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FORENSIC AUDITING OF RELATED PARTY TRANSACTIONS: A STRATEGY FOR AVERTING FRAUD IN ZIMBABWEAN LISTED BANKS

Keywords: related party transactions, forensic auditing, fraud, Zimbabwean banks, financial reporting, corporate governance.

J E L Classification: M41, M42, G21.

Abstract: This paper investigates the role of forensic auditing as a strategy for averting fraud stemming from related party transactions (RPTs) within Zimbabwean banks. The research was motivated by the persistent bank failures experienced in Zimbabwe, frequently linked to non-performing insider loans and related transaction abuses. The study's objectives are to examine the nature and extent of RPT-related fraud within these institutions, and to assess the potential benefits of engaging forensic auditors to improve compliance with lending limits, enhance financial reporting integrity, and promote overall financial stability. A mixed-methods approach, guided by an interpretivist research philosophy, was employed to gather data from a diverse range of stakeholders. Self-administered questionnaires and semi-structured interviews were used to collect data. The qualitative data obtained from the interviews and documentary analysis was subjected to thematic analysis to identify key patterns and insights. The findings reveal a widespread perception of significant fraud risks associated with RPTs in Zimbabwean banks, often facilitated by manipulation of financial reporting and abuse of management positions. Participants recognized forensic auditing as a valuable tool for detecting and preventing RPT-related fraud, complementing the work of statutory auditors and strengthening overall internal control systems. The study underscores the need

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for enhanced ethical practices within bank management, stronger corporate governance frameworks, and increased regulatory oversight by the Reserve Bank of Zimbabwe (RBZ). Key recommendations include promoting periodic engagement of forensic auditors, empowering the RBZ to effectively monitor banks, and criminalizing fraudulent activities by bank managers to foster a more robust and resilient banking sector in Zimbabwe.

■■■ INTRODUCTION

Financial institutions globally depend on fiduciary relationships grounded in trust and transparency, which are vital for depositor protection and financial system stability (Cardoso & Cardoso, 2024). Banks and microfinance institutions (MFIs) play central roles in promoting economic development through savings mobilization and credit provision. However, these institutions face growing threats from financial crimes such as fraud, money laundering, and insider abuse, exacerbated by technological advancement and complex financial products (PwC, 2024). In this environment, forensic auditing, an integration of accounting, auditing, and investigative techniques, has emerged as a crucial tool for detecting and preventing misconduct, ensuring compliance, and maintaining stakeholder confidence (Albrecht, Albrecht, Albrecht & Zimbelman, 2018; ACFE, 2022).

In Sub-Saharan Africa, and specifically Zimbabwe, the banking and microfinance sectors have been undermined by weak regulatory enforcement and governance failures, leading to high non-performing loans and institutional collapses (Kapesa, 2014; Ilelaboye & Alade, 2024). Since the 2009 adoption of the multi-currency regime, Zimbabwe has witnessed the collapse of multiple banks, including Interfin, Trust Bank, ReNaissance Merchant Bank, and AfrAsia, due to undercapitalization, fraud, and depositor fund misappropriation (Njanike, Dube & Mashayanye, 2009; Kapesa, 2014). Between 2013 and 2018, six banks lost their licenses, affecting 55,000 depositors and freezing approximately US\$186 million in funds (Reserve Bank of Zimbabwe, 2023).

Statutory audits alone remain inadequate in exposing complex fraud and governance weaknesses. This has led to calls for embedding forensic auditing into internal control systems to enhance fraud detection and restore depositor trust and protection of their rights (Chitimira, Torerai & Tsaura, 2024).

Recent economic volatility has further highlighted sectoral vulnerabilities. In early 2025, CBZ Holdings retrenched 347 employees amidst cost-cutting efforts (Maurukira, 2025), while a Reserve Bank of Zimbabwe (RBZ)

probe revealed banks were withholding ZWL 1.5 billion (equivalent to about USD 4.6 million) in liquidity from interbank markets, reflecting poor risk management and interbank mistrust (The Sunday Mail, 2025). These issues underscore the ongoing risks of inadequate governance, capital fragility, and systemic instability.

