of bank books and updating of bank signatories, and failure to stop risky practices such as pre-signing withdrawal slip and cash fund transfers beyond the allowed limit; and f) no oversight on critical transactions (checking and cross-checking of fund transfers) leading to abuses (ASA Philippines, Internal Audit & Human Resource Findings)

Theoretical and Conceptual Framework

Donald Cressey's Fraud Triangle Theory (1953) is used toas the conceptual framework to support this study Trusted individuals, according to Cressey, become trust violators when they perceive themselves to be experiencing non-shareable financing problems, have been made aware this issue can be secretly resolved by violating the position of financial trust, and can apply behavior in such a situation that allows them to adjust their perceptions of themselves as users of the entrusted funds or property. This theory has three components: opportunity, pressure, and rationalization. Pressure from ravenous greed, poor habits, and psychosis, he claims, encourages management and employees to commit occupational fraud. Fraud opportunities arise when the internal control system creates gaps of which the perpetrators are aware of. Motivation and opportunities are inextricably linked. As a result, the smaller the motivation necessary to commit fraud, the fewer the known gaps in internal controls, and vice versa.

The position of trust in the organization, as well as the abilities required to initiate the fraud plan, are also referred to as fraud opportunities. Fraud can be considered an opportunistic strategy that awaits the appropriate set of conditions (Dorgham et al., 2014). The possibility of fraud is decreased considerably when chances are eliminated. Individuals who commit fraud against most financial institutions are motivated by the ability to commit fraud, conceal it, and evade sanctions. Individuals are more likely to perpetrate fraud when internal controls are weak. The more operational controls an institution installs and enforces, the less likely perpetrators or employees will commit fraud (Bonsu, Dui, Muyun, Asare & Amankwaa, 2018).

Opportunity is seen as a determinant in the distribution of criminal conduct; for example, if an employee is under financial hardship but lacks the opportunity, fraud is unlikely to occur. The fraudster's knowledge and expertise enabled them to overcome regulations and create an opportunity. The opportunity to perpetrate fraud increases as trustworthy relationships are developed (Mohd-Sanusi, Mohamed, Omar, & Mohd-Nassir, 2015).

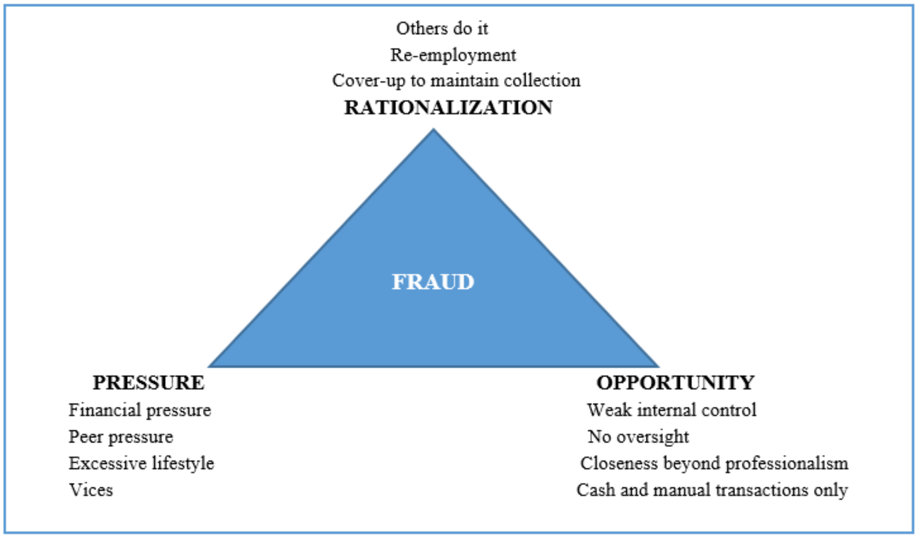
When internal controls are insufficient or collaboration exists, according to Tugas (2012), fraudsters have a chance to circumvent the controls. However, a person is motivated to commit fraud by an incentive or pressure. In most cases, the employee would resist the temptation to steal from his or her employer. Under these conditions, however, even the most rigorously honest person may succumb to situational pressures. Finally, there is usually a mindset or rationalization observed once fraud is perpetrated. This implies that the employee devises a mental justification for the wrongdoing.

