

Prevalence of fraud in private sector of Somalia: Case Mogadishu business firms



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ABSTRACT

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Fraud constitutes a significant challenge within the small business sector, often stemming from personal, group, or organizational incentives. Recent economic instability has likely exacerbated the occurrence of fraud among businesses. This study investigates the prevalence of fraud within the private sector of Mogadishu, Somalia, with the aim of identifying key risk factors and exploring potential mitigation strategies. The primary data was collected from 93 respondents using a questionnaire and analyzed using SPSS software. The majority of respondents, 75% men, aged 31-40, and educated, agreed that fraud is unethical and can damage an organization's reputation, with 67.8% expressing it as a major concern, while 93.3% agreeing it's unethical. Additionally, 88.8% believed fraud severely harms an organization's reputation. Further, factors contributing to fraud include personal and institutional pressures, improper management, unsuitable documentation, unclear responsibilities, and abuse of power. Fraud significantly impacts SMEs, affecting profitability, growth, and business credibility, emphasizing the need for improved accountability. The study recommends robust anti-fraud legislation, clear penalties, whistleblower protection, improved governance, and a regulatory body. It also emphasizes public awareness campaigns, internal controls, and improved management practices. Technology can help identify suspicious patterns and secure communication channels to protect sensitive information while fostering a culture of integrity and ethical behavior.

Contribution/ Originality: This study sheds light on fraud risk among growing small and medium enterprises (SMEs) in post-conflict Somalia, highlighting its impact on SME development. Furthermore, the paper advocates for the development of robust anti-fraud legislation, clear penalties for fraudulent activities, and emphasizes the importance of enhancing managerial capabilities.

1. INTRODUCTION

Fraud is a critical issue that can significantly harm small and medium enterprises and other business activities (Kulmie & Ibrahim, 2024). Akinyomi (2012). Fraud impacts every business and household negatively and its results in huge financial losses to organizations. In particular, it can lead to business loss of confidence, insolvency and failure of the creditor's business (Onodi, Okoye, & Egbunike, 2017). Fraud impacts every business and household negatively. Fraud is a conduct of deception intended for personal gain or loss to another party and can be a plain issue for small businesses delay, causing financial losses, damage to reputations of firm, and even causing closures of firm (Gbegi & Adebisi, 2015). Similarly, fraud is a criminal wrong that has slowed global economic growth, caused property loss, and damaged reputations since the Industrial Revolution. It challenges small businesses and corporate activities, causing reputational damage, employee deception, and legal rights infringement (Awale, Abdullahi, & Kulmie, 2025; Awale & Kulmie, 2024; Kulmie, 2025; Scholar, 2021). Additionally, fraudulent has negative impacts on the

development of the small business sector (Shah, Hashmi, Adil, & Khan, 2022). Fraud is a universal term otherwise attributed to all of the multiple ways that human ingenuity can create, wherein one person finds a way to gain an advantage over another through misrepresentation. Generally, fraud is a worldwide phenomenon through which the private and public sectors damage their activity (Abdul Latif, Hasnan, Mohamed Hussain, & Mohd Ali, 2021). Fraud is a deliberate and dishonest act that causes financial and property loss for a company most companies have experience fraud and its damage, resulting in massive amounts of money lost annually (Tunku & Rahman, 2015). These problem affects employees, stakeholders, and business performance decline these cases lead to insolvency, bankruptcy, making companies' performance decrease reputation in the market (Tunku & Rahman, 2015).

Generally, fraud is a serious crime and largest problem that involving financial transactions in both the private and public sectors, causing significant damage reputation to businesses of all sizes (Abdul Latif et al., 2021). furthermore, fraud in the business sector is hindering or impeding the efficient delivery of both private and public services in the country (Olaniyi, Saad, Abiola, & Adebayo, 2013). Fraud, a white-collar crime committed by higher-ranking members in the small business sector, often occurs within financial institutions where individuals or parties engage threat of frauds increased in small business activity (Rashid, Al-Mamun, Roudaki, & Yasser, 2022). Meanwhile internal fraud in small businesses and financial institutions is increasing operational costs, causing employee distrust, and negatively impacting the business's reputation and customer attraction (Rashid et al., 2022). Fraud refers to financial crimes that involve in business activity and made dishonesty for personal gain or loss in financial institutions (Gbegi & Adebisi, 2015). Furthermore, fraudulent made efforts and campaigns to gain an advantage over others in both private and public sectors, this approach creates morale problems in the work place. And damage campana's reputation in the market, the issue is causing declining firm's morale issues and negatively impacting firm's market reputation, private businesses appearance weak fraud due to internal control management and constant business activity flow, requiring adequate application of fraud prevention methods (Gbegi & Adebisi, 2015).