Given this context, integrating forensic auditing into governance frameworks is essential for enhancing internal controls, combating financial crime, and supporting long-term stability in Zimbabwe's financial sector. The objectives of the study are:

- a) to examine the nature of related party fraud in Zimbabwean financial institutions;
- b) to establish the extent of related party transaction fraud in Zimbabwean financial institutions; and
- c) to establish the extent of the potential benefits of appointing forensic auditors in auditing banks' related party transactions.

LITERATURE REVIEW

This section reviews existing literature on related party transactions and fraud in financial institutions. It is structured into three parts: the theoretical framework, relevant empirical studies aligned with the study's objectives, and the conceptual framework linking key variables. The literature is anchored in economic, governance, and institutional theories, emphasizing the role of forensic auditing in managing risks linked to related party dealings. Additionally, global and regional studies are examined to contextualize Zimbabwe's situation and identify gaps this study fills.

The key theories underpinning the study, which collectively explain the occurrence of fraud, especially in relation to related party transactions (RPTs), and the role of forensic auditing in mitigating such risks. The primary lens is Agency Theory, supported by Signalling, Insurance, Institutional, Stakeholder, and Auditor Independence theories. These theories inform the study's conceptual framework and guide the research methodology.

- a) Agency theory explains conflicts of interest between principals (shareholders) and agents (managers), especially under conditions of information asymmetry (Jensen & Meckling, 1976). RPTs often enable agents to exploit their positions for personal gain, increasing fraud risks. Forensic

audits help curb such behavior by improving accountability and transparency (Nduka, Manasseh & Chin, 2025).

- b) Auditor Independence, Insurance, and Signalling theories highlight the audit's role in building trust and deterring fraud. Independent auditors enhance the credibility of financial reports (Carcello, Hermanson & Ye, 2011), while insurance theory frames audits as a risk-reducing mechanism for financial misreporting (Kunreuther, 1996). Signalling theory posits that audits demonstrate a firm's commitment to ethical and regulatory compliance (Spence, 1973). Forensic auditing strengthens these functions by employing investigative tools to detect complex fraud.
- c) Institutional theory emphasizes the influence of regulatory environments and cultural norms on disclosure practices, especially regarding compliance with IAS24 for RPTs (DiMaggio & Powell, 1983; Murinda & Chiwariro, 2023; Potharla, 2025).
- d) Stakeholder theory stresses the importance of addressing the expectations of various stakeholders, such as regulators, customers, and investors, by promoting transparency and ethical practices (Freeman, 1984). Pressures from ESG standards also help reduce fraudulent behavior in RPTs (Gavana, Gottardo & Moisello, 2022).

Together, these theories provide a robust framework for understanding the role of forensic audits in improving governance and reducing financial misconduct.

Empirical literature corresponding to the study's three objectives presented in the introduction. The review draws on both global and regional studies, especially from Sub-Saharan Africa, and considers IAS 24 compliance, governance weaknesses, and the role of forensic auditing.

Related party fraud is often concealed through manipulative practices like hidden conflicts of interest or asset transfers (Mawutor, 2021). Globally, RPTs are used for earnings management and fraud (Tarighi, Hosseiny, Abbaszadeh, Zimon & Haghighat, 2022). In Zimbabwe, low IAS 24 compliance and weak governance enable self-dealing through RPTs (Agyei-Mensah, 2019). The country's volatile economy and regulatory gaps heighten vulnerability, though empirical research remains limited (Murinda & Chiwariro, 2023).

Quantifying RPT fraud is difficult due to its hidden nature. However, studies show a positive link between the volume/complexity of RPTs and fraud risk (El-Helaly, 2018). For example, in Ghana, less than 40% of banks fully comply with IAS 24, leading to manipulation (Mawutor, 2021). Research from Bangladesh,

Iran, and Italy confirms that poor governance increases RPT misuse (Tarighi et al., 2022). In Zimbabwe, evidence from past scandals suggests high RPT fraud, though systematic data remains lacking (Murinda & Chiwariro, 2023).

