Factors Affecting Non-Government Organizations' Financial Statement Fraud in South Africa: New Fraud Combined Theory Approach

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A R T I C L E   I N F O

A B S T R A C T

This article aims to obtain empirical evidence about the relationship between New Fraud Combined Theory with non-government organizations' financial statement fraud in South Africa. The population of this thesis research comprised 87 staff from 30 chosen Non-Government organizations (NGOs). The sample size of 87 was calculated using Raosft Software. A convenience sampling technique was used to select the study's respondents. This article adopted quantitative and descriptive survey research. A Likert questionnaire was designed and used as the research instrument for generating data from respondents. Robustness analysis was entirely performed using descriptive statistics. The result of this research indicated that all variables have a significant association with fraudulent financial statements among NGOs in the eThekwini region, South Africa. This article contributes to the body of knowledge: the significant association between auditing and financial statement fraud mitigation accentuates the new fraud combined theory which belies that effective corporate governance will significantly curb financial statement fraud among NGOs in the eThekwini region and beyond.

A B S T R A K

Artikel ini bertujuan untuk memperoleh bukti empiris tentang hubungan antara New Fraud Combined Theory dengan kecurangan laporan keuangan lembaga swadaya masyarakat di Afrika Selatan. Populasi penelitian ini adalah 87 staf dari 30 Lembaga Swadaya Masyarakat (LSM) terpilih. Ukuran sampel 87 dihitung menggunakan Software Raosft. Teknik convenience sampling digunakan untuk memilih responden penelitian. Artikel ini mengadopsi penelitian survei kuantitatif dan deskriptif. Kuesioner Likert dirancang dan digunakan sebagai instrumen penelitian untuk menghasilkan data dari responden. Analisis robustness seluruhnya dilakukan dengan menggunakan statistik deskriptif. Hasil penelitian ini menunjukkan bahwa semua variabel memiliki hubungan yang signifikan dengan kecurangan laporan keuangan di kalangan LSM di wilayah eThekwini, Afrika Selatan. Artikel ini berkontribusi pada bidang keilmuan: temuan studi tentang hubungan yang signifikan antara audit dan mitigasi kecurangan laporan keuangan menonjolkan teori gabungan kecurangan baru yang meyakini bahwa tata kelola perusahaan yang efektif akan secara signifikan memitigasi kecurangan laporan keuangan di antara LSM di wilayah eThekwini dan sekitarnya.

1. INTRODUCTION

Financial statement frauds (FSF) in NGOs have attracted high-profile attention recently, and over the past two decades, incidents of financial statement fraud have increased substantially. According to Archambault (2019), incidents of fraud and scandals in large NGOs such as the Red Cross, United Way, American Cancer Society, the Youth Motor Sport Foundation, the Baptist Foundation of Arizona, the American Federation of Teachers, the Women's royal voluntarily service, so on, have been a continuing burning issue (Archambeault, 2019).

In South Africa and elsewhere, there have been several high-profile examples of misuse of donor funds within the NGO sector through fraud (Schreiner, 2016; Roxas, 2018). As elaborated earlier by ACFE (2019), the typical rate and trend of donor funding abuses have been on the rise, and the

observation of such movement a trend is further shared in the ACFE's (2019) report and confirmed that $61 billion were lost to frauds in NGOs. It is no secret that NGOs in the eThekwini region, such as the KwaZulu-Natal Blind and Deaf Society, have suffered financial difficulties due to fraudulent activities, which led to funders being reluctant to support them. Many NGOs have experienced drop-in funding due to the lack of robust fraud risk assessments.

A severe problem related to foreign aid is fraudulent financial statements. These types of fraud have been widely researched (Esmaili et al., 2019; Haqq & Budiwitjaksono, 2020; Triyanto, 2020). Financial statement fraud and traditional audit failures to detect fraud in entities have increased (Akhidime, 2019). As a result, many believe that professional auditors must learn how to manage the risks of financial statement fraud more effectively.

Žukauskaitė (2021) reported a lack of robust fraud risk assessments (FRAs) in the fraud risk management process. Fraud risk assessment gaps are widening within the auditing community could increase a robust fraudulent crisis within the sector (Hakami et al., 2020). Fraud risk management can be achieved by developing a robust FRAs model that can potentially assist auditors in identifying, detecting, preventing, and investigating fraud risk in the NGO sector.

One of the best ways is to analyze the fraud influencing factors through the characteristics of fraudsters or perpetrators. Relevant fraud theories such as the new fraud triangle, new fraud diamond, the Crowe Horwath fraud pentagon theory, and the fraud combined theory explained why trust violators commit fraud and were widely used by professionals, academics, and regulators (Christian et al., 2019). However, the current research critics of the fraud combined model argued that even if such fraud theory added some variables to the fraud triangle and filled a gap in other ideas. The model alone is an absolutely inadequate tool for investigating, preventing, and detecting financial statement fraud. The reason why fraudsters commit financial statement fraud was examined by Wilken (2016). The study propounded the fraud combined theory. This theory explains fraud opportunity; fraud motivation and pressure; the fraudster's capability and competencies; the fraudster's integrity and lack of conscience; justification or rationalizations; ideology, ego, and coercion; and lack of strong corporate governance as key drivers of financial statement fraud.

Mock et al. (2017) accentuated that a lack of fraud risk assessments is a robust trigger to financial statement fraud. Hence this article explains the new fraud combined theory and its significance in investigating, preventing, and detecting financial statement fraud. Therefore, this article assesses other fraud theories and proposes the new fraud combined theory to be considered by forensic auditors in assessing fraud risks in NGOs' financial statements. The result is expected to contribute to understanding better fraud risk indicators that might drive management to commit financial statement fraud.

Fraud red flags and motivation of fraud represented in the New Fraud Combined Theory have not been widely used by many researchers to investigate the likelihood of financial statement fraud. Representative proxy developed from each New Fraud Combined Theory component is expected to significantly assist professional auditors in investigating and reducing NGOs' financial statement fraud practices. This article will answer this question: Does the New Fraud Combination Theory (a consolidation of all the fraud theories) affect the tendency of NGOs' financial statement fraud behavior? This article aims to examine the factors affecting NGOs' FSF in South Africa to determine the key factors and fraud red flags associated with FSF among NGOs in the eThekwini region. This study also examines whether fraud influencing factors listed in New Fraud Combined Theory can significantly help forensic auditors assess FSF risks among NGOs in the eThekwini region.