According to Ghazali et al. (2014), perceived pressure from an unshareable financial problem might lead to shame or a feeling of pride, pushing people to commit fraud. Similarly, Bonsu et al. (2018) hypothesized that people commit fraud in companies due to pressure. This pressure presents itself in the following ways: financial necessities, work-related pressures, and increased pressure to obtain material property. It can also be caused by an incapacity to pay expenses, health costs, drug dependency, or a desire for luxury brands.

Rationalization was Cressey's final point in the evolution of the fraud triangle. The lack of feelings or impassion communicated by guilty parties as a consequence of the development of justifications or defenses is a frequent component of maintaining cash extortion and all ecclesiastical crime (Bonsu et al., 2018). As a result, they are striving to relieve themselves of responsibility for depraved conduct. Fraudsters justify their actions in many ways. Some employees who steal funds from the company, for example, defend their fraudulent actions by arguing that they are merely lending the company money (Said, Alam, Ramli, & Rafidi, 2017).

The fraud triangle, according to Manurung and Hadian (2013), defines three components that occur in every incidence of fraud: a) pressure, which can refer to nearly anything, including lifestyle, economic expectations, and many others - including either or both financial or non-financial criteria. Capital adequacy, outside influence, individual economic demand, and profit goals are examples of these; b) Internal control vulnerabilities generate opportunities. Cheating is possible in this case. Fraud is possible in three categories: industry nature, ineffective monitoring, and or organizational structure; c) rationalization refers to the mindset, personality, or set of moral views which enable particular individuals to perpetrate fraudulent acts or various people in a setting that enables individuals to rationalize dishonest conduct.

Figure 1: Fraud Triangle Theory



Source: *Tugas, F (2012). ‘'Exploring a new element of fraud: a study on selected financial accounting fraud cases in the world.*

The Fraud Triangle concept, depicted in Figure 1, is employed in this study. It is a valuable conceptual framework for understanding the core reasons and behavioral underpinnings of deceit (Ramamoorti, 2008).

Employees who committed fraud were under a lot of stress, and some of the sources of that stress included financial pressure, pressure from peers, living an extravagant lifestyle, and vices like gambling. The employee's financial obligations may take on a variety of forms depending on the nature of their job. For instance, a cashier may be subject to a personal obligation that is associated with the motive, whereas a manager may place a higher priority on reaching the target as opposed to the financial pressure that may be present (Said et al. 2017).

Employees are tended to engage in unethical behavior because there are gaps in the organization's internal control system. They have a better chance of evading detection as a result of that they dominate the environment, where there is either very little or no oversight, and where the level of closeness goes beyond that of professional obligations. It is possible that they will give in to the temptation to commit fraud by using cash and conducting transactions manually. In addition, they might try to justify their actions by asserting that what they did is comparable to what other people do in the same situation. Likewise, the policies regarding human resources were too lenient because of the mistaken belief that individuals would eventually find work elsewhere.

Sustainable Development Goals (SDGs)

The international community agreed to establish the 17 SDGs last 2015 as the benchmark for guiding and evaluating future progress. It was a rallying cry for all countries to collaborate in a global partnership. This call to action aims to deliver security and prosperity to humanity and the earth. The objectives are centered on eliminating inequalities in health, education, and the economy, with a special emphasis on battling global warming and safeguarding natural waters. The objectives are to eradicate poverty while preserving the environment and the nation's economic progress (United Nations, 2015).

While the SDGs are intended for accountability at a country level, the private sector also contributes significantly to job creation and economic development. It offers goods and services, generates tax revenues to pay for essential and economic infrastructure, and ground-breaking ideas to address development issues (Business for Goals, 2022). Assessing microfinance fraud cases in the private sector supports SDG 16, which focuses on "peace, justice, and effective institutions". SDG 16 has a particular emphasis on developing effective institutions to reduce corruption. Therefore, it is crucial to have good internal control in place to avoid fraudulent transactions (Mendes de Oliveira, Imoniana, Slomski, Reginato, Slomski, 2022).

A good internal control system is crucial in attaining Goal 16.4 to "combat organized crime and illicit financial and armed flows". In ASA Philippines, many of the fraud cases reported by the Internal Audit and Operations Departments involved personal transactions. Since 90 percent of transactions in the operations involved cash, recording by humans is required, although the organization has implemented internal controls for the cash management system (ASA Philippines, Guidebook 2021).