Forensic audits enhance fraud detection through investigative techniques not used in conventional audits (Ozili, 2025). Tools such as forensic data analytics and AI improve fraud identification and audit quality (Jofre & Gerlach, 2018; Zemánková, 2019). Forensic audits are especially effective for RPT-related fraud due to their specialized focus (Nduka et al., 2025). However, adoption in Zimbabwe remains limited, hindered by skill shortages and resource constraints (Murinda & Chiwariro, 2023).

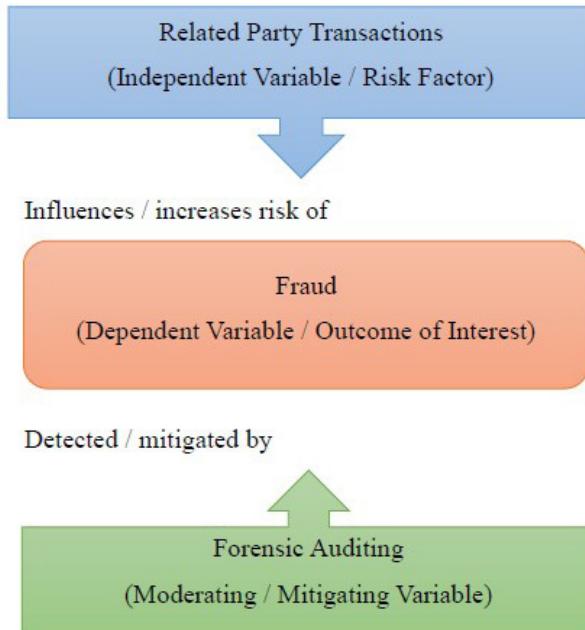
CONCEPTUAL FRAMEWORK

The conceptual framework of this study is grounded in agency theory, which explains the relationship between principals (shareholders) and agents (managers) in corporate governance. Auditing is essential in bridging the information gap and resolving conflicts of interest inherent in this relationship (Institute of Chartered Accountants in England & Wales, 2005). Principals rely on agents to make decisions on their behalf, but due to misaligned interests and incomplete information, audits are necessary to ensure accountability (Jensen & Meckling, 1976).

However, agency theory alone is insufficient, as auditors themselves act as agents, raising further concerns around independence, objectivity, and the potential for conflicts of interest. This calls for robust regulatory frameworks to align the interests of shareholders, managers, and auditors (Bushman & Landsman, 2010).

In Zimbabwe's financial sector, these agency issues are particularly evident in related party lending, where managers issue loans to themselves or affiliates and fail to repay, harming both shareholders and depositors. Despite regulatory requirements from institutions like the RBZ, weak enforcement and managerial opportunism have allowed such practices to persist, eroding trust and financial stability.

This context underscores the urgent need for enhanced audit mechanisms, particularly forensic auditing, to detect and prevent fraud. The growing emphasis on accountability and strengthened governance frameworks in emerging markets further supports the integration of forensic audits into financial oversight (Ahmed, Al Dah, El-Helaly & Fleszar, 2023).

Figure 1. Conceptual Framework Visualization

Source: author's own elaboration.

This study identifies three key variables influencing fraud in Zimbabwe's financial institutions, as illustrated in figure 1. Related party transactions (RPTs) serve as the independent variable and refer to financial dealings between banks and closely affiliated parties, such as directors or shareholders. While some RPTs may be legitimate, they often pose significant fraud risks due to potential conflicts of interest and lack of oversight.

Fraud is the dependent variable, characterized by intentional misrepresentation or concealment that causes financial or reputational harm. In the Zimbabwean banking context, RPT-related fraud commonly appears in the form of insider loans, preferential lending, and undisclosed exposures, often resulting in non-performing loans.

Forensic auditing is conceptualized as a moderating variable that helps mitigate the risk of RPT-related fraud. By applying investigative techniques beyond standard audits, it enhances transparency and strengthens fraud detection.