This article contributes to the current body of knowledge by introducing the New Fraud Combined Theory, a consolidation of all the fraud models and contributory fraud risk factors for fraudulent activities to enable external auditors and forensic practitioners to perform fraud risks assessments (FRAs) robustly effectively. The study thus contributes to the literature on fraud risk factors and fraud risk indicators and provides a model that describes the significant association between forensic auditing and financial statement fraud mitigation, accentuates the New Fraud Combined Theory, which believes that effective corporate governance will significantly curb fraudulent financial reports among NGOs in eThekwini region this article also adds to the current body of knowledge and guide researchers to further research on the subject matter in areas that were not addressed in this research.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

Researchers such as Kassem & Higson (2012) soundly criticized the Fraud Triangle Theory for its inability to identify every fraud occurrence. They add that fraudsters' motivation should be expanded and identified by investigating Money, Ideology, Coercion, and Ego (MICE). On the ineffectiveness of the fraud triangle, Schuchter & Levi (2015) add their voice, adding to Kassem & Higson's (2012) arguments arguing that the fourth variable, "fraudster's capability," should be added to Andrew's (2012) fraud triangle, namely, fraudsters' capabilities or competence. These arguments are supported by Epstein & Ramamoorti (2016), who cautions that many multibillion-dollar frauds could not have been perpetrated had it not been for the fraudsters' capabilities.

McMahon et al. (2016) cautioned that the person with a fraud opportunity would need to be savvy enough to understand internal control weaknesses and have the capacity to overrule or ignore them. It led to the emergence of the New Fraud Triangle Theory. Ruankaew (2016) proposed the new fraud diamond theory to explain the motivation of fraudsters in this study that focuses on NGOs financial statement fraud influencers. Ruankaew (2016), however, captured the main drivers that forensic auditors have to keep in mind: (1) the authoritative function within the entity; (2) fraudsters' intelligence and experience; (3) fraudsters' confidence; (4) perpetrator's capability and capacity to exploit accounting systems and internal controls; (5) the fact that perpetrators are perfect liars; and (6) fraudsters' capability to deal with stress. However, it can be criticized that the new fraud diamond model alone is inadequate for investigating, deterring, preventing, and detecting fraud. Onodi et al. (2017) suggested another model called the Fraud Box Key Model (FKBM) in response to critiques of the above fraud models (new fraud diamond and fraud triangle). It is an expanded version of the New Fraud Diamond Theory that includes a fifth perspective: corporate governance.

On the other hand, Onodi et al. (2017) defended their views by arguing that the Fraud Diamond and Fraud Triangle Theories focus only on the motivations to commit FSF, with no mention of high-level and strategic tools to eliminate or reduce fraud risks potentially. They believed that sound and effective corporate governance is a powerful preventative tool no matter how accessible the opportunity or how strong the perpetrator's pressure, rationale, ability, and capacity are. They

suggest that the model will significantly assist forensic auditors not only in identifying corporate governance fraud risks (such as abuse of the code of conduct, ethical issues or problems and moral hazard, poor leadership, and declining productivity) but also in the prevention, mitigation, and deterrence of fraud. Marks (2019) shared the views of Onodi et al. (2017) and added arrogance and competence variables to create Crowe's Fraud Pentagon. However, Marks's (2019) arguments continue and point out that fraudsters' belief systems are superior to others and always think that rules and regulations are not applied to them and their capabilities to take advantage of weak internal controls for their interests.

Scholars have critiqued all of the theories discussed above. For instance, Pasandideh & Sepasi (2020) asserted that the above models' variables are quite similar to those of Kassem & Higson (2012 and Pasandideh & Sepasi (2020) proposed that they can, therefore, be integrated. The theories have also been criticized by Pasandideh and Sepasi (2020) for not considering weak corporate governance and its external and external financial pressure. Thus, it is posited that a combined fraud model could potentially offer a powerful theory to uncover fraud and eventually enable forensic practitioners to perform fraud risk assessments (FRAs) effectively.

Against the background of the review of the different fraud theories, the researcher proposes the New Fraud Combined Theory to predict the existence of fraudulent financial reports. The aim is to expand forensic practitioners' knowledge of FSF and how it is committed and enable them to identify, detect, deter, prevent, and investigate FSF and respond appropriately to fraud risks. At the same time, in the fraud combined model, Cornish & Clarke (2014) added the fourth and fifth variables (capabilities, personal integrity, and a lack of conscience) to the fraud triangle and filled the gap in other fraud theories. On its own, it is an inadequate tool to identify, detect, deter, prevent, and investigate financial statement fraud since it ignores the critical factor of corporate governance. Thus, the New Fraud Combined Theory proposes to add corporate governance (sixth variable) to the five-factor fraud combination model propounded by Pasandideh and Sepasi (2020). It is expected to detect fraud in financial statements and promote a better understanding of why a person would violate accounting rules and standards. The New Fraud Combined Theory is believed to provide a strong foundation for formulating and advancing policies, strategies, and techniques to detect fraud in financial

statements.

The new theory posits that financial statement fraud is based on six factors: opportunity; pressure; the fraudster's capability; personal integrity and lack of conscience; rationalization or risk versus rewards; and weak corporate governance (no matter how accessible the opportunity may be, or how strong the pressure, and regardless of the rationalization and ability and capacity of the perpetrator). Strong, effective corporate governance will ensure that the fraudster's intentions amount to nothing. Thus, corporate governance is suggested as

