MIDLANDS STATE UNIVERSITY

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

THE EFFECTIVENESS OF INTERNAL AUDIT IN FRAUD DETECTION AND PREVENTION: (Case Of Grain Marketing Board 2018-2019)

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SUBMITED IN PARTIAL FULFILLMENT OF THE BARCHELOR OF COMMERCE ACCOUNTING HONOURS DEGREE

MAY 2020,GWERU

MIDLANDS STATE UNIVERSITY FACULTY OF COMMERCE

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The undersigned certify that they supervised the student Pretty Neghanda dissertation entitled **"The effectiveness of internal audit in fraud detection and prevention: (Case of Grain Marketing Board)"** submitted in partial fulfilment of the Bachelor of Commerce Accounting Honours Degree at Midlands State University.

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DEGREE PROGRAMME	Bachelor of commerce accounting honours degree
YEAR OF AWARD	2020

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DEDICATIONS

This research is dedicated to my family, friends and the Almighty God.

ACKNOWLEDGEMENTS

Firstly, of all I would like to thank the Almighty God for His protection and guidance during my studies. I would like to offer up sincere acknowledgement to the department of Accounting, Mr. N. Chinyamunjiko my supervisor for the commitment; patience and guidance in making this research a success. I would also like to express my heartfelt appreciation to Midlands State University and my lecturers for impacting relevant knowledge that enabled me to write this piece of study.

ABSTRACT

The study is aimed at evaluating the effectiveness of internal audit function in fraud detection and prevention. The study was a survey of Grain Marketing Board of Zimbabwe with special emphasis on stakeholders in the financial reporting process. The main objective of this study is to ascertain the effectiveness of internal audit in fraud detection and prevention. The study is also aimed at comparing outsourcing and in-sourcing of the internal audit function in light of fraud prevention and detection. Determining the limitation and hindrances that negatively affect the effectiveness of internal auditing in fraud detection and prevention is one of the reasons of this study. The increase in public interest in fraud scandal that continue to rock scene and absence of one willing to take responsibility over such control failures prompted the researcher into undertaking such a research. Questionnaires and interviews were used to measure the perceptions towards the role of internal audit function in fraud detection and prevention. Two questionnaires were used; one for management and audit committee members and the other for internal auditors. Random stratified sampling techniques were used to arrive at a sample of 30, 10 from each homogeneous sub-groups; internal auditors, management and audit committee from the whole population. The study drew all of the participants from agricultural sector industry headed in Harare. Findings revealed that an organisation that in some way utilise internal auditing are more likely to detect and prevent fraud. Organisation that utilises an in-house internal audit function is more likely to detect and prevent fraud more than an organisation that completely outsource the function. Overally, the research found out that internal audit function is indeed effective in fraud detection and prevention if afforded chances to discharge their duties without interference from management. The study showed positive relationship between having an internal audit function and the rate of fraud detection. Internal auditors should consider professional balance in involvement and responsibility for fraud detection and prevention. Management should consider having a resident internal audit function in order to maximise on the benefits that arise from having a resident internal audit function.

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CHAPTER 1

1.0 Introduction

This chapter lays the foundation for the subsequent chapters by outlining, addressing and defining the basic concepts of the research study. It seeks to provide the background of the study, statement of the problem, the objectives of the study and significance of the study as well as the assumptions underlying the carrying out of this study.

1.1 Background to Study

This section examines the problem of fraud within Grain Marketing Board (GMB). According to the GMB website, The Grain Marketing Board (GMB) is a large parastatal under the Ministry of Agriculture, Mechanization and Irrigation Development. GMB was created by an act of parliament in 1931.This was after realizing the need for strategic grain reserves as to ensure food security. The company also has its subsidiaries which are Silo Food Industries (now commercialised by government) and Command Agriculture used for distribution of agricultural inputs to enable farmers to be fully prepared ahead of the summer cropping seasons (G.M.B Company Profile).

Since it is a parastatal organisation, it is audited by both the external and internal auditors (G.M.B Finance Manual)2018. In terms of their organisational structure, their audit offices are not under department of finance, they are two different sectors. These two departments aren't linked together and thus, become difficult for the audit team to gather enough information to detect and prevent fraud in the organisation. (G.M.B Finance Manual)2018

Of late there has been a spate of fraud cases that involved top GMB officials and in which the parastatal lost billions of dollars. Chingarande 2018 referenced a case in which the parastatal lost $1 040 000. The money syphoned belonged to the GMB pension fund and was laundered for the benefit of GMB top officials.

On the issue of command agriculture, Saunyama 2017 pointed out a case of a farmer who defrauded GMB of 78 bags of fertilizer. The farmer was charged for fraudulently acquiring 78 instead of 18 bags of fertiliser after forging collection receipts. In addition to that another

farmer man from the border city of Sakubva township was arrested after he faked being a farmer and duped the Command Agriculture Scheme office in the eastern city of inputs worth over US$3 000 in 2019 according to New Zimbabwe 12/08 (2019).

The rate at which these frauds are being committed and the magnitude of losses involved has raised so much concern to the researcher vis-a-vis internal and external auditors' roles in fraud detection and prevention- and thus was prompted to carry out this research.

1.2 Statement of the Problem

Gmb is known for ensuring national food security through the efficiency and sustainable management of the Strategic Grain Reserve and related commercial undertakings in Zimbabwe. A spate of fraud cases,however continue to be a great challenge, for example, in 2018, a non-executive board member was charged by court for swindling the parastatal of $1 040 000 and a potential $2,5 million in a botched land deal. It is against this background that this researcher has taken interest to analyse the effectiveness of internal audit in fraud detection and prevention in the agricultural sector.

1.3 Research Objectives

i. The research seeks to analyse the internal auditors' influence in fraud detection and prevention.
ii. To compare and contrast in-sourcing and outsourcing in light of fraud detection and prevention
iii. To find limitations or hindrance on the internal auditor's role in fraud detection and prevention

1.4 Research Questions

i. What is the impact of internal auditing on organisation's ability to detect and prevent fraud?
ii. Which strategy works much to the benefit of the organization when comparing insourcing and outsourcing.
iii. What are the limitations of internal auditor's role in fraud detection and prevention?

1.5 Importance of the study

To the management

The study is basically to generate literature that may lead to the appreciation of internal auditing. The research if successful may afford management to fully understand the role of internal auditing in fraud detection and prevention. Having understood the role management will be able to fully utilise the function and enhance fraud prevention and detection

To the university

The study may allow the University a chance to adjust current curriculum that may help it churn out suitably qualified graduates who fully deal with fraud.