On the other hand, occupational fraud is an internal fraud committed by employees in the private business sector, resulting in financial loss, damage to the company's goodwill, relationships with customers and vendors, and even business failure (Ur Rahman, 2021). Additionally, employee fraud is an internal scam in which an employee lies for financial reporting or personal gain in small businesses, disrupting operations, costing business owners time and resources, and potentially affecting the company's reputation and market position, there by affecting its sustainability (Shanmugam, Haat, & Ali, 2012). Fraud behavior a significant challenge to small business development of financial transactions and market reputation due to Employee fraud is a substantial issue in small businesses activity, requiring comprehensive understanding of its nature, motive, and concealment or hiding. This serious crime not only results in asset or resources loss but also reduces revenues and business reputations in the community (Scholarworks & Chand, 2022). Fraud is a universal phenomenon through which the private and public sectors leaders often fail to prevent employee fraud, leading to profitability loss due to a lack of effective strategies. Additionally, Fraud is prevalent in both private and public sectors, affecting businesses of all sizes, from local firms to multinational corporations (Nor, 2020).

On the other hand, fraud prevalent in small business sectors is a criminal in financial rules and involving intentional deceit or misrepresentation, affecting all economic sector and continues to be a serious issue for most businesses and has a detrimental impact small medium enterprises growth and direct influence profitability, reputation, and acceptability, which has a current effect on the economy activity (Talib, Hasnan, Hussain, Ali, & Ismail, 2024). Fraudulent action and misconduct continue in both private and public sectors, posturing a significant problem in the business growth Academics, researchers, and professionals are explained and noted the increasingly concerned about the effectiveness and ethics considering the sharp rise in fraud cases of small business sectors (Talib et al., 2024). In same time fraud is a deliberate and dishonest act that causes financial and property harm for a company most companies have experience fraud and its damage, resulting in massive amounts of money lost annually (Tunku & Rahman, 2015). These problem have influence employees, stakeholders, and business performance decline these

cases lead to insolvency, bankruptcy, making companies' performance decrease reputation in the market (Tunku & Rahman, 2015).

2. LITERATURE REVIEW

2.1. Concept of Small Medium Enterprises (SMEs)

Small and Medium Enterprises is playing vital role in contribute to economic development through employment opportunities, income generation, export performance, and domestic saving (Nor, 2024; Qureshi & Tazilah, 2015). The small business has fewer employees than do large businesses, the limitation number of employees influences a small business' ability to implement strategies and achieve performance goals (Stone, 2016). Furthermore, this concept of a small-scale enterprise may differ globally, but its important essence remains reliable (Ezeh & Udodi, 2022). The SMEs are considered to be the backbone of economics development of every country, particularly developing economies, Most important and the large part of world economies of the small firms and that is why the number of researches are increasing are actively seeking and understanding information about of SMEs (Khan & Khaliq, 2014). The number of small business enterprise in Somalia increasing every year, this issue is essential to the economy growth and participate income generation in the country (Qureshi & Tazilah, 2015). Generally Small and medium-sized enterprises (SMEs) play a crucial role in Somalia's economic development and significant contributing to the country's overall economic progress (Başçı & Durucan, 2017). This purposes to promote increasing employment, reduce poverty, and ensure sustainable development by achieving the objectives of small business enterprises (Başçı & Durucan, 2017). According to Ezeh and Udodi (2022). Small business is a privately owned corporation, partnership and sole proprietorship with fewer employees and made annual revenue compared to a corporation or regular-sized business (Davis, 2019). Small medium enterprises are often faced significant challenges for fraud risks due to financial strain, rapid growth, and lack of financial foresight, resources, and creating opportunities for motivated fraudsters to exploit their vulnerabilities to take advantage small business sectors (Davis, 2019).

2.2. Fraud in Small Business

Small businesses face fraud from four main sources: customers, vendors, employees, and the seller, which could be pervasive and prevalent in business activity (Hess & Andiola, 2018). Fraudsters can operate without detection due to perceived opportunities like lax internal control, as suggested (Paino, Nazmul, & Jahari, 2023). The previous study addresses increase small business recent years and leaders' awareness of fraud schemes linked to these four threats including shoplifting, bad checks, and false claims for refunds, returns, and warranties or guarantees, which are particularly prevalent in the retail industry. Small businesses often lack resources and expertise to install necessary security and legal protections, leading criminals to exploit their easy targets for customer, vendors, often with insiders, can commit large-scale frauds against small businesses through shell companies, overbilling, and bribing to secure contracts (Hess & Andiola, 2018).

Employee fraud has been one of the biggest challenges for small businesses that indicated that most owners did not realize that fraud could severely harm their businesses activity (Bishop, 2022). Similarly, employees in organizations often justify their unethical actions in a manner comparable to that of the owner. Additionally, employee may perceive that the company has acted unfairly towards them. Fraudulent actions are justified as a necessary form of retaliation for revenge or to prevent future instances of employee may feel their current wage is significantly lower than their contribution to the organization (Jackson, Holland, Albrecht, & Woolstenhulme, 2010). Privately owned small businesses often lack the internal controls and necessary knowledge, training to comprehend their firm's potential fraud vulnerability and implement necessary protective measures of the firm. Therefore, eliminating fraud opportunities is challenging (Jackson et al., 2010). Meanwhile, small business owners often lack accounting knowledge and management skills, leading to occupational fraud such as payroll fraud, cash theft, and check manipulation, which can compromise their financial stability (Bishop, 2022). While large organizations possess the

necessary resources and knowledge to prevent, detect, and deter employee fraud, while small businesses often lack the necessary resources (Treadwell, 2021). Small businesses often face challenges like limited resources, this approach brings lack of manager awareness, and excessive employee trust, leading to fraud, theft, poor performance, loss of control, and damaged market reputation (Treadwell, 2021).