the lock that protects NGOs from all the factors that cause financial statement fraud. The New Fraud Combined Theory incorporates other fraud theories' elements. It will allow fraud investigators to consider all the factors contributing to the occurrence of FSF to assess the risks of fraud, identify red flags for fraud, and detect financial statement fraud. It is consistent with Tonye & Ebimobowei (2018), showing that a forensic auditor should think like a fraudster to combat fraud. The New Fraud Combined Theory is set out in Figure 1 below.
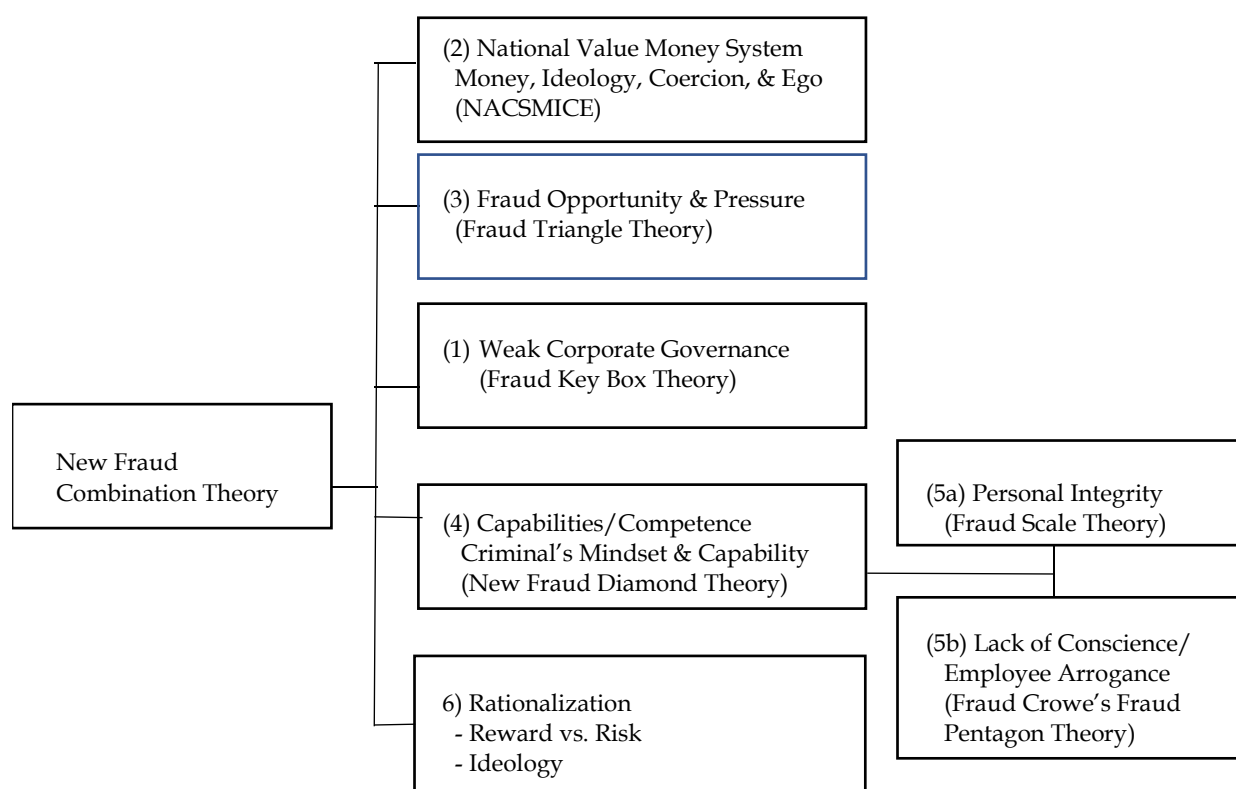
Figure 1. The New Fraud Combined Theory

Fraud risk factors and fraud risk indicators

The literature notes that identifying and appropriate responses to risk factors allow auditors to identify, detect, deter, prevent, and investigate financial statement fraud. This section examines risk factors relating to fraudulent financial reports, which is a burning issue in the accounting field. The comprehensive view of the main drivers of fraud lies in a study by Srivastava et al. (2009), which revealed the significant link between fraud risk indicators and fraud risk factors. Understanding the key factors that influence fraud will give forensic auditors insight into why, how, and when

fraudulent financial reports are committed. Further, Mock et al. (2017) linked fraud indicators and risk factors. The fraud risk factors include pressure; fraudster's capability and fraud opportunities; rationalization; weak internal controls, lack of internal controls, and poor governance; weak board of directors; collusion; and abnormal or omitted evidence, inconsistency in accounting principles and records.

Financial statement fraud committed by NGO Management

According to Zack (2003), NGO management intentionally commits FSF by making wrong affirmations in the financial statement. These include misleading donors by misclassifying project expenses, misleading donors by misclassifying restricted donations, non-disclose of significantly related party transactions, inflating revenue, and understatement of expenses, failing to correctly value donated assets, inventory, receivables, expenses misreporting, and split-interest liabilities or gift annuity obligations. People in high positions in the organization carefully plan such fraud. Anichebe et al. (2019) survey of hundred and-one NGOs that had recorded fraudulent activities showed that falsifying financial statements was prevalent in such entities. They recommend a strong Board of Directors that establishes an effective audit committee to detect and deter financial statements and other fraud within the sector.

Kamarudin et al. (2018) noted that detecting FSF is not the primary role of the traditional auditor; it is up to managers to build internal sound controls that can assist in such detection. Concerning fighting corporate FSF, Boyle et al. (2012) empirically examined the relationship between the likelihood of financial statement fraud and five corporate governance characteristics, namely, an audit committee consisting of only independent directors; the number of additional directorships of members of the audit committee; a board where the majority of members are fully independent; audit committee members with financial accounting or accounting proficiency; and independent directors sitting on the nominating committee. They found that financial statement fraud was less likely to occur in entities highly governed, and their top managers displayed a higher level of ethical behavior. Othman (2019) argues that managers may exploit ambiguities and the options available to present financial statements that meet their financial targets, especially when power is concentrated in the hands of insiders. Albizri & Rizzotto (2019) found that managers were motivated to commit to FSF by (1) compensation packages based on reported earnings, (2) the desire to maintain or increase share prices, (3) the need to meet internal and external forecasts, especially when an entity is failing to achieve targets, to satisfy funders or to protect share prices, (4) the desire to avoid or minimize tax liabilities, (5) the need to violate debt agreements when the entities have weak cash flows resulting in poor liquidity ratio, (6) the desire to postpone dealing with financial problems (thus violating debt agreements), and (7) the desire to raise cheap external capital.

Van Akkeren (2018) pointed to the role played by individual integrity in the high probability of financial statement fraud. The author adds that a manager who understands the entity's accounting and internal control systems can exploit them if weak corporate governance and insiders dominate the entity. Steffen (2017) agreed that a fraudster must have the capability to perform financial statement fraud by overriding internal controls and audits. Lin & Chiu (2015) and COSO (2020) found that most fraudulent financial report involves the collusion of the Chief Executive Officer (C.E.O), Chief Operations Officer, low-level accounting personnel, the Board of Directors, the Controller, and Chief Finance Officer.

Much research has been conducted on why, how, and when a fraudulent financial report is perpetrated, leading to identifying anomalies, red flags, and fraud risk indicators in financial reports. In support of the above evidence, Hopwood (2012) further elaborated that several red flags are strongly connected with fraudulent financial statements, including a lack of independence, competence, or oversight of management; internal auditors and external auditors undermining the basic structure designed to prevent financial statement fraud; lack of diligence on the part of internal auditors or the audit committee, a weak governance structure, a problematic management style, financial problems, nonstandard accounting practices, and industry weaknesses. Singleton (2010:101) put forward the crucial viewpoint and argues that forensic auditors need to be familiar with possible fraud risk indicators such as inconsistency in accounting records, fictitious revenue, inadequate disclosure, improper asset valuation, concealed liabilities, asset misappropriation (billing schemes, payroll schemes, larceny), inconsistent or omitted evidence, or an unhealthy relationship between senior management and the statutory auditors.