The relationship among these variables is further shaped by contextual factors such as the regulatory environment, corporate governance mechanisms, and stakeholder expectations. Regulatory frameworks like IAS24 and RBZ guidelines enforce disclosure standards, while strong governance structures and public demand for accountability increases pressure on institutions to manage RPT risks effectively.

As visualized in figure 1, the conceptual framework proposes that forensic auditing moderates the impact of RPTs on fraud. The study is grounded in Zimbabwe's real-world experiences, where unchecked RPTs have contributed to institutional collapse, prompting heightened regulatory scrutiny.

RESEARCH METHODOLOGY AND THE RESEARCH PROCESSES

This study adopted a mixed-methods approach, integrating both qualitative and quantitative techniques to explore the role of forensic auditing in addressing fraud related to related party transactions in Zimbabwean listed banks. The research design was descriptive, enabling a comprehensive examination of current practices and stakeholder perspectives (Saunders, Lewis & Thornhill, 2019). Although the quantitative strand helped identify patterns and contextual factors, the study primarily leaned on qualitative methods to explore hypotheses and interpret themes in depth.

The study was guided by an interpretivist research philosophy, which emphasizes the socially constructed nature of reality (Saunders et al., 2019). This philosophical stance was appropriate for understanding the subjective experiences, perceptions, and insights of individuals involved in forensic auditing. By focusing on the lived realities of professionals within banking and auditing sectors, the research aimed to reveal the nuances of how forensic auditing is applied and perceived as a tool to mitigate fraud arising from related party transactions.

Data were collected from a range of stakeholders, including two Zimbabwe Stock Exchange (ZSE)-listed banks, professional auditors, accountants, and officials from the Reserve Bank of Zimbabwe (RBZ). Zimbabwe has a total of 13 commercial banks, 3 building societies, and 1 savings bank; from these only 4 are listed on the Zimbabwe Stock Exchange. A mixed methods approach was used in data collection. Quantitative data were obtained through self-administered questionnaires distributed to bank staff in accounting and auditing roles,

while qualitative data were gathered through semi-structured interviews conducted with senior officials from the selected banks and the RBZ. These interviews provided in-depth perspectives on regulatory oversight and the practical implementation of forensic audits.

The target population consisted of four ZSE-listed banks, seventeen Harare-based auditing and consultancy firms, and the Bank Supervision and Surveillance Division of the RBZ, which plays a critical regulatory role. Guided by Best and Kahn’s (2006) recommendation of a 10% sample for qualitative research, the study purposively selected two of the four banks and targeted 10% of relevant staff within each institution. Respondents from auditing firms and the RBZ were selected using purposive and convenience sampling, based on their roles’ relevance and availability. This sampling strategy ensured that data were drawn from those most knowledgeable and directly involved in forensic auditing and regulatory practices. The final sample composition is presented in table 1.

Table 1. Sampling Frame and Sample Size

| Population Category | Target Population | Sample Size |
|---|-------------------|-------------|
| ZSE-listed Bank Qualifying Employees (Harare) | 80 | 24 |
| Auditing and Accounting Firms’ Employees | 50 | 14 |
| Central Bank Supervision Division Employees | 20 | 6 |
| Total | 150 | 44 |

Source: author’s own elaboration.

Data analysis primarily focused on qualitative thematic analysis, complemented by basic quantitative descriptive statistics. Questionnaire data were summarized using frequencies and percentages to profile respondents and capture general views. The core analysis applied Braun and Clarke’s (2021) six-phase thematic framework, involving familiarization with interview transcripts, coding of recurring ideas, and development of themes related to fraud, related party transactions, and forensic auditing. Themes were refined and supported with verbatim quotes to accurately reflect participants’ perspectives.

To ensure credibility, the study employed key qualitative trustworthiness measures. Data triangulation was achieved by comparing questionnaire

responses, interview data, and relevant regulatory documents. Member checking was used to validate interpretations by sharing preliminary findings with participants. Researcher reflexivity was observed throughout to minimize bias, and detailed documentation of the research process supported transparency and dependability.