To the researcher

Since the researcher is doing a white collar crime driven degree she will benefit from the research in that she will get an understanding of fraud, roles of all stakeholders in fraud detection

1.6 Delimitations

The research activities will be confined to organisations in agricultural sector (parastatals) of Zimbabwe who would have responded positively to request for participation in the research. The organization approached for participation should need the service of Internal Auditing, be it in form of outsourcing or in-sourcing the function. Top management, members of auditing committees, internal auditing chiefs, Qualified Internal Auditors and members of the Institute of Internal Auditors are going to be the segments under investigations. The period from which statistics to be used in the research will be from 2018 to 2020 The research will be defined on the evaluation of internal auditing impact on the effective and efficient detection and prevention of fraud.

1.7 Limitations

Inadequacy of time militated against the researcher because he had to attend learning related commitments at organization of internship during the research period. The research was not funded hence limited resources. The researcher will probably have limited access or no access to some resources from participants due to confidentiality of certain information and key participants' commitment to their day to day activities leaving less time for the research. Considering the sensitivity of Fraud issues some respondents are likely to ignore or avoid questionnaires. The element of bias will not be ruled out.

1.8 Definition of terms

- **Fraud:** It is any intentional act committed to secure unfair or unlawful gain.
- **Fraud detection:** These are controls designed to discover fraud and misconduct when it occurs.
- **Fraud Prevention:** The are controls designed to avoid fraud to occur in the first place.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter focuses on the review of literature. A literature review is the survey of scholarly sources on specific topic (Mc Combes.2020). It helps in developing research ideas. It acts as a foundation to the study. "It establishes the need for the research and indicates that the researcher is knowledgeable about the area of study" (Wiersma, 2015:406). Literature review provides the framework for establishing the importance of the study with other findings. In addition, literature review helps to relate the chosen study to the larger ongoing dialogue in the literature about the topic filling in gaps and extending prior studies (Marshall & Rosssman, 2006).

In this chapter the researcher focused on defining fraud, fraud prevention, fraud detection, fraud investigation and explaining the role of internal auditing as guided by The Institute of Internal Auditors. The researcher also discussed previous research findings on the role Internal Auditing in fraud prevention.

2.1 What is fraud?

According to Chen (2018) Fraud is an intentionally deceptive action designed to provide the perpetrator with an unlawful gain or to deny a right to a victim. According to Wells, (2007) fraud encompass any crime that uses deception as means benefitting. In other words, fraud is an illegal act that usually involves trickery for personal gain. The IIA's IPPF Practice Guide (2019) defines fraud as any illegal act characterized by deceit, concealment and or violation of trust. Fraudulent acts are not dependent upon the threat of violence or any physical force instead they are committed in privacy by mostly entrusted individuals. Frauds are committed by individuals or organization whose main objective is to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage. The Association of Certified Fraud Examiners 2020 defines fraud as any intentional act or omission designed to deceive others resulting in the victim suffering a loss and or the perpetrator achieving a gain. There are basically four elements of fraud;

material false statement, knowledge that the statement was false when it was issued, reliance on the false statement by the victim and consequent damages to the victim. There are many types of fraud but the researcher is going to focus corporate fraud which has the following sub categories; asset misappropriation, skimming, payroll fraud, financial statement fraud, disbursement and expense fraud and corruption.

2.2 Defining Fraud Prevention

According to The IIA's IPPF-Practice Guide, 2019 fraud prevention is or part of policies that organizations adopt to avoid them falling prey to fraudsters and or limit fraud exposure in the event that it occurs. Having a strong ethical culture and correct tone at the upper most management is one the key elements in fraud prevention. Effective and efficient internal control procedures are key to fraud prevention since effective internal controls deters would be fraudsters from the temptation to commit fraud. The Committee of Sponsoring Organizations (COSO) of the Treadway Commission identified five components that are necessary to have a robust internal control system that can prevent fraud. The components are control environment, risk assessment, control activities, information and communication and monitoring.

2.3 Fraud Detection

These are controls meant to discover fraud when it occurs in the organisation. According to Rouse (2019) she defines fraud detection as a set of activities undertaken to prevent money or property from being obtained through false pretenses. This involves controls designed to provide red flags or indications that fraud has occurred or is occurring within the organisation. If properly instituted internal controls are one of the strongest ways of detecting fraud. There are numerous ways of detecting fraud which include whistle blowing , exit interviews, proactive employee survey, surprise audits by either internal auditing or external auditing and continuous monitoring of vital data and trends to identify anomalies and or variance.

2.4 Fraud investigation

This is part of course of action taken after alarm for fraud has been raised; the actions taken should include gathering information on the affected processes to determine the anomaly.

In addition to the above fraud investigation should aim to determine whether fraud has indeed taken place, determine the resulting loss or exposure, determine how it happened, and who was involved. It should be noted that it is the responsibility of management to develop and maintain controls over the investigation process.

2.5.0Internal Auditor

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve and organisation's operations. According to Liberto(2019) internal auditor (IA) is a trained professional employed by companies to provide independent and objective evaluations of financial and operational business activities, including corporate governance. According to the IIA, (2019) internal audit's objective is to evaluate and improve risk management control and governance processes. KPMG, (2008) further indicates that internal audit can a resident function and or completely outsourced function or a combination of these two approaches. Resident approach is, according to Ernst and Young (2008) a system of internal auditing that wholly utilizes the IAF that is permanent function of the organisation. The approach has its fair share of advantages and disadvantages when compared with its exact opposite.

2.5.1 The roles of Internal Auditing

The through The IPPF Practice Guide (2019) IIA advises that, the role of internal auditing is basically to evaluate fraud risks faced by the organisation and advise the management on ways of mitigating them. The function's role also includes the evaluation of the adequacy and effectiveness of the organisation internal controls in deterring, preventing and detecting of fraud. Since the function has continued presence in the organisation they are better placed to assist management come up with effective anti-fraud measures as they know the organisation's processes and procedures and consequently the organisation's weaknesses. To detect fraud Internal Auditing should conduct surprise proactive auditing and apply analytical procedures and other procedures to search for misappropriation of assets, misrepresentation of information and or any other form of fraud going on. The role of internal auditing in investigations is not universally defined hence the need for the function's duties to be fully defined in the internal audit charter. KPMG Forensics (2020), indicates that Internal Auditing should be responsible for evaluation of design and the

effectiveness of anti-fraud controls during fraud prevention stages in an organisation. Again at this stage Internal Auditing should assist in fraud risks assessment and proffer mitigating strategies. After evaluation and assessing the function is expected to report and submit to the audit committee their findings so that management remedy the controls for effective prevention.