Corporate governance and financial statement fraud

The United States Congress passed the Sarbanes-Oxley Act (SOX) in 2002 to protect shareholders and the general public from accounting errors and fraud in enterprises. While the Act applies to publicly traded companies, much of it is also useful for private companies and NGOs. The SOX Act also aims to potentially eliminate or reduce FSF by promoting high standards of good governance and rigorous oversight among organizations, as highly

recommended by Hopwood (2012). It can be achieved by the role of the Board of Directors (must have competent, experienced members who participate actively in the entity's governance), an audit committee (should work closely with the internal and external auditors, and management to ensure the integrity of the external audit process), management (must be actively involved in all major aspects of internal controls process development), and internal auditors (should report directly to the audit committee).

Hopwood (2012) further pointed out that this would enable the audit committee to serve as an independent check on top management and to ensure quality internal controls processes and compliance with the external auditors and public oversight bodies. Assakaf & Samsudin (2018) showed that international auditing standards aim to deter financial crimes due to error, fraud, and corruption. Kouakou & Boiral (2013) stated that the International Auditing Standards (IAS) set by the International Auditing Standards Board (IASB) aim to shape financial reporting practices and make them more transparent to reduce the risk of fraudulent activities. Assakaf & Samsudin (2018) concur and add that the IAS promote appropriate behavior among auditors and holds the entities they audit to high ethical standards that enable the identification of fraudulent activities. Bedard et al. (2010) established a correlation between the quality of financial reporting, quality auditing, and market responses. They also found that a high-quality audit is a powerful tool to detect audit failure, as quality audits play a pivotal role in quality financial reporting and eliminating fraud risks.

Fortvingler & Szívós (2016) focused on the interaction between forensic audits and fraud detection among Nigerian NGOs using a questionnaire and interviews to gather data. While the study recommends that forensic audits be used to uncover fraud, it does not clarify why financial statement fraud occurs in NGOs and how it can be prevented, detected, and investigated. Moreover, it only focuses on two fraud theories. The existing theories have, however, also been criticized for not considering internal and external pressure on corporate governance. Thus, it is posited that a New Fraud Combination Theory would offer a powerful model to deter, mitigate, prevent, and detect fraud, then enable auditors and forensic auditors to perform effective fraud risk assessments (FRAs).

3. RESEARCH METHOD

This article adopted quantitative and descriptive survey research. The population of this thesis research comprised eighty-seven staff with extensive knowledge of accounting principles and an understanding of the application of forensic audit services to fight fraud. It consisted of forensic investigators, managers, internal auditors, Chief Operations Officers, finance managers, accountants, NGOs' Boards of Directors, and audit committees from thirty (30) chosen NGOs in the eThekwini region-South Africa. The sample (quantitative) size of 87 was obtained/calculated using Raosft Software. The convenience sampling technique was used to select the study's respondents. An anonymous online Likert questionnaire approved by the University of KwaZulu Natal Human Social Sciences Research Ethics Committee (UKZN HSSREC) has 5 points, using full-anchored, framed statements on a five-point risk level instrument based on standardized set statements (fraud risk descriptions) was designed and used as the research instrument in the following order: 1 = highest risk, 2 = high risk, 3 = some risk, 4 = low risk, and 5 = lowest risk. Robustness analysis was entirely performed using descriptive statistics in SPSS software. Cronbach's alpha test was used to verify the quality and consistency of our instruments. Analyzed data were presented in tables. The definitions of variables and their measurement are presented in Table 1.

Table 1. Variables definition

Variables	Indicators	Measurements
Demographic Information (DI)	Gender (DI1); age group (DI2); ethnic group (DI3); highest educational qualification (DI4); professional registration (DI5); department (DI6); position held (DI7); and work experience (DI8). The NGO's annual budgeted income (DI9) and the number of employees (DI10).	Variables indicators were stylized into dichotomous and free-text questions
Root cause financial Statement Fraud (RCFSF)	Corporate financial pressure (RCFSF1), External financial pressure (RCFSF2), Poor accounting systems(RCFSF3, Leverage (RCFSF4), Systematic differences in reporting requirements (RCFSF5), Lack of proper authorisation and approval procedures (RCFSF6), Weak governance (RCFSF7), Poor and weak internal controls (RCFSF8), Non-existent internal controls (RCFSF9), Overriding internal	Variable indicators were stylized into a 5-point Likert scale

Variables	Indicators	Measurements
	controls (RCFSF10), Employees' arrogance (RCFSF11), Employees' lack of conscience (RCFSF12), Fraudsters' ability to override systems(RCFSF13), Poor and improper oversight (RCFSF14), A lack of or ineffective audit committee (RCFSF15), Lack of fraud awareness (RCFSF16), Lack of surprise audits (RCFSF17), Lack of forensic audits (RCFSF18), Low salaries (RCFSF19), Failure to prosecute fraudsters (RCFSF20), and Lack of appropriate punishment of fraudsters (RCFSF21)	
Fraudulent Activities (FA)	Fictitious inventories (FA1), Online payment fraud (FA2), Double dipping (FA3), Financial irregularities (FA4), Extortion of bribes or other benefits (FA5), Ghost employees or beneficiaries (FA6), Skimming (FA7), Theft of donated items or goods (FA8), Falsification of financial statements (FA9), Credit card abuse (FA10), Ghost or fictitious vendors (FA11), Misreporting of expenses (FA12), Payroll fraud (FA13), overstatement of hours worked (FA14), Misappropriation of assets (FA15), Vendor or supplier fraud (FA16), Kickbacks and conflicts of interest (FA17), Kickbacks from subcontracted vendors (FA18), Misrepresenting the portion of donations (FA19), Misleading donors through misclassifying expenses (FA20), Misleading donors through misclassification of restricted donations (FA21), Non-disclosure of transactions with significantly related parties (FA22), Inflating revenue (FA23), Stolen cheques (FA24), Stolen bank cards (FA25), Misuse of accounts (FA26), Forged cheques (FA27), Management fraud (FA28), Occupational fraud (FA29), Payroll fraud (FA30), Fraudulent register disbursement (FA31), Understatement of expenses (FA32), Wire transfer fraud (FA33), Computer fraud (FA34), and Inflated fundraising costs (FA35).	Variable indicators were stylized into a 5-point Likert scale

It comprises the procedures or steps of the research, e.g., from the methods of sampling to the data analysis, and presented in brief and concisely by numbering. It comprises the procedures or steps of the research, e.g., from the methods of sampling to the data analysis, and presented in brief and concisely by numbering. It comprises the procedures or steps of the research, e.g., from the methods of sampling to the data analysis, and presented in brief and concisely by numbering.