According to Gupta & Voegelin (2015), Goal 16 also focuses on ensuring responsive participatory institutions, as 16.5 aims to significantly reduce corruption and bribery, particularly tax evasion. ASA Philippines is linked to the Foundation's reputational status as a strong institution. It is the country's largest microfinance NGO, comprising over 46 percent of the industry's loan portfolio, and one of the large taxpayers (Microfinance Council of the Philippines, 2022). It has paid the government a total of PhP2.2 billion since 2010, with PhP311 million alone paid in 2021. This strength will continue to contribute to the government's tax revenue collection.

ASA Philippines is one with other institutions in strengthening fraud prevention and detection policies that will lead to effective, accountable, and transparent strong organizations in support of Goal 16.6. Informational asymmetry is a circumstance that allows for the emergence of a fraud situation since it is one of the primary reasons for the fraudster to invent a setting in which to carry out the act meant for personal gain while generating difficulties for third parties. The fraudster who steals to ease financial stress may be motivated to take additional money on occasion (Freitas & Imoniana, 2014). Thus, internal and external audits ensure that information asymmetry is reduced and that firm actions are monitored, which helps in the prevention of fraud.

Achamkulangare (2016) posited that effective fraud prevention, detection, and response systems are necessary to safeguard organizations' interests from unfavorable consequences. Early warning signs, also known as red flags, should be taken into account by management, personnel, and auditors to identify and stop fraud from happening. Some well-known ways for combating fraud include strong internal controls, excellent corporate governance, a zero-tolerance fraud policy, whistleblower protection, and monitoring technologies (Mangala and Kumari (2015). Therefore, fraud prevention would help to achieve Sustainable Development Goal 16.

Given the prior literature and theoretical framework, the Research Questions investigated in this research are:

1. How do socioeconomic factors influence the likelihood of employees committing fraud?
2. What circumstances may have contributed to employees' decisions to commit fraud?
3. What recommended actions could make employees less likely to perpetrate fraud?

Research Design

This study employs a descriptive quantitative research design to gather information from respondents. According to Belli (2008), a descriptive research design is non-experimental research in which the primary focus of the research is to describe several circumstances or document their characteristics. This method is appropriate for this study because the researchers describe the factors that influence the likelihood of employees committing fraud.

Quantitative research was used to quantify the problem by generating numerical data or data that can be transformed into statistically useful information. It is used to quantify attitudes, opinions, behaviors, and other defined variables and to generalize results from a larger population sample (Defranzo 2011).

Data Collection

The researchers gathered data from the Foundation's Human Resources Department on employees who were terminated or dismissed as a result of fraud and misappropriation cases from January 2017 to September 2022. We also obtained information from the Internal Audit Department about reported fraud cases and the total loss from January 2019 to September 2022.

A survey was also conducted of ASA Philippines supervisors with positions such as Area Administrators, Regional Heads, and Assistant Vice Presidents who have witnessed fraud in the workplace. They came from all regions across the Philippines. A total of 520 respondents answered the 4-part survey questionnaire prepared and administered through Google Forms. The first part of the survey questionnaire was composed of the demographic data of the respondents such as gender, designation, and region. Other parts included questions about the circumstances that lead to employees committing fraud, the nature of fraud in ASA Philippines, and recommendations to mitigate fraud. Data from the Internal Audit and Human Resources departments were also gathered through interviews and discussions with the heads of each Department.

Ethical Issues

The respondents were given thorough consideration, and made to feel at ease throughout the research procedure. This was accomplished by alerting respondents about the study well in advance, and allowing them to choose whether or not to participate (Abei, 2021). The survey questionnaire included a consent form. If potential respondents did not agree and sign the consent form, they could not complete the survey. Respondents were also told that all information submitted would be kept confidential and that their participation was fully voluntary. The survey was conducted using Google forms delivered to respondents' respective email addresses. . Finally, the researchers undertook to share the study's findings with the respondents to verify that their comments and recommendations were completely comprehended.

Data Analysis and Findings

The researchers gathered data from the Foundation's Human Resources Department on ten employees who were terminated as a result of fraud cases from January 2017 to September 2022. Table 1 reports the demographics for the employees terminated by the Foundation as a result of fraud cases between January 2017 and September 2022 in comparison with remaining employees.