Through Practice Advisory 1210.A2-1, 2006 the Institute of Internal Auditors advises that Internal Audit's role is largely determined by the host organisation but should cover most following fraud risk assessment, evaluation of internal controls specifically designed to prevent and detect fraud, fraud investigation and fraud auditing.

According to PricewatershouseCoopers 2004 the role that internal auditing function in fraud detection and prevention will vary depending on the host organisation needs. The role and duties if properly followed or adopted will enable host organisation to detect and prevent fraud. Internal auditing function should assist top management during the design and crafting of anti-fraud processes, procedures and program to ensure that they are auditable. This is critical to auditors' work as this will enable the auditor a chance of reviewing. For effective fraud prevention and detection, according to PricewatershouseCoopers, 2004 internal audit should be involved in all of the following anti-fraud efforts.

- Facilitating fraud risk assessment at all levels
- Linking anti-fraud control activities to identified risks
- Evaluating the design and effectiveness of anti- fraud programs and controls
- Fraud auditing
- Leading or supporting investigations into suspected fraud
- Leading or supporting remediation efforts
- Reporting to the audit committee and board about the organisation's efforts to prevent, detect, investigate and remediate fraud

2.5.2Internal Auditing and fraud detection

According to The Institute of Internal Auditors Practice Advisory 1210.A2 -1, 2006 auditor should be involved in fraud detection but the level of involvement varies from organisation to organisation. If given a chance, the function may assist management in setting up of the controls to unearth fraud. Having set the controls be it solely by management or with Internal Audit's assistance, internal audit function should evaluate the effectiveness of the controls and other antifraud efforts. In evaluation process the auditor should be on the lookout for red flags that may indicate fraud occurring. PwC Fraud Academy 2009 reveals that an internal auditor should take the task of educating and advising management on the weakness of controls with the aim of eradicating such weakness and enhance fraud detection.

2.5.3Internal Audit and Fraud Prevention

The Institute of Internal Auditors (IIA) advises that internal auditors are responsible for assisting organisations prevent fraud by examining and evaluating the adequacy and effectiveness of their internal control systems in light of the extent of a potential exposure within the organisation. Since fraud prevention has five elements, internal auditors should consider the elements when meeting their preventive responsibilities.

In control environment the auditor should assess the aspects of the environment such as fraud policy, code of conduct and whistle blowing programs to determine the effectiveness of such controls. According to PwC Fraud academy 2009 the function should conduct proactive fraud audits and investigation and communicate findings of such audits to enable remediation efforts. Internal audit should evaluate management's fraud risk assessment paying particular attention to processes for identifying, assessing and testing of potential fraud and schemes.

2.5.4 Challenges and limitation in fraud detection and prevention

Since many activities of the internal auditing are determined by the host organisation the work of the function is largely affected by the actions of the entity's management. According to PricewatershouseCoopers, 2015 management's commitment in fraud detection is largely measured by the amount of resources that they commit towards the

internal audit function. The more the resources at the internal audit's disposal will imply a better equipped function to deal with fraud, PwC Fraud Academy 2009.

The host organisation's management's attitude towards fraud detection and prevention will greatly influence the internal audit function's ability to effectively assist in fraud detection and prevention. The IIA, 2017 states that it is managerial role to set controls and the function will only come in to assist the management in executing its role. The challenges come in when management comes up with weaker controls or the management itself circumvent or override the controls. Tesfatsion, 2011 states that if management set the wrong tone for fraud tolerance it has been proven that internal auditors are often misled into believing something on the contrary good examples that come into mind are the Enron scandals and Worldcom were audit staff was misled into ignoring otherwise material red flags at the behest of management who knew what was going on.

Today, most fraudsters use sophisticated ways of committing fraud and this makes it difficult for anyone with basic accounting knowledge to fully understand fraud to effectively effect fraud detective and preventive measures. A good example is the Enron scandal that was triggered by losses emanating from complex derivatives; these losses were concealed using extremely complex modus operandi, Tesfatsion, 2011. The ACFE advises that for effective fraud detection and prevention the internal audit function should have at least one fraud examiner or one of such equivalence. PwC, 2004 advises that the internal auditing function should seek fraud training to enhance fraud detection and prevention, such training is obtainable from the local chapter of ACFE which is however not available in Zimbabwe.

2.6 Outsourcing and In-sourcing of internal audit function

2.6.1Benefits of outsourcing of internal audit function

Simpson (2018) defines outsourcing as a process where the entire function is carried out an external provider who would usually be a public accounting firm but generally a different firm from the organization external auditor. The benefits of outsourcing an internal audit are

- The organisation could gain from out-sourcing by having access to specialist expertise, innovations in the latest audit techniques and technology and the opportunity for bench-marking which management and employees may use as a standard to measure performance as referenced by Simpson (2018)
- There is an element of independence added to the internal audit function that may not be effectively realized using only employee internal auditors that are being directly paid and possibly influenced by the organization itself.
- The perception that the independence of the internal auditor from management would be strengthened since it is an outsourced function.

- The independent approach allows for outside consulting and advisement of industry best practices which allows the organization to generate a set of operational standards by which the internal audit team can examine and judge compliance, resulting in a more in depth internal audit. LOWERS & ASSOCIATES (2014)

Chambers (2017) argues that; "In cases where total outsourcing is selected as the method for obtaining internal audit services, The IIA believes that **oversight and responsibility for the internal audit activity cannot be outsourced**." This was due to the setbacks of outsourcing of internal audit function which are

- Where internal audit is outsourced, there will clearly be a lack of depth of internal knowledge and awareness of the culture of the organisation. There will be an inevitable acclimatisation period to get used to the organisation's systems and processes hence time wastage.
- There is a risk to the credibility of the internal audit function if a serious lack of a cultural "fit" develops between the organisation and the provider of the outsourced service.
- By introducing an outside provider of internal audit services, there might be an unintended consequence that the organisation loses some flexibility as it is tied into a per-agreed timetable and schedule.
- Where the auditor is outsourced they will be an issue of confidentiality. Knowledge of company systems and all confidential data will be available to the service provider

company. Although the engagement letter would provide confidentiality clauses, this may not stop breaches of confidentiality.