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4. DATA ANALYSIS AND DISCUSSION
Demographic Data
The online survey contained questions relating to the respondents' demographic characteristics, including their gender, age group, ethnic group, highest educational qualification, professional registration, department, position held, and work experience. The respondents were also asked to state their NGO's annual budgeted income and the number of employees. Table 2 shows the demographic information.

As shown in Table 2, the respondents are dominated by males, aged between 36-48 years old, of African ethnicity, with qualifications of honors degree education, more than five years of work experience, and in financial-related positions. The distribution of respondents is relatively balanced in terms of professional registration, work department, and the number of employees. Table 2 moves further in the analysis by revealing that 24.1% (21) of the respondents were in the finance department, 21.8% (19) in management, 20.7% (18) in the accounting department, 21.8% (19) in the auditing department, and 11.5% (10) in forensic investigation. It was crucial to gauge if the respondents had relevant work experience in accounting, finance, forensic auditing, auditing, leadership, and management. Table 2 illustrates the distribution.

Table 2. Demographic data

Response type	Questionnaire items	Respondents rate
Respondents' gender	Males	51 (58.6%)
	Females	36 (41.4%)
Respondents' Age Group	26-35	26(29.9%)
	36-48	47(54.0%)
	49-55	10(11.5%)
	56-65	3(3.4%)
	Above 65	1(1.1%)
Respondents' Ethnic Group	African	42(48.3%)
	Indian	14(16.1%)
	White	31(35.6%)
Respondents' Highest Educational Qualification	Diploma	3(3.4%)
	Degree	22(25.3%)
	Honors	39(44.8%)
	Masters	15(17.2%)
	Doctorate	8(9.2%)
Respondents' professional registration	SAICA	24(27.6%)
	SAIPA	17(19.5%)
	IRBA	11(12.6%)
	IIA SA	7(8.0%)
	ACCA	28(32.2%)
Respondents' Work Department	Forensic	10(11.5%)
	Auditing	19(21.8%)
	Finance	21(24.1%)
	Management	19(21.8%)
	Accounting	18(20.7%)
Respondent's Position	Director	5(5.7%)
	Computer Forensic Officer	1(1.1%)
	Chief Executive Officer	8(9.2%)
	Forensic Auditor	14(16.1%)
	Internal Auditor	10(11.5%)
	Projects Manager	6(6.9%)
	Chief Finance Officer	16(18.4%)
	Accountant	27(31.0%)
Respondents' Work Experience	Less than 3 Years	1(1.1%)
	Less than 5 Years	2(2.3%)
	Less than 10 Years	32(36.8%)
	Over 10 Years	25(59.8%)
NGOs' annual budgeted income	Less than ZAR 2 million	6(6.9%)
	ZAR 2 - ZAR 10 million	19(21.8%)
	ZAR 10 - ZAR 20 million	6(6.9%)
	ZAR 20 - ZAR 30 million	11(12.6%)
	ZAR 30 - ZAR 40 million	21(24.1%)
	ZAR 40 - ZAR 50 million	9(10.3%)
	More than ZAR 50 million	15(17.2%)
Number of Employees	Less than 10	13(14.9%)
	Less than 20	20(23.0%)
	Less than 30	23(26.4%)
	Less than 40	18(20.7%)
	More than 50	13(14.9%)

Descriptive analysis of the root causes of financial statement fraud among NGOs

The survey posed questions on the types of fraud frequently cited in the reviewed literature and the factors influencing fraudulent financial reports. This section examines all the variables relating to the fraud risk profile or risk levels and the relationship between fraud risk factors and fraud risk indicators (red flags). The respondents were asked to express their views about the root causes of fraudulent activities in their NGOs using a Likert scale of 1 to 5 (where 1 = lowest risk, 2 = low risk, 3 = some risk, 4 = high risk, and 5 = highest risk). These were used to capture the level of fraud risk factors. Table 3 sets the frequency

distributions, percentages, means, and standard deviations for the 21 questions. The Descriptive analysis and respondents' rate of the root causes of financial statement fraud among NGOs in the eThekwini region as presented in Table 3.

To validate whether the respondents were conscious of their organizations' fraud risk factors, the first test examined which fraud risks were ranked the highest and the lowest. The results indicate that failure to prosecute fraudsters was of the highest risk with a mean of 2.87, followed by lack of appropriate punishment of fraudsters (2.68), external financial pressure (2.51), lack of surprise audits (2.45), systematic differences in reporting requirements (2.44), corporate financial pressure (2.28), fraudsters' ability to override systems (2.26), and the absence of proper oversight by the Board of Directors (2.26). There is statistically significant agreement amongst the respondents on the root causes of financial statement fraud and other fraudulent activities among NGOs in the eThekwini region as the means of all the responses are 1.5, and the variations among responses are low, with the highest at 1.387, depicting consensus.

Table 3. The Descriptive analysis and respondents' rate of the root causes of financial statement fraud

Questionnaire Items	Responses					Desc. stat.	
	Highest risk	High risk	Some risk	Low risk	Lowest risk	Mean	Std. Dev.
Corporate financial pressure	36	19	14	8	10	2.28	1.387
	41.4%	21.8%	16.1%	9.2%	11.5%		
External financial pressure	11	42	19	9	6	2.51	1.066
	12.6%	48.3%	21.8%	10.3%	6.9%		
Poor accounting systems	34	27	22	3	1	1.97	0.946
	39.1%	31.0%	25.3%	3.4%	1.1%		
Leverage	29	42	8	8	0	1.94	0.894
	33.3%	48.3%	9.2%	9.2%	0%		
Systematic differences in reporting requirements	24	24	23	9	7	2.44	1.227
	27.6%	27.6%	26.4%	10.3	8.0%		
Lack of proper authorization and approval procedures	26	37	16	7	1	2.08	0.955
	29.9%	42.5%	18.4%	8.0%	1.1%		
Weak governance	30	30	22	5	0	2.02	0.915
	34.5%	34.5%	25.3%	5.7%	0%		
Poor and weak internal controls	41	33	11	1	1	1.71	0.820
	47.1%	37.9%	12.6%	1.1%	1.10%		
Non-existent internal controls	39	36	10	2	0	1.71	0.761
	44.8%	41.4%	11.5%	2.3%	0%		
Overriding internal controls	38	34	14	1	0	1.75	0.766
	43.7%	39.1%	16.1%	1.1%	0%		
Employees' arrogance	38	31	16	2	0	1.79	0.823
	43.7%	35.6%	18.4%	2.3%	0%		
Employees' lack of conscience	22	40	18	6	1	2.13	0.913
	25.3%	46.0%	20.7%	6.9%	1.1%		
Fraudsters' ability to override systems	24	28	23	12	0	2.26	1.017
	27.6%	32.2%	26.4%	13.8%	0%		
Poor and improper oversight	24	28	23	12	0	2.26	1.017
	27.6%	32.2%	26.4%	13.8%	0%		
A lack of or ineffective audit committee	32	43	10	2	0	1.79	0.734
	36.8%	49.4%	11.5%	2.3%	0%		
Lack of fraud awareness	28	41	14	2	2	1.95	0.888
	32.2%	47.1%	16.1%	2.3%	2.3%		
Lack of surprise audits	12	34	32	8	1	2.45	0.886
	13.8%	39.1%	36.8%	9.2%	1.1%		
Lack of forensic audits	48	24	9	4	2	1.71	0.987
	55.2%	27.6%	10.3%	4.6%	2.3%		
Low salaries	33	33	15	6	0	1.93	0.912
	37.9%	37.9%	17.2%	6.9%	0%		