3. THEORETICAL REVIEW

3.1. Fraud Triangle

Fraud triangle is a widely-used auditing framework that elucidates the rationale behind an individual's decision to commit fraud and creating frameworks to prevent perspicacious fraudulent behavior models, the fraud triangle is the primary framework used to analyze and combat fraud (Free, 2015). Although the fraud triangle often attributed to American sociologist Cressey (1953) is a translation of his original work coined decades or periods after his work (Free, 2015). Cressey (1953) fraud triangle theory suggests perceived pressure as a significant factor contributing to unethical behaviors often caused by stress (Sukmadilaga, Winarningsih, Handayani, Herianti, & Ghani, 2022). According to Davis (2019) and Kulmie (2023b) fraud triangle is critical in preventing and detecting occupational fraud, perceived pressures, perceived rationalizations, and motivations; however, these perceptions are not all-inclusive. Pressure to commit fraud was an unshakeable need, which could be a financial pressure the fraudster does not want to divulge or disclose to his or her employer According to Davis (2019). Concisely pressure is one of the factors that might induce fraud and influence those who commit fraud to act unethically. while the two elements at the bottom are perceived opportunity and rationalization (Mansor & Abdullahi, 2015).

3.1.1. Pressure

Fraud triangle identifies pressure, both financial and non-financial (Sukmadilaga et al., 2022) as a key driver of fraud. Personal hardship, organizational incentives, and performance-based rewards can generate this pressure. Additionally, external financial pressures from investors or lenders can contribute, especially in small businesses (Sujeewa, Yajid, Azam, & Dharmaratne, 2018). This pressure creates a perceived need or urgency, overriding ethical considerations. The resulting motivation, therefore, is not merely a desire, but a perceived necessity driven by situational factors. Understanding these diverse pressure sources is critical for developing effective fraud prevention strategies. Mansor and Abdullahi (2015) noted perceived pressure as the factors that encourage unethical behaviors in organization every fraud perpetrator faces some pressure to commit unethical behavior could be either be financial or non-financial pressures. Pressure almost including lifestyle, economic demands and include financial and non-financial terms (Kassem & Higson, 2012). Researchers indicates that the term "perceived" is vital as the pressure to commit deception may not be entirely real. Similarly, financial pressure is a common factor that drives individuals to engage in evil actions, despite the existence of non-sharable financial needs (Mansor & Abdullahi, 2015). Financial issues motivate individuals to commit fraud, but the perpetrator must choose the opportunity to commit the fraud without detection (Aghghaleh & Mohamed, 2014; Awale & Kulmie, 2024). Perceived pressure from a non-shareable financial problem creates the motive for the crime (Onodi et al., 2017). Personal and corporate pressures, such as living beyond means, large expenses, personal debt, and family financial problems, can be perceived as motivators for fraud commitment (Mansor & Abdullahi, 2015).

3.1.2. Opportunity

The second leg of the fraud triangle that perceived opportunity, where individuals identify ways to commit fraud with minimal risk in organizations (Onodi et al., 2017). Additional, opportunity in the fraud triangle refers to the circumstances that allow fraud to occur in small business enterprises, and controlled by a company, consisting of general information and technical skill. General information refers to the understanding that an employee's trust position could be compromised. Technical skills refer to the skills required to commit a violation. Employees typically

possess the same abilities required to secure and maintain their position in the organization (Sujeewa et al., 2018). Opportunity mentions to a weakness in an organizational system where an employee can exploit it to commit fraud (Mansor & Abdullahi, 2015). In addition to addressing opportunity denotes to a fraudster's ability to exploit organizational weaknesses, such as internal control weaknesses, poor governance, lack of job rotation, and inadequate supervision, to violate trust (Mansor, 2015). The financial statement fraud can be attributed to three factors: (i) industry nature (ii) ineffective monitoring, and (iii) organizational structure.

3.1.3. Rationalization

The rationalization, the final element of Cressey's fraud triangle, is crucial for understanding fraudulent behavior. Cressey stressed that it is not an ex post facto excuse, but a necessary precursor to the act itself (Sujeewa et al., 2018). Embezzlers, who do not perceive themselves as criminals, must rationalize their actions before committing them, allowing them to maintain a self-image of trustworthiness (Mansor & Abdullahi, 2015). This study recognizes rationalization's elusive nature, as it resides within the perpetrator's mindset, making it difficult to discern. Rationalization functions as a justification for fraudulent behavior, arising from either a deficit in personal integrity or moral reasoning (Mansor & Abdullahi, 2015). Ultimately, rationalization serves as a cognitive mechanism through which perpetrators legitimize their actions, preserving their self-perception as honest individuals facing extenuating circumstances (Koomson, Owusu, Bekoe, & Oquaye, 2020).