2.7 Empirical Evidence- Previous Research Findings

2.7.1 Number one: The importance of Internal Audit in Fraud Detection

Source:
http://www.aaahq.org/audit//midyear/07midyear/papers/theimportanceofinternalaudit/pdf

Topic: The importance of Internal Audit in Fraud Detection

Authors: Coram, P. and Ferguson, C.

Date: 2016

Place: Melbourne, Australia

Findings

The study found that for most organisations that have an IAF stand a better chance of detecting fraud in its earliest stages thus minimising losses. It was also in this study that internal audit was found to be beneficial to host organisation in light fraud detection and prevention. For example, it was also found that self-reported fraud was high in organisations with IAF than those that do not host any IAF let alone utilize internal audit services. It is again with study that we found out that major hindrance or factors that limit the IAF in fraud detection and prevention are mainly to do with the host organisation rather the IAF itself. Challenges that this study revealed are inadequate resources, skills and qualifications, and underfunding.

2.7.2 Number two: An Evaluation of Internal Auditor Responsibility for Fraud Detection

Topic: An Evaluation of Internal Auditor Responsibility for Fraud Detection.

Authors: DeZoort, T. & Harrison, P

Year: 2018

Place: Florida, USA

Findings

The study a quantitative research that had a sample size of 783 internal auditors, revealed that perceived auditor responsibility for fraud detection vary from country to country. A an example given was that of Belgium and Mexico were Mexico placed higher responsibility than Belgium , the reason being that in developed countries most companies have the financial base to meet the cost of hiring specially trained personnel for their respective IAFs. The study also revealed that there is a higher auditor responsibility for frauds as misappropriation of assets than it is with cases of fraudulent financial reporting. The study also reported positive relationship between internal audit fraud materiality assessment and perceived auditor responsibility. The study also showed that in terms of fraud detection responsibility internal auditors are allocated a whopping 19% overall responsibility.

2.7.3 Number three: Value of internal auditing in Fraud Detection,

Topic: Value of Internal Auditing in Fraud Detection

Authors: Coram, P., Ferguson, C. & Moroney, R

Year: 2006

Place: Melbourne, Australia.

Findings

The study revealed that organisations with IAF are more likely to have a high level of self-reported fraud than those that do not host any internal audit function. The study also showed a positive relationship between the existence of internal audit function and the propensity to detect fraud. Organisations that in-source internal audit services were to be likely to

detect and prevent fraud than those that do not. Any level of involvement and responsibility of the IAF in any organisation's anti-fraud efforts will certainly improve the organisation's ability to fight fraud. The study also cited that excessive involvement of the internal audit function

2.6.4 Number four: The internal auditor as fraud-buster.

Topic: The Internal auditor as fraud-buster,

Authors: Hallison. W, Pacini.C, and Sinason,D

Year: 1999,

Place: USA

Findings

The study, a qualitative in nature indicated or revealed that internal auditors can do more in fraud detection and prevention if they devote their efforts towards the key aspects of fraud prevention and detection. The key areas identified by the study included creation and maintenance of auditable fraud policy, fraud risk assessment or threat analysis, assistance in implementation, operation and maintenance of both internal and external fraud hotlines, and surprise fraud audits. The study found that IAF that involve in these activities are more likely to detect and prevent fraud. Majority of respondents indicated that internal auditors should assist management in formulating fraud policy to ensure its auditabilty. Having auditable fraud controls helps the IAF when discharging their duties that are linked to fraud detection and prevention.

2.7 Summary

Related literature under study was reviewed in this Chapter. Discussed were the fraud detection, fraud prevention, fraud risks assessment, perceived role internal auditing. The following chapter is focused on research methodology, research instruments, data collection procedures and ethical issues.

CHAPTER 3

RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the general methodology used to conduct the study. It specifies the research design, target population, sampling design, data collection method and instruments, and data analysis and interpretation

3.1 Research Design

According to Proctor (1998), understanding the research philosophy can help the researcher to refine and specify the research methods to be used. Cooper and Schindler (2003) outlined a research design as a plan and structure of investigation so conceived as to obtain answers to research questions. This would include the type of evidence gathered and its origin, the way in which such evidence is interpreted and how it helps to answer the research questions posed. Secondly, it will enable and assist the researcher to evaluate different methodologies and methods and avoid inappropriate use and unnecessary work by identifying the limitations of particular approaches at an early stage. Finally; it may help the researcher to be creative and innovative in either selection or adaptation of methods that were previously outside her experience.

3.2 Descriptive research design

The research was a field study and in which the researcher used descriptive research design so as to provide more information on the objectives of study. The researcher used descriptive research design technique as it enabled her to have a clear analysis of both qualitative and quantitative data through interviews and questionnaires.

3.2.1 Mixed Research Design

The approach combined the use of a descriptive research design as it uses both qualitative and quantitative analysis of data. Under a descriptive research, raw facts and figures were collected with the objective of establishing the nature of circumstances during the period

under study. The descriptive research enabled the researcher to obtain detailed information since it asked the what, why and how questions.

3.2.1.1 Qualitative Method

In the mixed research approach, the researcher used qualitative design. Qualitative research method seeks in-depth and open ended responses. This approach was useful since questions were designed for respondents to air out their views on effectiveness of internal audit in fraud detection and prevention. The method is supported by Bloomberg (2011) who explained that, the goal of qualitative research is to generate data in order to understand multiple perspectives.

3.2.1.2 Quantitative Method

This research method gives both responses, which are quantifiable and structured. The approach is descriptive and generally presents all findings in figures. Since the study involved figures, the approach was of paramount importance in making the quantifiable data available. The approach also prompted the use of a correlation design so as to analyse the relationship between observable data Graffin G, (2013). This research design is greatly dependable and warrants that the study can be replicated. This study implemented a quantitative research method for the collection and analysis of data.

3.3 Target population

Since the study is focused on the agricultural sector of Zimbabwe, the population will include all internal auditors affiliated with the local chapter of the Institute of internal auditors who provide internal auditing services to companies in the agricultural services sector in Zimbabwe (GMB). Audit committee members and senior management of companies in the agricultural services sector utilising the services of internal auditors will be included to complete the population

3.4 Research Sample size

A small, but carefully chosen sample was used to represent the population. The sample reflected the characteristics of the population from which it was drawn. The sample drawn was 30, which were made up of 10 Audit Committee members, 10 top

management (directors and executives), and 10 Internal Auditors. This represents a half of the total population.

Sampling is aimed at reducing the population to a manageable size while at the same time managing to maintain representation, validity and credibility of the sample. The respondents' views in the selected sample will be taken to be the conclusions that other individuals in the population would also make. Judgmental non-random sampling was used to select a representative sample.