Questionnaire Items	Responses					Desc. stat.	
	Highest risk	High risk	Some risk	Low risk	Lowest risk	Mean	Std. Dev.
Failure to prosecute fraudsters	10	25	26	25	1	2.87	1.032
	11.5%	28.7%	29.9%	28.7%	1.1%		
Lack of appropriate punishment of fraudsters	14	28	21	20	4	2.68	1.136
	16.1%	32.2%	24.1%	23.0%	4.6%		

Table 3 also reveals that 36 (41.4%) respondents rated organizational financial pressure as fraud risk at the highest level, followed by 19 (21.8%) at a high level, 14 (16.1%) at some level, 8 (9.2%) at a low level; and 10 (11.5%) at the lowest level of fraud risk. This data implies that corporate financial pressure is highly correlated with the occurrence of fraud among NGOs in the eThekwini region. Above all, Table 3 moves further in the analysis by revealing twenty-one major root causes of financial statement fraud within the NGOs sector in the eThekwini region, South Africa; among these, external financial pressure, poor accounting systems, leverage, systematic differences in reporting, lack of proper authorization and approval procedures, weak governance, poor and weak internal controls, non-existent internal controls, overriding internal controls. Employees' lack of conscience on the side of employees, the capability of fraudsters to override systems, poor and improper oversight, a lack of or ineffective audit committee, the absence of fraud awareness, a lack of surprise audits, the lack of forensic audits, poor salaries, failure to prosecute fraudsters, and the lack of appropriate punishment of fraudsters.

Descriptive analysis of the Prevalence of Fraudulent Activities among NGOs

To validate whether fraudulent activities were prevalent among NGOs, all fraud risks were measured on a 5-point Likert scale from lowest risk (1) to highest risk (5), with framed statements to assist the analysis. Variables placed at the higher risk levels thus signal red flags. Table 4 sets the frequency distributions, percentages, means, and standard deviations for the 35 questions.

As illustrated in Table 4, means and standard deviations for all 35 questions to measure the magnitude of agreement on the extent of prevalence of fraudulent activities among NGOs in the eThekwini region. Overall descriptive analysis reveals that the higher fraud risks for all 35 variables were significantly associated. Among these, the misuse of accounts, kickbacks, skimming and conflicts of interest; management or financial statement fraud; payroll fraud; computer fraud; stolen bank cards; the abuse of credit card; inflating or overstating the fundraising costs of projects in order to overstate the expense ratio; misappropriation of assets; ghost employees or beneficiaries; online payment fraud/theft; understatement of expenses, failing to correctly value donated assets; inventory, receivables, and liabilities, unsplit interest or gift annuity obligations; ghost or fictitious vendors; payroll fraud; fraud register; extortion of bribes or other benefits; stolen cheques; occupational fraud; skimming; mispresenting the portion of donations; kickbacks from subcontracted vendors; theft of donated assests or goods; double-dipping (seeking or accepting funds from more than one donor for the same project); misleading donors through misclassification of expenses; falsification of an NGO's financial statements; wire transfer fraud; forgery and altered cheques; overstatement of hours worked; non-disclose of transactions with significantly related parties; overestimation of expenses; financial irregularities; misleading donors through misclassification of restricted donations; inflating revenue; and risk associated with fictitious inventories.

Table 4. Respondents' rate and descriptive snalysis of the prevalence of fraudulent activities

Questionnaire Items	Responses					Desc. Stat.	
	Highest risk	High risk	Some risk	Low risk	Lowest risk	Mean	Std. Dev.
Fictitious inventories	46	22	8	7	4	3.86	1.163
	52.9%	25.3%	9.2%	8.0%	4.6%		
Online payment fraud	10	35	20	15	7	3.70	1.132
	11.5%	40.2%	23.0%	17.2%	8.0%		
Double dipping	23	37	21	3	3	3.15	.971
	26.4%	42.5%	24.1%	3.4%	3.4%		

Questionnaire Items	Responses					Desc. Stat.	
	Highest risk	High risk	Some risk	Low risk	Lowest risk	Mean	Std. Dev.
Financial irregularities	26 29.9%	46 52.9%	10 11.5%	2 2.3%	3 3.4%	3.97	.908
Extortion of bribes or other benefits	16 18.4%	32 36.8%	23 26.4%	11 12.6%	5 5.7%	3.51	1.109
Ghost employees or beneficiaries	12 13.8%	29 33.3%	21 24.1%	21 24.1%	4 4.6%	3.72	1.117
Skimming	23 26.4%	28 32.2%	24 27.6%	8 9.2%	4 4.6%	3.33	1.107
Theft of donated items or goods	22 25.3%	38 43.7%	15 17.2%	8 9.2%	4 4.6%	3.24	1.078
Falsification of financial statements	34 39.1%	27 31.0%	16 18.4%	6 6.9%	4 4.6%	3.07	1.129
Credit card abuse	10 11.5%	26 29.9%	24 27.6%	23 26.4	4 4.6%	3.83	1.091
Ghost or fictitious vendors	13 14.9%	21 24.1%	35 40.2%	13 14.9%	5 5.7%	3.72	1.075
Misreporting of expenses	38 43.7%	29 33.3%	9 10.4%	7 8.0%	4 4.6%	3.97	1.136
Payroll fraud	19 21.8%	17 19.5%	29 33.3%	17 19.5%	5 5.7%	3.68	1.186
Overstatement of hours worked	28 32.2%	40 46.0%	12 13.8%	4 4.6%	3 3.4%	3.01	.982
Misappropriation of assets	16 18.4%	19 21.8%	26 29.9%	22 25.3%	4 4.6%	3.76	1.161
Vendor or supplier fraud	24 27.6%	40 46.0%	8 9.2%	12 13.8%	3 3.4%	3.20	1.098
Kickbacks and conflicts of interest	11 12.6%	17 19.5%	21 24.1%	34 39.1%	4 4.6%	3.03	1.136
Kickbacks from subcontracted vendors	17 19.5%	41 47.1%	20 23.0%	6 6.9	3 3.4%	3.28	.973
Misrepresenting the portion of donations	19 21.8%	35 40.2%	25 28.7%	5 5.7%	3 3.4%	3.29	.987
Misleading donors through misclassifying expenses	32 36.8%	32 36.8%	13 14.9%	4 4.6%	6 6.9%	3.06	1.103
Misleading donors through misclassification of restricted donations	41 47.1%	26 29.9%	4 4.6%	11 12.6%	5 5.7%	3.91	1.117
Non-disclosure of transactions with significantly related parties	34 39.1%	31 35.6%	15 17.2%	3 3.4%	4 4.6%	3.99	1.062
Inflating revenue	39 44.8%	31 35.6%	7 8.0%	4 4.6%	6 6.9%	3.91	1.106
Stolen cheques	20 23.0%	32 36.8%	23 26.4%	7 8.0%	5 5.7%	3.37	1.101
Stolen bank cards	16 18.4%	16 18.4%	30 34.5%	12 13.8%	13 14.9%	3.89	1.289
Misuse of accounts	9 10.3%	15 17.2%	33 37.9%	21 24.1%	9 10.3%	3.21	1.163
Forged cheques	42 48.3%	20 23.0%	10 11.5%	11 12.6%	4 4.6%	3.02	1.239
Management fraud	12 13.8%	16 18.4%	33 37.9%	16 18.4%	10 11.5%	3.95	1.187