4. FRAUD DIAMOND THEORY

Accordinging to Kassem and Higson (2012) and Mansor and Abdullahi (2015) Fraud diamond theory an expanded version of the Cressy Fraud Triangle, which includes the variable "capabilities." and present alongside perceived pressure or incentive. fraud diamond theory in small business enterprises the concept of capability, referring to an individual's ability to plan sophisticated strategies to secure conditions for profit and encourage others to commit the same performance (Sukmadilaga et al., 2022). Many frauds would not have occurred without the right person with right capabilities implementing the details of the fraud. in other the potential fraud perpetrator must possess the necessary skills and abilities to commit fraud in any organizations. Wolfe and Hermanson (2004) and Mansor and Abdullahi (2015) argue that opportunity and incentive can lead to fraud, as rationalization and pressure can encourage such behavior. However, capability enables the person to recognizing the open doorway as an opportunity and to take advantages of it by walking through repeatedly. In addition to addressing that researchers have advanced a four-sided "fraud diamond" that considers not only pressure, opportunity, and rationalization but also an individual's capability, including personal behaviors and abilities, which significantly influence the likelihood of fraud.

Wolfe and Hermanson (2004) suggest the concept of capability in fraud theory, defining it as personal traits or behavior and abilities that significantly influence the likelihood of fraud. Meanwhile A person's position or purpose within a company can enable him to exploit or create an opportunity for fraud that others may not have (Ruankaew, 2016). Capability mentions to an individual's ability to commit fraudulent financial reporting, often driven by bad intentions or manipulating financial statements through fictitious and untrue expenditures (Sukmadilaga et al., 2022). However, an individual's ability to recognize and exploit opportunities is vital role for fraudulent acts to occur in any small business enterprises. fraud perpetuator should be in a position within an organization that allows them to commit the fraudulent act or possess the necessary skills and abilities that influence in organization (Sujeewa et al., 2018).

Ability to manage fraud effectively and cope with stress due to the risk of detection over a long period of time (Ruankaew, 2016). On the other hand, for fraud to occur, an individual must recognize and capitalize on an opportunity. This necessitates the perpetrator holding a position within the organization that facilitates the fraudulent act, or possessing the requisite skills and abilities to execute it (Wolfe & Hermanson, 2004).

5. RELATED PREVIOUS STUDIES

In recent years, small medium-sized enterprises (SMEs) play a crucial role in Somalia's economic development and significant contributing to the country's overall economic progress despite (Fatima, Bilal, & Raza, 2021). conducted and examine on economics insinuations of corporate frauds for developing countries. Many corporate frauds are form of white-collar crime. However, company or business frauds are the most complex white-collar crimes, causing significant negative impacts in public and private sectors. Similarly, high-profile and cultured individuals commit such crimes in organizations. Prevalence frauds are more harmful in small business that have been caused by invasions, thefts and financial losses. The researcher administrates that fraud can significantly damage a firm's reputation impacting the credibility of its external managers in the marketplaces where they operate or provide services to the society. Prevalence of fraud for institutions of small business that have been affecting performance and waste of resources, and limit activity of the company in the market and competitiveness, for other organizations or firm's operations. Shanmugam et al. (2012). examine on extensive of internal control and fraud prevention measures an organization, this is indicating internal control in small business enterprise normally does not have internal auditing staff this is critical for business success and reducing employee theft during their activity and leading better decision-making improving operations, and lower employee fraud. Small medium enterprises often have fewer resources for security and internal controls compared to larger corporations, making them more susceptible to theft (Shanmugam et al., 2012).

Paino et al. (2023) investigate the effectiveness of internal control systems in preventing fraud in small and medium-sized enterprises, this indicate that Successful businesses are those that have effective internal control system to increase the effectiveness of preventing fraud. Presented the directors and managers hold the primary responsibility of controlling SMEs' performance, as decision-making in organizations has greater control over its activities compared to larger businesses, which are subject to internal control. Meanwhile effective internal control in small businesses is significant approach and ensure reliable financial reporting and compliance with applicable laws and regulations should protect any transaction fraud that occurring in small business activity. Kakati and Goswami (2019) Investigate the fraud survey revealed that fraudsters exploit weak internal control opportunities or exploit adventure in small business would lead to fraudulent activity by the managers, this approach causes weakens internal control facilitate and provides opportunities for fraudsters (Okaro¹, Okafor, & Ofoegbu, 2013). Sometime managers could not avoid to commit fraud in private sectors activities are more likely to commit or obligate fraud when they benefit from the organization through compensation agreements or insider trading. Fraud is remaining sensitive issue in all business sectors, making a significant slice of businesses vulnerable to fraud and misconduct (Wangombe, Kamau, & Kiragu, 2016).