3.4.1 Justification of the sample size

The sample was relatively small for this study as the researcher wanted to include only those individuals who if randomly selected would give relevant information in line with the problem at hand. In addition to that, due to CORONA VIRUS (COVID 19) restrictions, the researcher couldn't have any option since most of the population was under indefinite lockdown. The approach selected was stratified random sampling due to a large sample size as alluded by Martino et al, (2018). The respondents feel motivated since it involves everyone within a targeted population (Ladusingh 2018).

3.5 Sampling Technique

These are various sampling methods which are used to determine the individual who constitute the sample (Hanif et al,). The sampling procedure involved both probability and non-probability sampling methods, this enabled the researcher to use both statistical and own personal judgment of who to include in the sample. The researcher used Stratified random sampling that incorporated simple random sampling.

3.5.1.1 Stratified Random Sampling Technique

Hayes (2020) defines a stratified random sampling as a method of sampling that involves the division of population into smaller sub-groups known as strata for example:

- Top management
- Audit Committee
- Internal Auditors

3.5.1.2 Justification of using stratified sampling technique

Every member in different levels is included thereby reducing dominance of any other group. Stratified sampling is focused on reducing sampling errors. Population is divided into homogenous subgroups (strata). A focus on important subpopulations but ignores irrelevant ones. Stratified sampling improves the accuracy of estimation. Sampling equal numbers from varying widely in size maybe used to equate the statistical power of tests of differences between strata. However, stratified sampling can be difficult to select relevant stratification variables. Requires accurate information about the population, or introduces bias**.**

3.6 Data collection and Research Instruments

In order to reach meaningful conclusions and recommendations both secondary and primary data were used and these are highlighted below.

3.6.1 Secondary Data

Secondary data is information that already exists which has been collected for other purposes. This data was collected for the purpose of getting an insight into the nature of the problem at hand. The secondary data was collected to compliment primary for the purpose of the research study. The data was gathered mainly from the internet, textbooks, publications and journals.

3.6.2 Primary Data

This is sometimes referred to as the first hand source data. It refers to that information gathered from the direct subjects of research aims and objectives. Data were collected from internal auditors affiliated with the Zimbabwe chapter of the Institute of Internal Auditors, top management and audit committee members in GMB. In carrying out the primary data collection, the researcher took consideration of issues relating to the target population /sampling frame, sampling size, sampling technique, data collection instruments and the response rate. This being qualitative research, specific respondents were targeted in the primary data collection.

3.7 Research Instruments

Research instruments are the tools used for gathering data for the research. A researcher may elect to use several research instruments for purposes of establishing as much

information as possible. Some of the instruments include questionnaires, which are normally considered appropriate in survey researches where a wide coverage is needed. The questionnaires can be structured or unstructured depending on the researcher's philosophy; observations can also be used to collect data, particularly in experiments. In this instance, the researcher can decide to participate in the entire experiment or simply observe from a distance. This researcher chose to use questionnaires as the main research instrument.

3.7.1.0 Questionnaire

Saunders et al (2009) defined questionnaires as all techniques of data collection in which a person is asked to respond to the same set of questions in a predetermined order. Usually questions are answered in the absence of the interviewer. McLeod (2018) defines questionnaire as research instrument consisting of a series of questions for the purpose of gathering information from respondents. However, due to **Corona virus's** restrictions' the researcher wasn't able to distribute the questionnaires physically but online. This was done through emails and other social media platforms. Cleave (2017) defines online questionnaires as a structured questionnaire that your target audience completes over internet generally through filling out a form. Bell et al (2018) indicated that, "For many reasons the online questionnaire is the most widely used instrument for obtaining information from the subject".

3.7.1.1 Justification

The researcher used the questionnaires to gather some of the information. Open ended questions allowed respondents to give their own response without being clued. The researcher strictly avoided entrapment and appeared to be as neutral as possible. This helped to ensure the reliability of the information provided. The use of questionnaires benefited the researcher because they were administered to a large number of people who scattered all over at the same time. It allowed the researcher to collect more information in a short space of time there by saving money and time. Questionnaires had an advantage of freedom to the respondent especially the open ended questionnaires. The respondents were free to answer whatever they knew about the subject matter. This is usually facilitated by the absence of the researcher and the environment created by the researcher. However,

questionnaires may not be properly understood by the respondent and this will not yield best results. Also, they may be completed in hurry because the respondent may not give them time to concentrate. To counter these inherent weaknesses in questionnaires the research utilised another research instrument; interview. Interviews were used to ensure that the questions that the researcher felt that were too contextual were further explained in interviews.

3.7.2.0 Interview

The other tool used was the expert interview, also called the key informant survey. This exercise attempts to tap the knowledge and experience of those familiar with the general subject being investigated. Since the economy was under Covina' restrictions the researcher did online interviews. Accordingly, the researcher chose to interview people in the financial reporting line. These interviews were, to a large extent, structured interviews whereby the content and possible sequences of the questions were determined in advance, in such a way that there was little that the respondents could say or do which would make the interviewer deviate from this set pattern.

3.7.2.1 Justification

The response rate in a personal interview was higher than in any other method. The other advantage is that it allowed the interviewer to have full control of the data collection process. Another important aspect of the personal interviews was that it allowed the researcher a chance to explain unclear questions. The interview method, however posed two difficulties. Firstly, the researcher did not have any interviewing skills. Secondly, it was difficult to record the data since it was done online. The interviewer had to rely on a very good memory and recorded the main points only.

One major problem encountered was that interviews were time consuming and costly. The researcher had to call each respondent to place and confirm appointments. Interviews required greater financial resources for phone calls. The researcher had to look for sources of finance from relatives and friends to ensure that the project is done in time and accurately.

In the present research however questionnaires and interviews were used for collecting data since they enabled the collection of the required primary data.

3.8 Data Collection Procedure

This takes into account various ways and steps to be taken in administering instruments and data collection from the subjects under study. This procedure involved three steps; firstly, seeking permission from subjects' superiors were appropriate, secondly making appointments with respondents and lastly distribution and administration of instruments on the subjects of the sample. The researcher distributed questionnaires to the respondents either by e-mail or hand delivery. A header on each copy of the questionnaires had a clause that clarified the role of the research and assured the respondents to the confidentiality of their responses.