Ethical standards were observed throughout the study. Informed consent was obtained from all participants, confidentiality was assured, and participants were informed of their right to withdraw at any stage. All data were anonymized and securely stored in line with data protection standards. Ethical clearance was granted firstly by the Midlands State University, as well as the University of South Africa's College of Accounting Sciences and the study adhered to international ethical guidelines for research involving human participants, including those outlined by the British Psychological Society (2021).

OUTCOME OF THE RESEARCH PROCESS

This section presents and discusses the findings of the study, addressing the research objectives related to the nature and extent of related party fraud in Zimbabwean financial institutions, and the potential benefits of forensic auditing in mitigating these risks. Data was collected from participants across the banking sector, auditing firms, and the RBZ. Table 2 provides an overview of the response rates achieved.

Table 2. Overall Response Rate

| Instrument | Targeted | Responded | Percentage Response Rate |
|----------------|----------|-----------|--------------------------|
| Questionnaires | 40 | 36 | 90% |
| Interviews | 4 | 3 | 75% |
| Total | 44 | 39 | 88.6% |

Source: author's own elaboration.

The high response rate across both questionnaires and interviews (88.6% overall) suggests a strong engagement from participants, enhancing the reliability and representativeness of the findings.

The demographic information collected in the study pertained to participants’ gender and department worked in, which is presented in table 3 below.

Table 3. Demographics Profile of Participants

| Gender | |
|--|------------|
| | Percentage |
| Male | 64 |
| Female | 36 |
| Total | 100 |
| Department Worked in | |
| Finance | 12 |
| Auditing | 45 |
| Risk Management | 20 |
| Bank Surveillance and Supervision Division | 6 |
| Credit | 7 |
| Loans and Advances | 10 |
| Total | 100 |

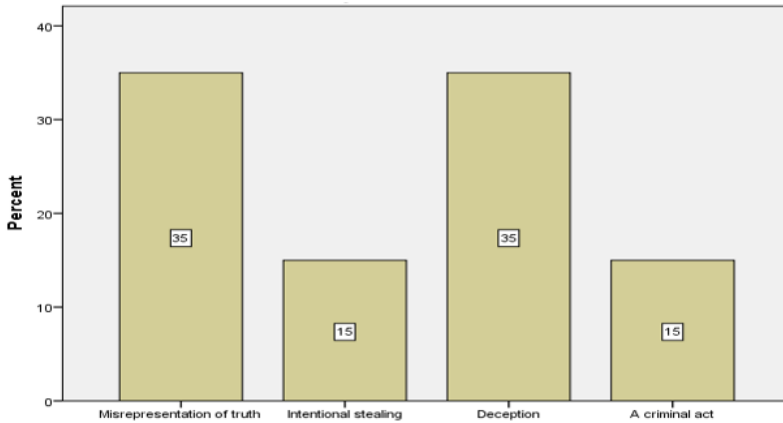
Source : author’s own elaboration.

Table 3 shows that most respondents (45%) came from Auditing and Internal Auditing departments, followed by Risk Management (20%), with the rest from Finance, Bank Surveillance, Loans and Advances, and Credit departments. Most participants were male (64%). This departmental and gender distribution supports a diverse and balanced representation of perspectives within Zimbabwe’s banking sector.

Nature and Extent of Related Party Fraud

The study explored related party fraud in Zimbabwean financial institutions, where respondents overwhelmingly identified it as a significant concern. To establish a baseline, participants were asked how they define fraud.

Figure 2. Respondents’ Understanding of Fraud

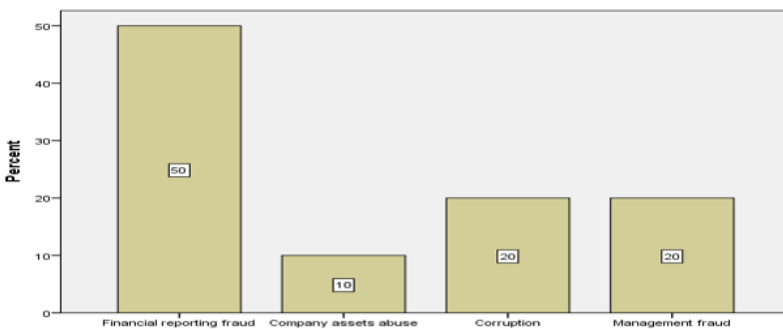


Source: author’s own elaboration.