Treadwell (2021) Conducted the preventing employee frauds in small businesses with low-cost methods thought the small business fraud often rises from insufficient assets or resources for proactive fraud prevention and detection methods. This is scarcity of resources may hinder or delay small business managers' capacity to protect and effectively supervise and train employees, potentially preventing or detecting employee fraud in small business. Meanwhile small business managers typically focus on providing services, manufacturing or selling products, conducting research and development, and ensuring customer satisfaction with their offering's services. on other hand small company managers may perceive employee fraud as a problem for other businesses, Employees may also be motivated to commit fraud if they feel unappreciated or overworked in the company. However, all organizations are at risk of becoming a target for employees. According Ekwe and Anigbogu (2017) examined on electronic transactions in Nigerian banking sectors revealed a significant rise in frauds among employees involved in small businesses. Major fraudulent employee activities include granting unauthorized or illegal loans, posting fictitious and untrue credit, fraudulent withdrawals, and forged cheques.

However, fraud will be easier to carry out since the manager free and without control within the company and know very well the administrative equipment and have access to data and systems. Another way researchers are

argued that fraud occurs when employees or managers have weak controls, rationalizing their behavior, which can negatively impact the organization's reputation in the market (Gbegi & Adebisi, 2015). Meanwhile understanding fraud prevention and discovery is crucial for business organizations and good governance is the key to reducing corruption in society (Kulmie, 2023a, 2023b). Therefore, small business activities must support cultural responsibility, honesty, dignity, morality, and ethical standards to ensure their success and prevent fraud (Sanya & Olalemi, 2021). Conducted and find out the employee's fraudulent practices and entrepreneurial development in Selected Microfinance Bank. understanding the fraud occurs when a company's financial system is compromised, resulting in significant financial loss due to various fraudulent activities. Research indicates that fraud is committed by employees and need, opportunity, and rationalization within their minds. These circumstances present an opportunity for an employee to commit or obligate fraud in small business enterprises, even if they find it feasible. Meanwhile some events can be compared to leaving the safe unlocked because of trusting a person. There are other factors that motivate individuals to commit fraud in small business provides strategies for identifying and avoiding such activities (Ekwe & Anigbogu, 2017).

Qureshi and Tazilah (2015) Conducted the Forensic Accounting Tools in Detecting and Investigating Fraud in Malaysia. Through their analysis of various of identified of fraud detection is a process that involves identifying and preventing fraudulent activities and actions. This approach enables companies to detect potential fraud and detect fraudulent happenings in the firms. Detection is a crucial step that overall, of fraud prevention indeed refers to the initial process of recognizing and identifying symptoms, indicators, or red flags that suggest the potential occurrence of fraud. Moreover, there are three primary methods to detect fraud include by (1) accidental detection, (2) installing hotlines and whistleblower systems, and (3) examining transaction records, accounts, and documents for anomalies that could indicate fraud, as suggested by Zimbleman, Albrecht, Albrecht, and Albrecht (2012).

Previous researchers suggested that many fraudulent activities are detected by accident, highlighting a critical gap in current fraud prevention and detection strategies. However, management and internal control of the small business enterprises should improve in order to detect frauds rather than detecting it accidentally in transactions or activities of the firm. Preventing fraud is the most effective method to reduce losses and costs, as once committed, losses are difficult to recover or small business growth. Meanwhile fraud prevention involves fostering a culture of honesty and ethics, and assessing potential risks to mitigate and eliminate fraud opportunities and its effect the activities of the company (Ekwe, 2017).

Investigates the electronic transactions and the prevalence of fraud in the Nigeria Banking sector understanding the significantly impact a business, regardless of its size and it could be creating misappropriation of assets involves employees or individuals within an organization stealing or misusing company assets for personal gain. Sometimes this situation occurs when management intentionally manipulates or falsifies financial information to deceive investors, and other stakeholders. these primary types of fraud could have serious consequences for businesses, including financial losses, damage to reputation in the market.

6. METHODOLOGY

The study evaluates the prevalence of fraud in the private sector in Somalia using a descriptive research design, offering a comprehensive understanding of specific phenomena. descriptive research aims to explain and interpret current conditions, examining a specific phenomenon at a specific time and place Sánchez-Aguayo, Urquiza-Aguaiar, and Estrada-Jiménez (2021) the sample size of this study is 93 respondents consisting of aims owners, managements, employee. The study employed a simple random sampling method to ensure equal opportunity for all elements to be selected without bias. this survey consisted of four major parts, the first focusing on gathering background data on respondents, including age, gender, and education level. the second section about perception on fraud in aims, the third part asked about the perception on fraud in aims, the four section was about causes of the fraud on small medium enterprises, and five section was about effects of Fraud on SME in Somalia.

7. RESULT AND DISCUSSION

7.1. Demographic Information

Figure 1 illustrates the demographic profile of the respondents. A significant gender disparity is evident, with males comprising 75% of the sample, while females represent only 14%, a difference likely influenced by sociocultural factors. Age distribution shows a concentration within the 31-40 age bracket (50%), closely followed by the 20-30 age group (42%). Respondents over 40 constituted a smaller segment (6.7%). Regarding educational attainment, a substantial majority (82.2%) held graduate degrees, with undergraduate and school-level qualifications representing 14.4% and 2.2%, respectively. Furthermore, the employee role dominated (53.3%), followed by management (32.3%) and ownership (13.3%). These demographic characteristics suggest a sample with a considerable level of educational attainment and professional experience, which likely contributed to their ability to effectively engage with the survey instrument.