3.9 Validity and Reliability of Findings

Reliability and validity are conceptualised as trustworthiness, rigor and quality in qualitative researches. It is also through this association that the way to achieve validity and reliability of a research gets affected by the qualitative researchers' perspectives which are to eliminate bias and increase the researcher's truthfulness of a proposition about some social phenomenon using triangulation. Methodological triangulation involves using more than one method to gather data, such as interviews, observations, questionnaires, and documents (Denzin, 1978).

The researcher tried to increase reliability and validity by selecting a representative sample then administering two research instruments i.e. questionnaires and interviews to eliminate bias, increase quality of responses and truthfulness. Overall, the whole research exercise proved to be a worthwhile experience and enlightenment. The researcher had to scrutinise and analyse data to qualify it to be free from bias and misrepresentation.

3.10 Data presentation and analysis plan

After the collection of data, tables and graphs were used to present the data. This aided in giving the researcher an opportunity to scrutinize and discover the influence of internal auditing in fraud detection and fraud prevention in the financial services sector. After presenting the data, it was now easy to describe and analyse the data. Information from the interviews and questionnaires were analysed in a qualitative manner to deduce the meaning and link to the research questions and objectives.

3.11 Conclusion

This chapter discussed the methodology of the research. In response to the researcher's aims and objectives, the case study research design was adopted. A brief synopsis of population characteristics and selection of the sample frame, based on a stated criterion was given. Data collection methods and instruments were discussed as well as their advantages and potential disadvantages. The researcher maintains that this is a qualitative research and hence the choice of sampling data collection techniques. In the next chapter, the study focuses on presenting, analysing and interpreting the data collected and finally discussing the findings

CHAPTER 4

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction

This chapter presents and analyzes the data that was collected in the field by the researcher through interviews and questionnaires. Data analysis is a means of giving structure to raw data that was collected from the field. The results will be presented diagrammatically and then expressed in percentages for better assessment and the findings will be full interpreted to relate them to the objectives of the research. Conclusion by the researcher will be based on this analysis.

4.1 Response rate

Table 4.1 below illustrates the response rate for the questionnaire:

Table 4.1 Questionnaire response rate

TARGETED PERSONNEL	QUESTIONNAIRE DISTRIBUTED	RESPONSE RECIEVED	PERCENTAGE RESPONSE
Top level management	10	9	90%
Audit committee members	10	7	70%
Internal auditors	10	10	100%
TOTAL	**30**	**26**	**86.67%**

Source: Raw data

The high response rates are attributable to the follow ups that the researcher made to the subjects where the questionnaires had been send to.

From the 30 questionnaires distributed ,9 out of 10 top level management, 7 out of 10 audit committee members and 10 out of 10 internal auditors completed and returned the questionnaires. Calculating the total percentage of the response rate in total it will be the number of completed and returned questionnaires over the number of targeted respondents which is 26 /30 which gives us 86.67%. Since the response rate of 86.67% is above 50% it will be reliable as it is in line with what Bryman (2012) who articulated that the response rate should be greater than 50% to yield a better and reliable result

4.2 Background Information

4.2.1 Duration in the organization

The duration of employees in the organization is very important when collecting research data. Those employees who will have worked in an organization for more years have more relevant information as they are more knowledgeable than those who have served in the industry for a few years. The following table shows the years which employees who responded to the questionnaires had experienced in their indudtry.

Table 4.2 Employee work duration

Duration in industry	0-2years	3-4years	5 and above
Number of respondents	3	5	18
Total respondents	26	26	26
Percentage outcome	11.54%	19.23%	69.23%

Source: Raw data

The table shows that 3 out of 26 (11.54%) respondents had been in their relevant industries for a period between 0 to 2 years and as far as experience in their industry is concerned, the number of years they have experienced may not be sufficient enough for them to know much about their profession. Out of 26 respondents 5 had an experience of 3to 4 years which is 19.23% and 18 out of 26 (69.23%) which is the majority of the respondents who had experienced 5 and above years in their relevant industries. This shows that the subjects in this survey possessed the required information for the study either through qualifications or working experience and familiarity to the organisation. The response rate per subject was calculated as returned copies with respect to expected return of copies. The above outcome is in line with what Creswell (2015) suggest, that is the majority of the respondents must be from experienced employees so as to increase the reliability of the outcome of the research.

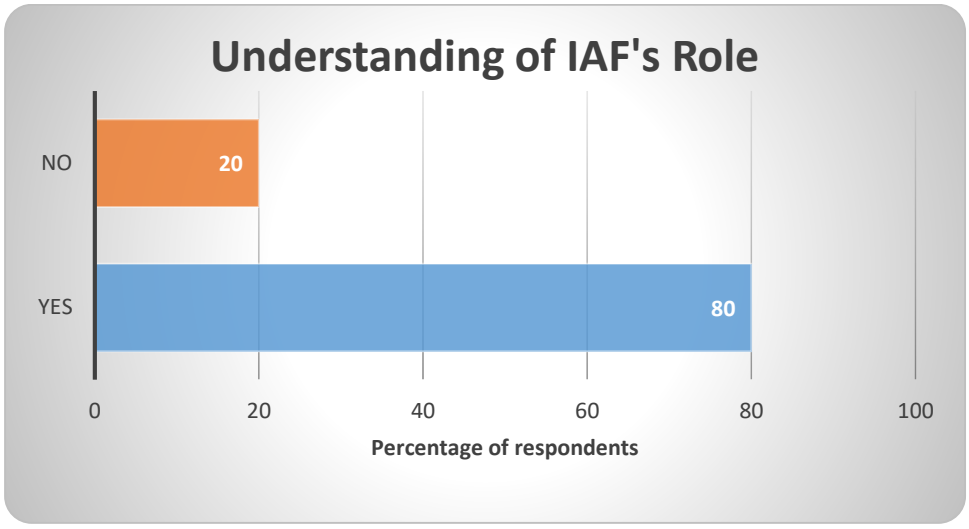
4.3 Presentation and analysis of findings