As shown in figure 2, 35% of respondents described fraud as “misrepresentation of truth” and another 35% as “deception”, with the remainder citing “intentional stealing” or a “criminal act”. These responses reflect commonly accepted definitions of fraud involving misstatement or misconduct (ACFE, 2022), highlighting that, regardless of terminology, all forms are considered serious white-collar crimes.

With this understanding, participants were asked to identify the most prevalent types of fraud in their institutions.

Figure 3. Most Prevalent Fraud

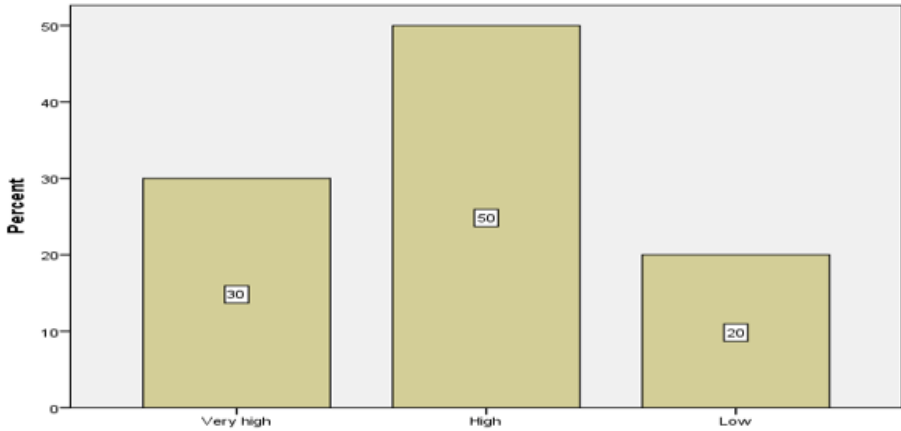


Source: author’s own elaboration.

Figure 3 reveals that financial reporting fraud (50%) is most common, followed by corruption and management fraud (20% each), and abuse of company assets (10%). These findings suggest that fraud in Zimbabwean banks often involves financial statement manipulation and managerial abuse, potentially concealing related party transactions (KPMG, 2022). Compared to Njanike et al. (2009), who identified a wider range of frauds including cheque and identity fraud, this study’s narrower findings may be attributed to the use of closed-ended questions.

To understand the scale of the issue, the study next examined respondents’ perceptions of overall fraud levels in Zimbabwean financial institutions.

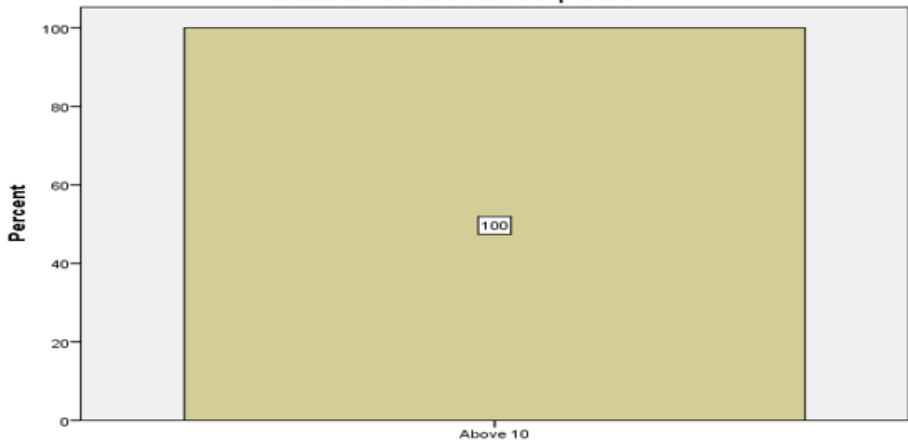
Figure 4. Level of Fraud



Source: author’s own elaboration.