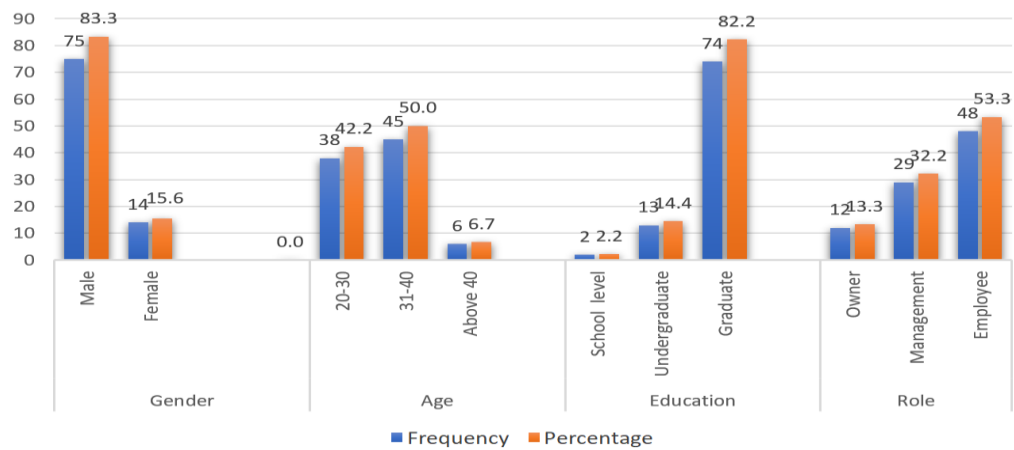


Figure 1. Demographic information.

7.2. Perception on Fraud in SMEs

Respondents were asked four questions in order to gauge their opinion on fraud in SMEs. "Deception is unethical behavior and goes against culture and social norms," was the first question.

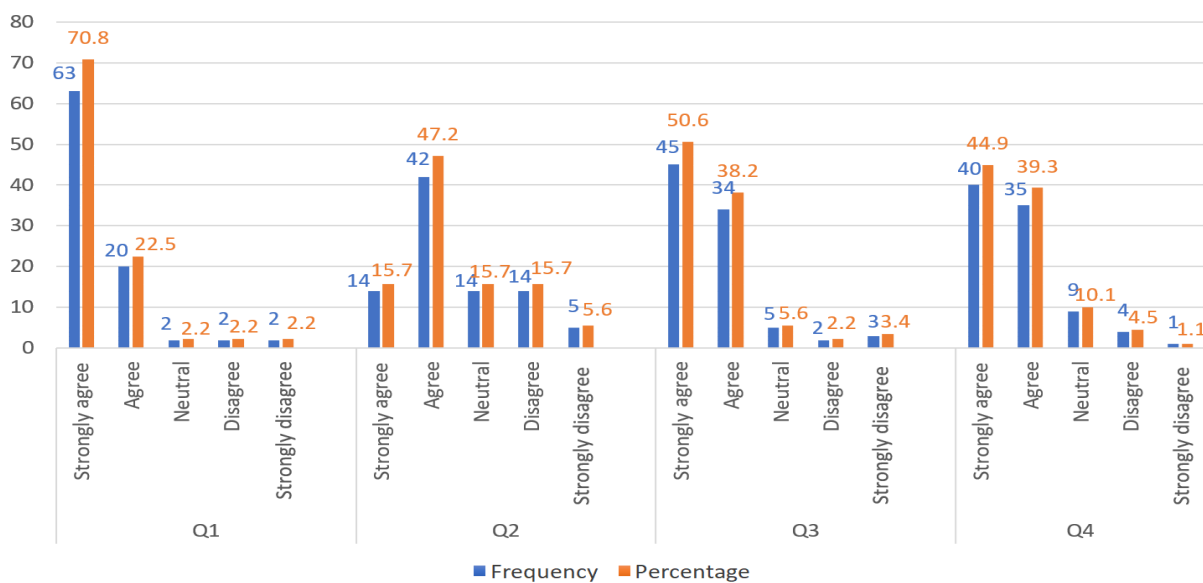


Figure 2. Perception on fraud in SMEs.

The Figure 2 illustrates that the majority (93.3) agree that fraud is an unethical practice. "The risk of fraud is viewed as less serious than other risks" stated the second question. More over half of the responders (62%) concur with this assertion. "The reputation of organizations is severely harmed by fraud" was the third question. According to the majority (88.8%), fraud seriously damages an organization's reputation. "If appropriate steps are taken, fraud can be detected and prevented" was the fourth question. According to 84.2% of the respondents, fraud can be both recognized and prevented.