4.3.1 Establishing the influence of internal audit function in fraud detection and prevention

4.3.2 Defining and explaining the role of Internal Auditing in Fraud detection and prevention

Figure 4.1 Understanding of IAF's Role

n=26



Source: Raw data

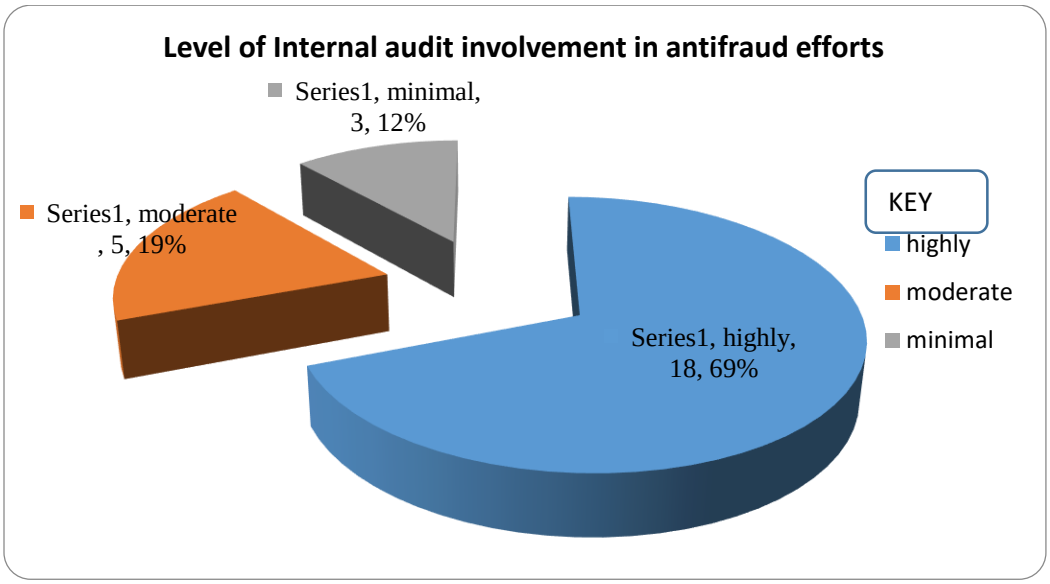
20% of the respondents failed to define and explaining the roles of internal audit in an organisation. 80% of respondents managed to define and explain the role of internal auditing in their own context of their understanding and in particular reference to their organisation. The 80% constituted all internal auditors and some audit committee members and management who were explaining the role in line with their expectations They also managed to explain the role as advised by the Institute of Internal Auditors. Management and audit committee members were explaining it mainly in the context of issues around fraud auditing and investigation and issues that have to do with setting of internal controls and evaluation thereof. Qualified internal auditors were of the view that their role and duties were mainly defined by the host organisation and most qualified internal auditors are often tempted by the rewards and consequences as they delve into fields that they are

not trained for. This mismatch in understanding of the role has led to challenges for the IAF, the challenges involve a strained IAF that fails to perform other duties as assigned. The IAF may as well fail to perform their anti-fraud duties

4.3.3 Level of internal auditor's involvement in fraud detection and prevention

n=26

Figure 4.2: level of internal audit involvement in antifraud



Source: Raw data

The pie chart above depicts the varying level of involvement of the internal audit function in anti-fraud detection and prevention efforts. Majority, 69% of respondents indicated that the function is heavily involved in fraud detection and prevention. Many of these respondents were senior managers and internal auditors revealed that in their organisation the internal audit function was involved in the setting of antifraud controls, evaluating the said controls, fraud auditing, fraud investigation and remediation. Another group of participants, 19% understudy revealed that their respective internal audit functions are moderately involved in anti-fraud efforts. These respondents cited similar cases where their functions are not afforded a chance to help in setting antifraud controls. The majority of these respondents also indicated that they are mainly involved in evaluation of antifraud controls, fraud investigation and auditing. The respondents also indicated that it was a

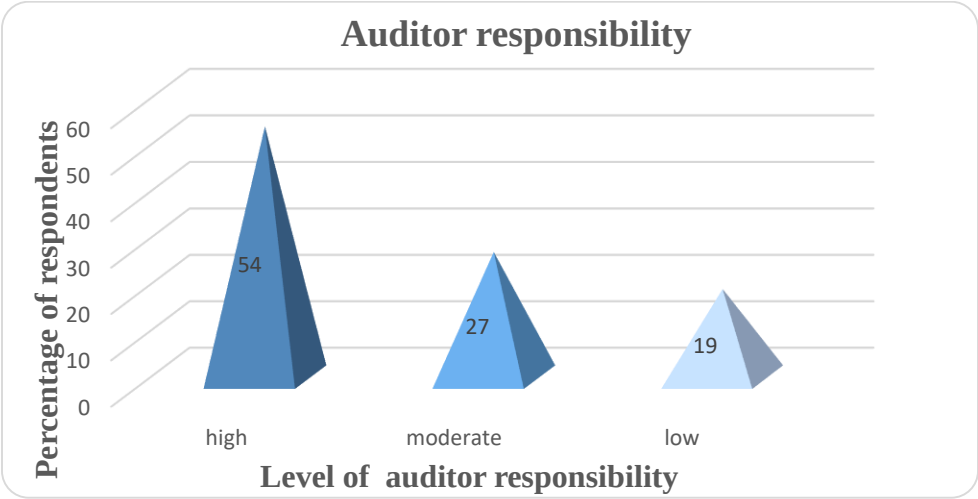
preserve of management and board to set antifraud controls and remediate any fraud situations. Some of the participants, 12% also indicated that their respective internal audit functions take a subtler role in fraud detection and prevention. So in general participants revealed that their function is mainly involved in evaluation of antifraud efforts disregarding other efforts such as assisting in setting of antifraud controls.

The IIA advises that it is to the discretion of the internal auditor to determine what they should do, how far they should go in terms of their involvement in fraud detection and prevention.This was supported by Hallison, et al 1999 who found that internal auditors limit themselves to their core business or duties in fraud detection and prevention leaving most duties like control to management. The study by Hallson et al (ibid) also indicated that though the case is to follow practice advisory standards most internal auditors are left with no other option than to join management in setting internal controls if management decides to call in them. The findings of this study were contrasting with findings of studies such as those done by Hallison et al 1999 in that the findings indicated a higher involvement of the IAF.