As figure 4 shows, 80% of respondents rated fraud as either “high” or “very high”, confirming that fraud remains a systemic problem. To support this perception, institutions were asked to report actual fraud cases in the past two years.

Figure 5. Average Number of Reported Fraud Cases

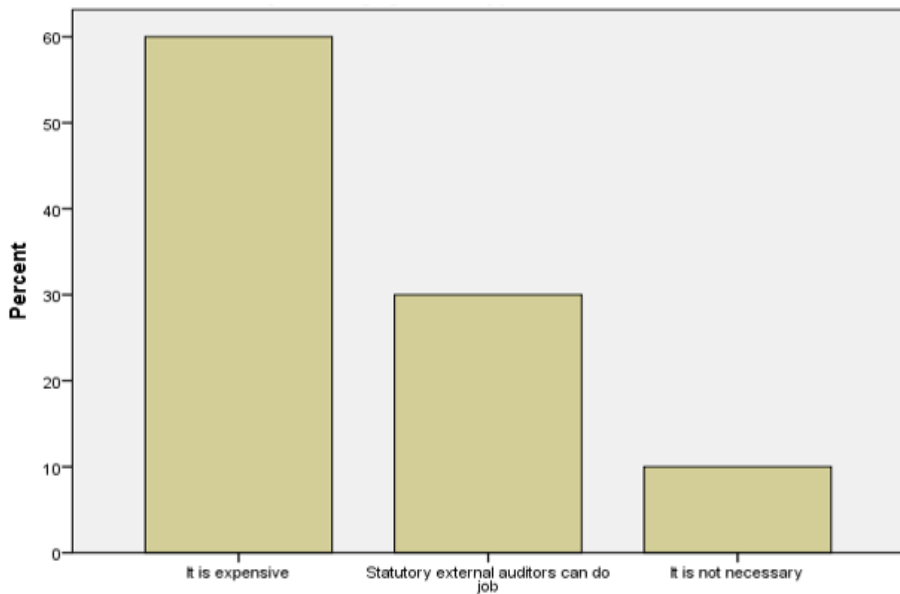


Source: author's own elaboration.

Figure 5 demonstrates that all institutions reported more than 10 fraud cases within the period, underlining the persistent nature of the challenge. While respondents earlier emphasized financial reporting fraud at the management level, actual reports suggest a higher volume of employee-related fraud, indicating potential underreporting or concealment of senior-level fraud.

Role and Perceived Benefits of Forensic Auditing

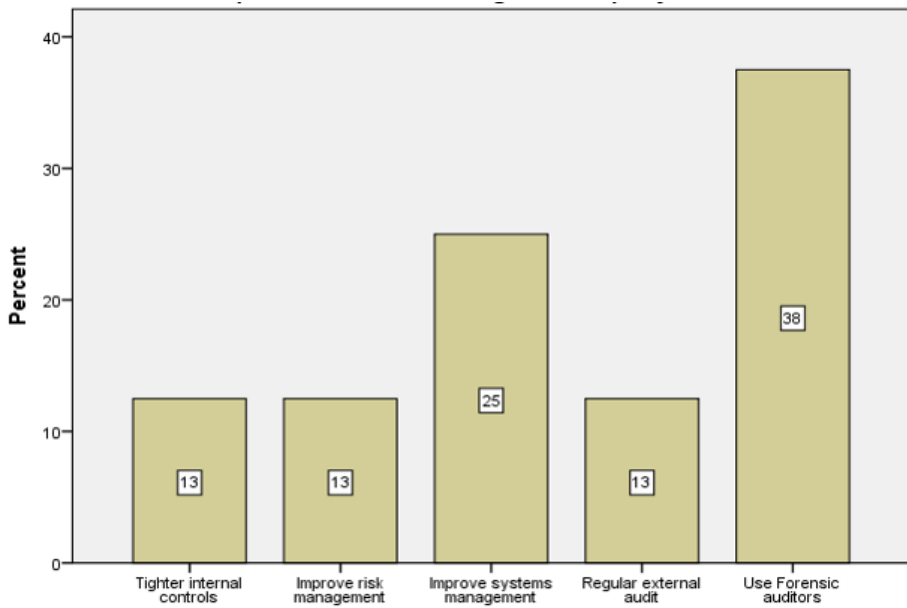
To assess institutional responses to fraud, the study examined reasons why banks do not commonly engage both statutory and forensic auditors.