7.3. Prevalence of Fraud in SMEs

The respondents were asked four questions in order to gauge the prevalence of fraud in SMEs. Small and medium-sized businesses are particularly vulnerable to fraud, which can have a substantial impact on their operations and stability, according to the first question. According to Figure 3, the findings indicate that 67.8% of those surveyed concurred that fraud is a major concern for small and medium-sized businesses. The second query asked, "My organization has fraud cases." Furthermore, 55.6% of respondents concur that there are fraud incidents at my company. In response to the third question, "Fraud in private sector is always committed by internal members," the majority of respondents (75.5%) had this belief. "Our clients as external members perform fraudulent behaviors and misconducts" was the fourth question. 44.5% of the respondents agreed, according to the statistics. Further, "Fraud is common problems in this industry compared to other sectors," was the fifth question. The vast majority of respondents (70%) concurred that fraud is a prevalent issue in this sector.

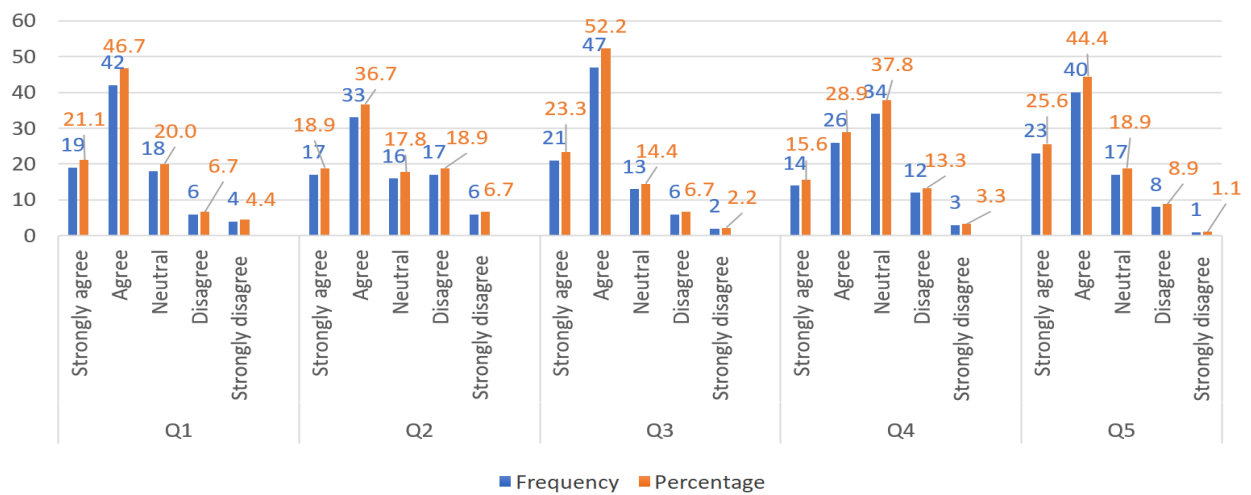


Figure 3. Prevalence of fraud in SMSs.

7.4. Causes of the Fraud on Small Medium Enterprises

The study investigated the reasons behind small and medium-sized business fraud. According to the Figure 4, Seventy-five percent of respondents agreed with the first question, which asked if "personal pressure is a major factor that causes fraud in business sector." One important component contributing to commercial fraud is personal pressure. "Institutional pressures contribute to the occurrence of fraud" was the second question, and 66.7% of respondents agreed with this statement. The incidence of fraud is influenced by institutional forces. In response to the third question (3), "fraud is committed due to improper management," the majority of respondents (78.8%) agreed. "Fraudsters perform fraud due to improper or unsuitable documentation in small business sectors" was the fourth question, and 81.1 percent of respondents agreed. Answers to the fifth question, "Fraud is committed in private business sectors due to unclear responsibilities and duties," were answered in the affirmative by 74.4% of respondents. The respondents agreed (84.5%) that fraudsters in business organizations use their positions and power to perpetrate fraud in response to the sixth question, which asked about this topic.

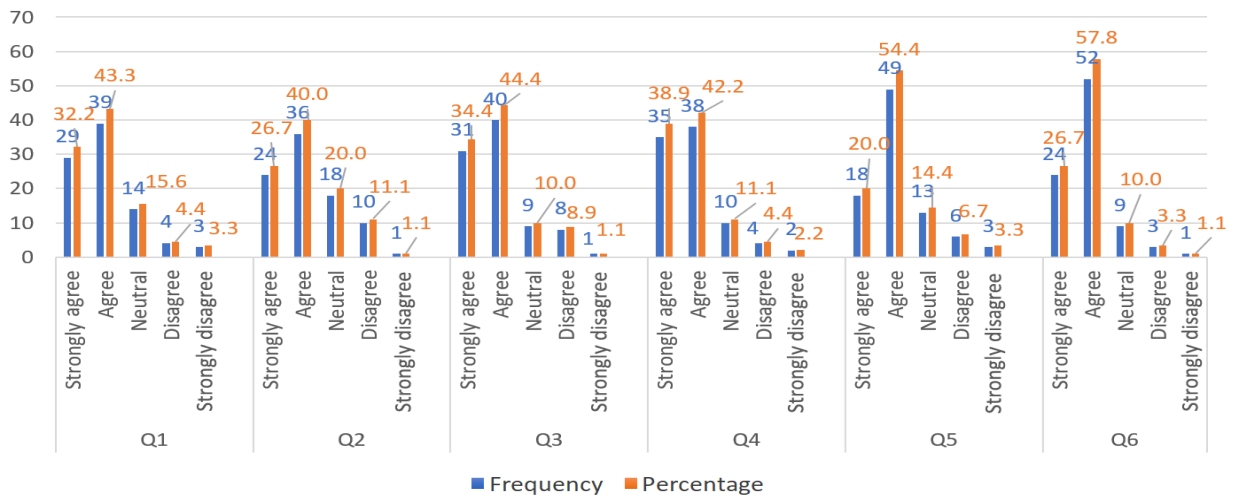


Figure 4. Causes of the fraud on small medium enterprises.