Table 1: Demographics of Terminated Employees Due to Fraud from January 2017 and September 2022

		Terminated Employees Data	ASA Employees Data (as of September 30, 2022)
Gender	Male	61%	51%
	Female	39%	49%
Designation	Loan Officers (Microfinance Officers)	86%	65%
	Branch Head	12%	27%
	Area Head	1%	6%
	Region Head	0%	2%
	AVP and Up	0%	1%
	Maintenance, Drivers	0%	0%
Marital Status	Married	8%	16%
	Single	92%	84%
Age	18-21 years	8%	6%
	22-25 years	46%	34%
	26-30 years	36%	40%
	31-35 years	8%	15%
	36-40 years	1%	4%
	41-45 years	1%	1%
	46 and Up years	0%	0%
	Average Age	26 years	27 years
Length of Service	0-5 years	93%	76%
	6-10 years	7%	20%
	11-15 years	0%	4%
	Above 15 years	0%	0%
	Average Length of Service	2 years	4 years

Six out of the ten are male. The majority of these employees were loan officers or microfinance officers who had direct face-to-face contact with clients. Their average age of 26 is nearly the same as the average age of all Foundation employees at 27 years.

Table 2: Location of Terminated Employees Due to Fraud from January 2017 to September 2022

Location	% of Employees Committed Fraud	GDP Per Capita in USD	% of National Average (GDP)
National Capital Region (NCR)	6.9%	8,947	268.6%
Cordillera Administrative Region (CAR)	2.9%	3,604	108.2%
Region I (Ilocos Region)	5.9%	2,459	73.8%
Region II (Cagayan Valley)	2.0%	2,027	60.9%
Region III (Central Luzon)	14.7%	3,343	100.4%
Region IV-A (CALABARZON)	12.7%	3,455	103.7%
Region IV-B (MIMAROPA Region)	3.9%	2,418	72.6%
Region V (Bicol Region)	3.9%	1,698	51.0%
Region VI (Western Visayas)	5.9%	2,385	71.6%
Region VII (Central Visayas)	8.8%	3,118	93.6%
Region VIII (Eastern Visayas)	7.8%	1,760	52.8%
Region IX (Zamboanga Peninsula)	5.9%	2,107	63.3%
Region X (Northern Mindanao)	4.9%	3,796	114.0%
Region XI (Davao Region)	2.9%	3,654	109.7%
Region XII (SOCCSKSARGEN)	4.9%	2,158	64.8%
Region XIII (Caraga)	3.9%	2,139	64.2%
BARMM	2.0%	1,112	33.4%
PHILIPPINES	100.0%	3,331	100.0%

Source: *HR Department, ASA Philippines Foundation / Philippine Statistics Authority*

The majority of fraud cases occur in regions with higher GDP than the national average, such as National Capital Region (NCR), Central Luzon, and CALABARZON – these regions typically have the most social activities. In contrast, regions with GDP lower than the national average have fewer fraud cases (see Table 2), perhaps, because employees are more cautious and audit findings are lower.

Table 3: Misappropriated Amounts from January 2019 to September 2022

Year	Number of Employees	Amount (in PhP)	Amount (in USD)
2019	301	₱4,957,895	$97,789
2020	227	₱2,053,844	$42,776
2021	144	₱2,173,258	$43,197
2022*	168	₱2,420,399	$41,086
TOTAL	840	₱11,605,396	$224,848

*From January to September 2022 (9 Months)

Source: *Internal Audit Report, ASA Philippines Foundation*

Additionally, information was gathered from the Internal Audit Department about reported fraud cases and the total loss from January 2019 to September 2022. The Foundation incurred a total of PhP11.6 million in fraud cases over a period of three years and nine months, equivalent to 0.03 percent of total assets as of September 30, 2022 (see Table 3). When comparing the number of and monetary amount in cases from year to year, both improved significantly from 2019.

Survey Evidence

For the survey of supervisors. 520 responses were received, 410 from Area Administrators, 83 from Regional Administrators, and 27 from Assistant Vice Presidents. Female supervisors comprised 56 percent of the responses and 44 percent male. The survey was intended to ascertain supervisors' feelings regarding fraud cases in the Foundation. In the survey, the supervisors were asked questions about the reasons why employees commit fraud based on their own experiences and they were also asked to rank recommendations on preventing fraud.