Questionnaire Items	Responses					Desc. Stat.	
	Highest risk	High risk	Some risk	Low risk	Lowest risk	Mean	Std. Dev.
Occupational fraud	20	36	17	9	5	3.34	1.119
	23.0%	41.4%	19.5%	10.3%	5.7%		
Payroll fraud	20	36	17	9	5	2.95	1.066
	23.0%	41.4%	19.5%	10.3%	5.7%		
Fraudulent register disbursement	12	30	24	17	4	2.67	1.085
	13.8%	34.5%	27.6%	19.5%	4.6%		
Understatement of expenses	14	26	19	4	21	2.68	1.146
	16.1%	33.3%	21.8%	4.6%	24.1%		
Wire transfer fraud	28	39	13	3	4	2.03	1.017
	32.2%	44.8%	14.9	3.4%	4.6%		
Computer fraud	9	15	43	13	7	2.93	1.032
	10.3%	17.2%	49.4%	14.9%	8.0%		
Inflated fundraising costs	10	32	19	20	6	2.77	1.138
	11.5%	36.8%	21.8%	23.0%	6.9%		

Discussion

The findings show that all the drivers or indicators of fraud risks measured by each risk measure are significantly associated with the fraud risk factors. It implies that all the fraud risk factors cited in this article affect the high quality of financial reports and significant factors leading to fraudulent financial reports within NGOs in the eThekwini region. Thus, to reduce the risk of fraud in their financial statements, they need to manage its root causes. The results show that most respondents agreed that failure to prosecute fraudsters is the primary cause of fraud in NGOs; a lack of appropriate punishment of fraudsters, external financial pressure, lack of surprise audits, and systematic differences in reporting requirements followed this. There is statistically significant agreement amongst the respondents on the root causes of financial statement fraud and other fraudulent activities among NGOs in the eThekwini region as the means of all the responses are 3, and the variations among responses are low, with the highest at 1.387, depicting consensus. This finding correlates with the ACFE's (2016) classification of financial statement fraud, which included all the above questionnaire items as major root causes of fraud across all sectors. However, it contradicts Akenbor & Oghoghomeh (2013) finding that greed was highly rated as a fraud risk driver within Nigeria's financial sector.

Major findings have arrived that all 21 fraud risk indicators were scored higher or highest risks. It can thus be inferred that all variables measured are highly correlated to the occurrence of fraud among NGOs in the eThekwini region. It implies that the increase in the practicality of the New Fraud Combination

Theory could lead to the prevention, detection, and decrease of fraud risks in financial statements among NGOs in the eThekwini region. It also implies that auditors and forensic auditors enhance the fraud risk assessments by using new fraud risk assessments to curb fraudulent activities and risks in the NGO sector. These findings support Anichebe et al. (2019), stating that those risk factors were key fraud risk factors in assessing the risk of financial statement fraud and other fraudulent activities.

The respondents' rating of the root cause of fraud among NGOs in the eThekwini region reveals that the absence of surprise audits was rated by 48 respondents (55.2%) at the highest fraud risk level. This result is exactly similar to those who rated fraudsters' lack of appropriate punishment as either the most significant risk or a significant risk (Misra & Walden, 2016). This suggests a possible connection between surprise audits and appropriate punishment of fraudsters. The findings also support Kassem & Higson (2012) that poor corporate governance, non-existent internal controls, arrogance, fraudsters' ability to override systems, employees' lack of conscience, and internal and external financial pressure are at the highest financial statement fraud risk levels. This result correlates with and supports the New Fraud Combined Theory (a combination of all fraud theories) proposed by the researcher, which is considered the most effective theory to assist auditors and forensic auditors in effectively identifying the main drivers of fraud risks in financial reports.

Thus, there was statistically significant agreement amongst the respondents that NGOs in eThekwini have fallen victim to financial statement

fraud and other fraudulent activities. It was proven that the means of all responses are above 3. The variations among them are low, with the highest at 1.289, depicting consensus. These results suggest that fraudulent activities are prevalent to a large extent within these NGOs. They also imply that the above-cited fraud risk indicators and red flags are prevalent at the highest fraud risk level. The implication is that the non-applicability of the New Fraud Triangle Theory has significantly triggered fraud risks within the NGO sector. This implies that the increase in the practicality of the New Fraud Combination Theory could lead to the prevention, detection, and decrease of fraud risks in financial statements among NGOs in the eThekwini region. It also implies that auditors and forensic auditors enhance the fraud risk assessments by using new fraud risk assessments to curb fraudulent activities and risks in the NGO sector. This finding is in line with Peter et al. (2014), Buckhoff & Parham (2009), Chorvatovičová & Saxunová (2016), and Aranda (2020) concluded that most of the above questionnaire items were major causes of financial statement fraud and other fraudulent activities in the NGO sector (at either the highest or high fraud risk levels).