7.5. Effects of Fraud on SME in Somalia

The respondents were asked five questions in order to investigate how fraud affects SMEs in Somalia. As Figure 5 shows, the first question, asked if fraud has an impact on the profitability and performance of small and medium-sized businesses. Of those who answered, 85.5% agreed this statement. "Fraud causes loss of assets or properties and becomes a crime in any business or small business" was the second question, and in this statement, 92.2% of the respondents agreed. Eighty-seven percent of respondents agreed that fraud is a key hurdle that delays or limits the expansion of SMEs, according to the third question. Questions four asked if "business creditability is influenced by fraud risk". So, above 78% of the respondents said they agreed. Most respondents (86.7%) agreed with the statement that fraud affects the viability of small and medium-sized businesses, which was the fifth question (Q5). Fraud, on the other hand, is defined as unlawful actions by individuals or organizations that take place in non-profit industries or in any business because of uncertain accountability.

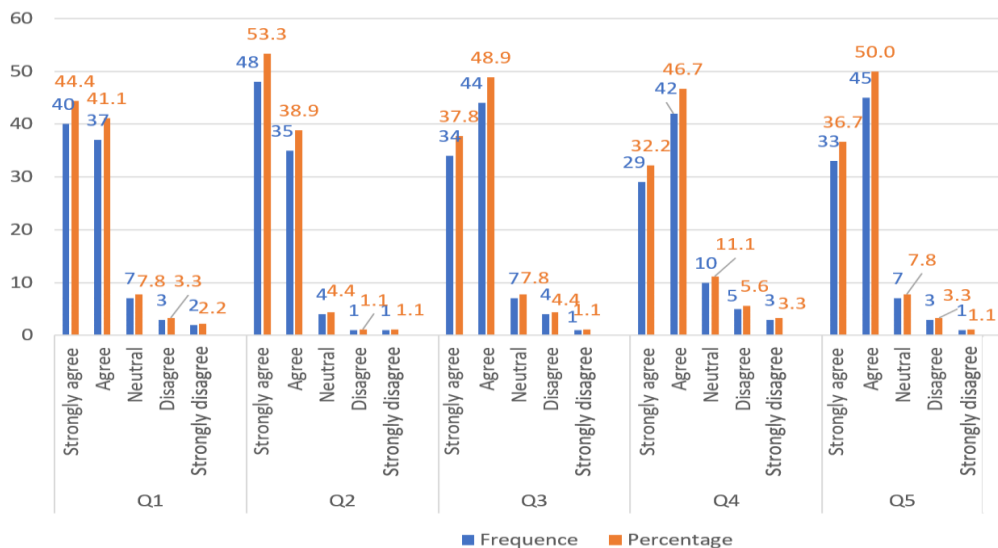


Figure 5. Effects of fraud on SME in Somalia.

8. CONCLUSION AND RECOMMENDATION

The study examines the prevalence of fraud in the private sector of Somalia, focusing on small business owners who often lack accounting knowledge and management skills. The study revealed that 75% of respondents were men, with 14% women, aged 31-40, and educated. The majority agreed that fraud is unethical and can damage an organization's reputation, with 67.8% of respondents stating it as a major concern for small and medium-sized

businesses. The study found that personal pressure, institutional pressures, improper management, unsuitable documentation, unclear responsibilities, and power abuse are major factors contributing to small and medium-sized business fraud, with a majority of respondents agreeing. Further, the study reveals that fraud significantly impacts SMEs in Somalia, affecting profitability, performance, asset loss, expansion, and business credibility, highlighting the need for improved accountability. This study suggests several policy and practical recommendations. Policy recommendations include enacting robust anti-fraud legislation, establishing clear penalties and sanctions for fraudulent activities, protecting whistleblowers, improving corporate governance regulations, and establishing a regulatory body. Capacity building and awareness are also crucial, with workshops and training programs for small business owners on basic accounting principles, fraud prevention techniques, and risk management. Public awareness campaigns are also essential to raise awareness about fraud risks and the importance of reporting suspicious activities. also, practical recommendations involve implementing internal controls such as segregation of duties, regular reconciliations, strong documentation, and access controls. Management practices should be improved by conducting thorough background checks, developing clear job descriptions, and fostering a culture of integrity and ethical behavior. Technology can be used to identify suspicious patterns and anomalies in financial transactions, and secure communication channels should be used to protect sensitive information.

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Transparency: The author declares that the manuscript is honest, truthful and transparent, that no important aspects of the study have been omitted and that all deviations from the planned study have been made clear. This study followed all rules of writing ethics.

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