Figure 6. Reasons for not engaging Statutory and Forensic Auditors

Source: author's own elaboration.

As presented in figure 6, 60% cited cost as the main barrier, while 30% believed statutory auditors were sufficient. Only 10% saw no need for dual engagement. Given the earlier findings on management-level fraud, the limitations of relying solely on statutory audits become evident.

The study then explored strategies institutions employ to mitigate RPT-related fraud.

Figure 7. Ways to mitigate RPT Fraud

Source: author's own elaboration.

Figure 7 shows that the most preferred strategy was conducting yearly forensic audits (38%), followed by improved systems management (25%). Frequent audits, risk management enhancements, and tighter internal controls were each selected by 13% of respondents. While this contrasts with the COSO Model's emphasis on internal controls, it aligns with Njanike et al. (2009), who also identified forensic auditing as effective in fraud detection.

Participants thus view forensic auditing as a critical tool that enhances fraud detection, strengthens internal controls, and complements statutory audits. These findings reinforce the need for regular, specialized audits to uncover hidden conflicts of interest and unreported related party dealings.

Summary of Findings

The findings underscore that financial reporting fraud – driven by management abuse – is prevalent in Zimbabwean banks, with rationalization rather than pressure being the dominant motivator. This highlights the importance of cultivating ethical cultures and promoting integrity, consistent with stakeholder theory (Freeman, 1984; Singleton & Singleton, 2006).

Furthermore, the limitations of statutory audits in detecting complex fraud reinforce the value of forensic auditing (Ozili, 2025; Nduka et al., 2025). These insights support global regulatory guidance, such as from the Basel Committee on Banking Supervision (2019), which calls for enhanced governance and risk management in the financial sector.

Integrating forensic auditing into standard oversight mechanisms could improve fraud detection, restore public confidence, and strengthen Zimbabwe's banking system (Chitimira et al., 2024).

■■■ CONCLUSIONS AND RECOMMENDATIONS

The study concludes that related party transactions (RPTs) pose significant fraud risks in Zimbabwean banks, primarily through manipulation of financial reporting and managerial abuse. Forensic auditing emerges as a valuable tool in detecting and preventing such fraud by complementing statutory audits and strengthening internal controls. However, its limited adoption appears to stem from concerns over cost and the misconception that statutory audits alone are sufficient. Additionally, ethical lapses and weak organizational cultures contribute to fraud, with rationalization identified as a key driver.

To address these challenges and improve the role of forensic auditing in curbing RPT-related fraud, the following recommendations are proposed:

- a) Promote periodic forensic audits: Institutional investors should commission forensic audits at least biennially to review related party transactions and enhance oversight of insider lending.
- b) Strengthen ethical practices: Bank leadership must prioritize ethical standards and ensure due diligence in approving RPTs to protect all stakeholders.
- c) Improve governance and regulatory oversight: The Reserve Bank of Zimbabwe (RBZ) should be further empowered to monitor compliance,

while banks must promote a culture of integrity to reduce fraud rationalization.

- d) Criminalize managerial fraud: Clear legal provisions and enforcement mechanisms should be established to prosecute bank managers involved in fraudulent activities.
- e) Enhance risk management and internal controls: Banks should fortify their internal frameworks to minimize fraud opportunities.
- f) Invest in systems management: Adoption of advanced analytics and monitoring tools is necessary to detect irregularities and proactively prevent fraud.

These recommendations aim to strengthen forensic audit practices, improve transparency, and reduce fraud risks associated with related party transactions in the banking sector.

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