Analysis of the responses reveals the following:

- According to the respondents, financial pressure and an excessive lifestyle are the most important factors. Other reasons are the result of peer pressure, work pressure, and weak internal control.
- Another question posed to respondents was which circumstances lead to employees becoming more financially stressed and eventually committing fraud. The most common responses were participating in a Ponzi/networking scheme, hospitalization of an immediate family member, and financial support for siblings' education.
- When asked a follow-up question about excessive lifestyle, the supervisors' most common responses were buying items that are considered wants rather than needs, spending beyond means, and engaging in risky behavior and illicit relationships.
- According to supervisors' experiences, the most popular comments to peer pressure that leads to staff committing fraud were gambling, vices, and seeking social acceptance. Online *sabong* (cockfighting), online games, and drag racing were the most popular gambling activities.
- The supervisors' views on work pressure leading to staff committing fraud are due to the pressure to maintain good standing performance by covering up past due and non-moving accounts, as well as pressure to meet deadlines in closing daily transactions.
- Weak internal controls cited by the supervisors were identified as follows:
    - ⇒ Supervisors failing to conduct monitoring visits in groups and branches/es as specified in the Foundation's Operational Manual.
    - ⇒ Inability to identify weak and incapable employees and supervisors in a timely way, resulting in weak internal control.
    - ⇒ Difficult communications in some geographical locations and branches.
    - ⇒ Familiarity with colleagues leading to closeness beyond professionalism, resulting in the breakdown of the chain of command and *palakasan* (nepotism).
    - ⇒ Supervisor's reluctance to implement cash management protocols such as bank book preservation and updating bank signatories, as well as failure to prevent risky practices such as pre-signing withdrawal slips and cash fund transfers exceeding the allowed limit.
    - ⇒ No oversight on critical transactions (fund transfers not checked and cross-checked), leading to abuse and, eventually, fraud.

- The vast bulk of transactions in ASA Philippines are conducted through two accounts: loans receivable and client savings. Based on their experience, the researchers asked the supervisors about the most common fraud cases involving loan receivables and savings. Unremitted bad debt collections, unremitted loan payments, dummy loans, and unclaimed rebates are instances of fraud due to loan transactions. Unauthorized savings withdrawals, unremitted savings, stealing clients' savings, and unreturned savings are indications of fraud related to savings transactions.

Interview Evidence

ASA Philippines supervisors, coded as Area Administrators (AA1), Regional Administrators (RA 1), and Assistant Vice President AVP 1), provided their thoughts on mitigating fraud as follows.

As stated by RA 1, close supervision is crucial, and getting to know the employees well and making them feel at ease with supervisors is one of the best ways to learn about any personal issues that may be motivating employees to commit fraud. Similarly, AA 1 asserted that the problem of fraud is not dependent on management; rather, it may be caused by some supervisors who are overly harsh, fail to pay attention to staff members' problems, and thus encourage fraud. Employee fraud can be avoided if one pays attention to their problems.

On the other hand, additional references for potential employees must be provided to verify the veracity of their employment history, educational background, and accomplishments. By contacting these referees, potential employers can gain more insight into the applicants' true character, ensuring that the institution hires honest employees.

The evaluation process for all potential microfinance officers should include a behavioral psychological test. This will give the management a better idea of the behavior and character of the applicant they are hiring. Having a healthy body and mind is extremely important.

Along with the mental health development programs, the physical needs of the staff, such as sporting events are recommended. Having this type of activity makes employees happier and more motivated to complete their tasks because they can release work-related stress.

Furthermore, implementing localization throughout the institution will enable the staff to travel home at least twice per month. By doing this, staff can avoid distraction by vices like drinking, gambling, and other vices.

Enhancing managerial training can better equip managers to spot employee fraud. Additionally, strengthening the branch heads' abilities, management's first point of contact when it comes to staff supervision, will help.

Regardless of how much the staff member steals, the Foundation should take legal action against any staff member who engages in fraud. The staff is already knowledgeable and aware of the policies before entering the Foundation, so it is up to them if they steal.

Recommendations

Based on the results of the survey, the following recommendations were rated by the respondents that could make employees less inclined to commit fraud.