Table 4 also shows that 46 (52.9%) respondents rated inventories at the highest level of fraud risk, followed by 22 (25.3%) at a high level; 8 (9.2%) at some level; 7 (8%) at a low level; and 4 (4.6%) at the lowest level of fraud risk. This implies that fictitious inventories are prevalent at the highest fraud risk level among NGOs in the eThekwini region. Table 4 moves further in the analysis by revealing that the other 34 variables were identified as major and highest fraud risks within NGOs sector in the eThekwini region, South Africa, among these, online payment fraud, double dipping, financial irregularities, extortion of bribes, the ghost employees or beneficiaries, skimming, theft of donated items, falsification of financial statements, credit card abuse, fake vendors, misreporting expenses, payroll fraud, overstatement of hours, misappropriation of assets, supplier fraud, kickbacks and conflicts of interest, kickbacks from subcontracted vendors, misrepresenting the portion of donations, misleading donors, misleading donors through misclassification of restricted donations, non-disclosure of transactions, overstatement of revenue, stolen cheques, stolen bank cards, misuse of accounts, forged cheques, financial statement fraud, occupational fraud, fraudulent register disbursement, understatement of expenses, wire transfer fraud, computer fraud and finally, the table shows that overstatement of fundraising costs, leading to the conclusion that all the above 35 fraud risks measured were of highest risks and prevalent to a very large extent among NGOs in e in the eThekwini region.

This study explained New Fraud Combination Theory and its significance in helping forensic and external auditors in fraud risk assessments. The study also sought to assess the new fraud combination theory that forensic and external auditors should consider when assessing fraud risks. The findings of this study have a huge potential implication to result in a better alignment between new fraud combination theory in the fraud risk assessments to address the structural deficiencies in the audit profession and the fraud risk management and fraud risk assessments crisis in NGOs. These findings support those of previous studies that concluded that the above items were common forms of fraud in NGOs and other contexts (Zack, 2012; Amin & Harris, 2017; Holtfreter, 2008; Johnson, 2015; Aranda, 2020; Kummer et al., 2015; Chorvatovičová & Saxunová, 2016; Buckhoff & Parham, 2009). They also support the ACFE's 2016 study that concluded that a high level of management was involved in 62,5% of the fraud cases reported by the sector.

The findings of this research corroborate with the extant literature, which produces empirical evidence of weaknesses in internal controls and internal audits (See, for example, Glodstein, 2015; Maulidi & Ansell, 2022; Nawawi & Salin, 2018; Yuniarti & Ariandi, 2017). Glodstein (2015) found that internal controls and internal audits cannot prevent or detect financial fraud and other fraudulent activities in a poorly governed entity, as fraud is strongly connected to top managers. These results also support previous studies by Davidson (2022), Ergin & Erturan (2019), and Yu & Rha (2021) showing that employees who commit fraud against their employers are mainly members of high-level managers who are employed in finance and operations, or as executives and that the occurrence of such fraud is increasing since high-level management has the ability and capability to commit fraud. The New Fraud Combination Theory was introduced, incorporating all the elements of other fraud theories. It is hoped that it will enable forensic auditors to consider all the factors contributing to the occurrence of fraud to assess fraud risks, identify red flags for fraud, and detect fraud. It is consistent with Nusantara et al. (2020), proving that a forensic auditor should think like a fraudster to combat fraud.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

This research investigated the factors affecting Non-Government Organizations (NGOs) Financial Statement Fraud (FSF) in South Africa through the New Fraud Combined Theory. This theory includes opportunity; pressure; the fraudster's capability and competencies; individual integrity and absence of conscience; rationalization or risk versus rewards; and corporate governance. Analyzed results showed that fraud opportunity; pressure, the fraudster's capability and competencies; individual integrity and lack of conscience; rationalization or risk versus rewards; and weak corporate governance affect the tendency of fraudulent financial report behavior in NGOs in the eThekwini region. This study found that the weakest corporate governance, the higher tendency of fraudulent financial reports occurred in NGOs in the eThekwini region.

Drivers of fraud risks, indicators, red flags, and prevalent fraudulent practices were analyzed to gauge whether NGOs were significantly or insignificantly affected by fraud risks. The respondents identified failure to prosecute perpetrators of fraud as the primary root cause of fraud among NGOs, followed by an absence of appropriate punishment, the absence of surprise, a lack of forensic audits, fraudster's abilities and capabilities, weak governance, an employee with no conscience, and weak governance. They are the most prevalent motivation in NGOs in the eThekwini region to commit financial statement fraud. Fraud influencing variables such as fraud opportunity, internal and external financial pressure, personal integrity, and lack of conscience are also significant in explaining fraud motivation with the tendency of financial statement fraud practices.

This study sought to fill a gap in the literature by empirically investigating factors affecting NGOs' financial statement Fraud in South Africa. As seen above, its aims and objectives were achieved. The study's findings of significant association between auditing and financial statement fraud mitigation accentuate the New Fraud Combined theory, which belies that effective corporate governance will significantly curb financial statement fraud among NGOs in the eThekwini region. The study's findings highlighted the need for funders and donors to encourage the NGOs they support to embrace the new fraud combination theory to create a fraud-free environment and secure donor support. The practical application of the proposed new fraud combination theory is expected to empower NGOs and their stakeholders to manage and assess the risks of financial statement fraud. Based on the study's results, it is suggested that NGOs in the eThekwini region revisit their current FRAs practices and compare them with the study's recommendations. Should any gaps be found in their current FRAs practices, their boards should consider implementing the recommendations. It is hoped that the practical application of this knowledge will have a positive effect on the NGO community. Professional bodies, academia, and regulators that set auditing standards should integrate and expand ISA 240 to include the New Fraud Combination theory that should be considered in the accounting and auditing disciplines. The finding implies that the auditing community also needs to consider the range of fraud risk factors, indicators, and red flags identified in this study to understand better why fraud occurs. This would enable auditors to effectively and proactively prevent, investigate, and respond to the risk of fraud in the NGO sector.

The limitation of this study is the paucity of studies in the areas investigated. It means that only a limited comparison of its results could be made with those of prior research. Future research is recommended to involve case studies in different districts and provinces in South Africa to compare the findings. This will produce results that are capable of greater generalization. Similar analyses can also be conducted in other countries. To the best of the researcher's knowledge, this study was the first to explore the factors affecting NGOs' financial statement fraud in South Africa through the New Fraud Combined Theory. Future studies can replicate this research in other contexts to determine whether contextual factors differ in how the New Fraud Combined Theory assesses and responds to fraud risks. Further research is also suggested to use other theories or methods to detect financial statement fraud, as was done by many researchers, to get a better picture of the relationship between fraud motivation and financial statement fraud practices in NGOs during the outbreak of the COVID-19 crisis and beyond.

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