1. Top management should organize at least semi-annual fraud management training for employees, ensure that all newly hired staff understand fraud policies and procedures, and hold periodic workshops. This raises fraud awareness in institutions while also communicating staff responsibilities for fraud prevention and detection. Every employee must understand that internal measures at their level are their personal responsibility (Sama & Niba, 2016).
2. Improve the current system of collection and explore automation. Digitalization should be implemented throughout the operations. Because of a lack of adequate internet facilities, face-to-face cash transactions have to take place more frequently, which increases the likelihood of fraud.
3. Employees involved in fraud should not be rehired. Background checks should be performed on all employees, especially if the individual has a history of deception (Sama & Niba, 2016). This will go a long way toward ensuring that trustworthy individuals are hired. The institution must also provide a copy of the code of conduct to all employees.
4. Incorporate financial literacy into pre-service orientation and make it a critical component of all employees' staff development programs to emphasize the importance of financial literacy.
5. Improving whistleblowing policy by rewarding and protecting whistleblowers. Whistleblowers who come forward early and frequently can save regulators and businesses significant resources that would otherwise be spent on fraud investigations (Ozili, 2016).
6. Developing staff training that encourages loyalty to the organization rather than to one's coworkers will aid in the establishment of a work environment that values integrity and career advancement. Organizational fraud training has been identified as the most effective deterrent and prevention strategy in the fight against fraud in financial institutions (Bonsu, Dui, Muyun, Asare & Amankwaa, 2018).
7. When fraud is suspected, immediate action should be taken, especially by having a heart-to-heart conversation with the staff member concerned so they can understand the wrongdoing and the consequences that will follow. Since the Foundation is no longer a small institution, it must upgrade and move forward with innovation and transaction automation. In actuality, a large monitoring effort is required because of the massive number of branches, and automated transactions have a high potential to reduce fraud cases.

Conclusion

This study examines field evidence of fraud in a single MFI, ASA Philippines Foundation. It uses Cressey's (1953) Fraud Triangle as the theoretical foundation to develop three research questions and gathers evidence from three sources to develop responses to the questions: case records of terminated employees, a survey of supervisors at various levels in the organization, and interviews with interviews with the heads of Internal Audit and Operations.

This study shows that the most common situations that cause employees to become financially stressed and eventually commit fraud are hospitalization of immediate family members, financial support for sibling's education, and participation in a Ponzi scheme. Peer pressure can drive people to engage in vices, gamble, and seek social acceptance. Employees face work pressures such as the need to meet deadlines and maintain good standing performance.

Excessive lifestyles include overspending and purchasing items based on wants rather than needs. Weak internal control can lead to fraud in any of the following situations: a) supervisors do not conduct monitoring visits; b) inability to identify weak or incapable staff in a timely manner; c) difficult geographical locations and branch inaccessibility to communication; and d) familiarity with colleagues resulting in closeness beyond professionalism.

Several recommendations of relevance to ASA Philippines and the microfinance industry more generally flow from this research. These recommendations include greater attention to whistleblowing policies and procedures, hiring practices in checking backgrounds and communicating with referees, financial literacy and fraud management training for employees, programs to encourage organizational loyalty, and greater digitalization to automate transaction processing.

This study's makes several contributions. First, it provides new knowledge for ASA Philippines as an institution to enhance the prevention and detection of fraud by managerial employees and other staff. Second, it contributes to the existing fraud literature. Third, it reveals vulnerabilities in a successful microfinance organization's fraud detection process. MFI managements can use the findings of this study to gain insight into situations that lead to staff fraud. This could aid management in improving and developing a good internal control design to detect and avoid future fraud incidents. Furthermore, this research may serve as the basis for developing credible recommendations for preventing and detecting fraud that will benefit other institutions. Even if the fraud cases affect a small fraction of employees and fraud losses are insignificant, reputations will suffer if remaining workforce sees no action taken to prevent fraud. The credibility of the microfinance industry is critical, and it must be preserved.

Nevertheless, as with all studies, limitations exist. The study examines only one institution, ASA Philippines, and was conducted by employees as the researchers. Hence generalizability to other microfinance institutions may not be appropriate and the objectivity of the researchers needs to be considered when interpreting the findings.

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