4.3.4 Level of auditor responsibility in fraud detection and prevention

Figure 4.3: Auditor responsibility

n=26



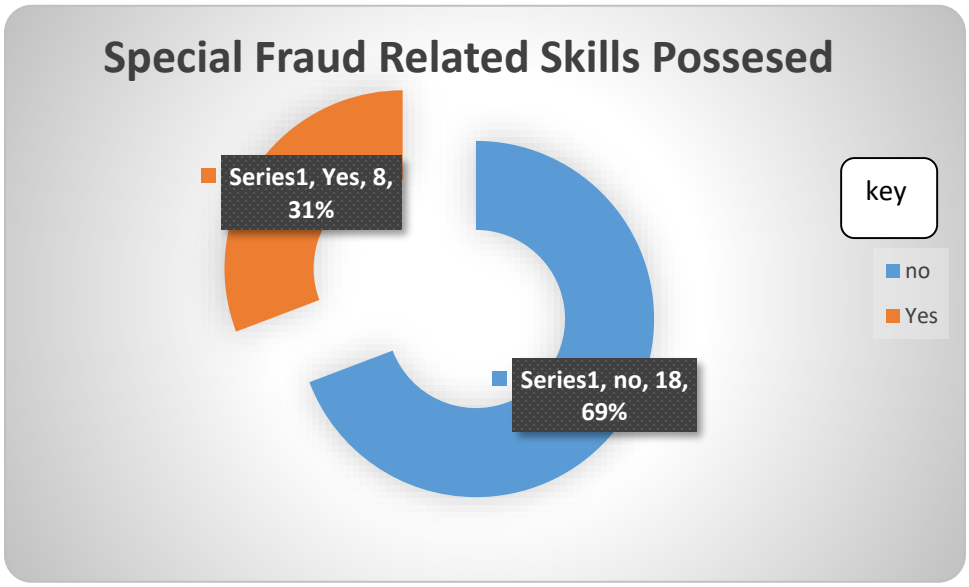
Source :Raw data

54% of participants as shown by figure 4.2 above revealed that as part of their audit charter they are expected to deal with fraud issues. They cited that their charter gave them full or partial jurisdiction over anti-fraud activities within their respective organisation. They reported that as part of their charter they are expected to assist management in setting anti-fraud controls, take full responsibility of controls evaluations, fraud risk assessment, fraud investigation and auditing, and assisting in remediation in such scenarios within their respective organisation. 27% of the respondents were of the view that their respective internal audit charter does not require much of internal audit's effort in setting up of controls though fraud risk assessment, and control environment evaluation fall within the function's arms. A smaller fraction of participants, 19%, were of the view that respective internal audit functions are obligated only to the evaluation and assistance in fraud investigations.

Alleyne and Howard, (2015) study results presented a position contrary to the findings of this study, their study concluded that organisation whose IAFs are not obligated to perform any control duties are more likely to detect fraud than otherwise. The results of this are in agreement to what DeZoort and Harrison, (2018) found about internal auditor responsibility over fraud detection. DeZoort and Harrison, (ibid) had earlier stated that internal auditor responsibilities vary from organisation to organisation but follow a general trend regardless of country and sector the IAF is operating in. The study carried out by the duo DeZoort and Harrison (ibid) indicated that the overall responsibility in fraud detection ranges between moderate and high depending on the country and sector. Auditor responsibility in developing world is high as shown by the high perceived responsibility of countries like Mexico and conversely low to moderate ratings for countries like Belgium. The results also agree with the findings of Coram et al (2006) which indicated that auditor's responsibility vary from organisation to another especially in Australian and New Zealand economies. Interestingly Coram et al, (ibid) also indicated that organisation with IAF that have high or more responsibilities are effective in fraud detection and prevention.

4.3.5 Special fraud skills and qualifications possessed by the IAF

Figure 4.4: Special fraud related skills possessed



Source :Raw data

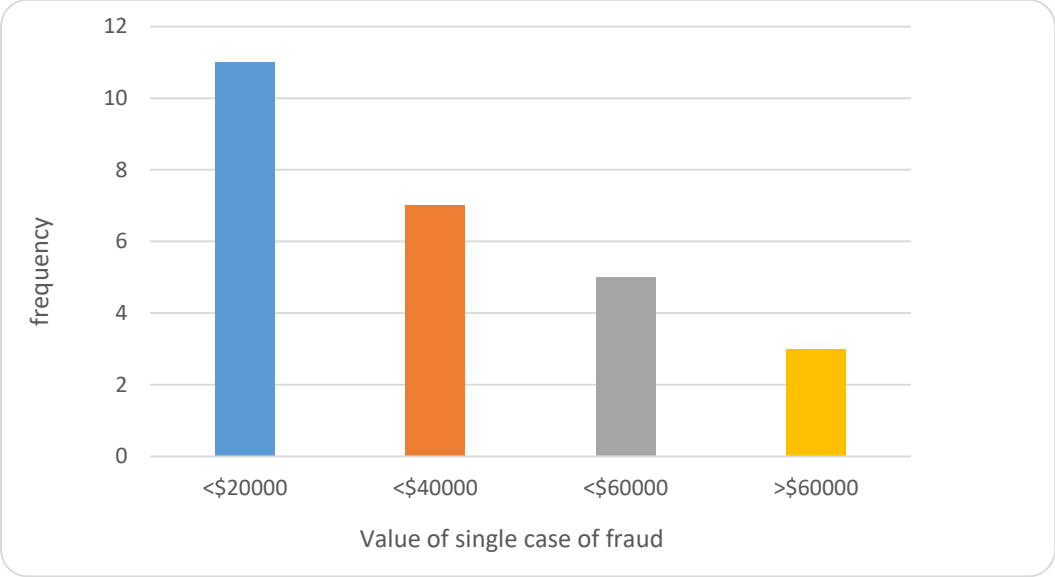
69% of the participants indicated that their IAF do not host any special trained personnel. Skills and qualifications the study expected the function to have included those granted by the Association of Certified Fraud Examiners and the Centre for Counter Fraud Specialists. Of the 31% percent participants who revealed that their internal audit functions have these skills and qualifications most indicated that most common qualification is the CFE. When analysed together with data gathered from interviews and other questions from the same questionnaire the findings give light into the relationship between possessing such skills and ability to detect and prevent fraud. For instance, the 31% that indicated that they have the skills and qualifications constitute the majority of respondents that have lower average fraud values and more fraud cases reported than those that do not have.

The low level of skills and qualifications related to fraud can be explained or justified by the fact that the IIA advises that internal auditors need to have knowledge and skills enough to enable them to effectively discharge antifraud duties. The IIA goes on to say that the knowledge and skills need not be of the same calibre with that of an individual whose primary duty is to deal with fraud. The advice by the IIA in essence implies that the IIA advises these qualifications and skills are instead a concern for CFEs. PwC Fraud Academy (2009) concurred with the findings of this research, PwC Fraud Academy, (ibid)

advises that for effective fraud detection and prevention the IAF should host a variety of antifraud qualifications and skills. KPMG, (2018) also indicated from the fraud survey in 2018 that respective IAF should rope in special fraud skills and qualifications as they enhance the ability to detect and deter fraud.

4.3.6 Value and frequency of fraud cases that organisation have fallen prey to.

Figure 4.*5:* Value and frequency of fraud cases



Source: Raw data

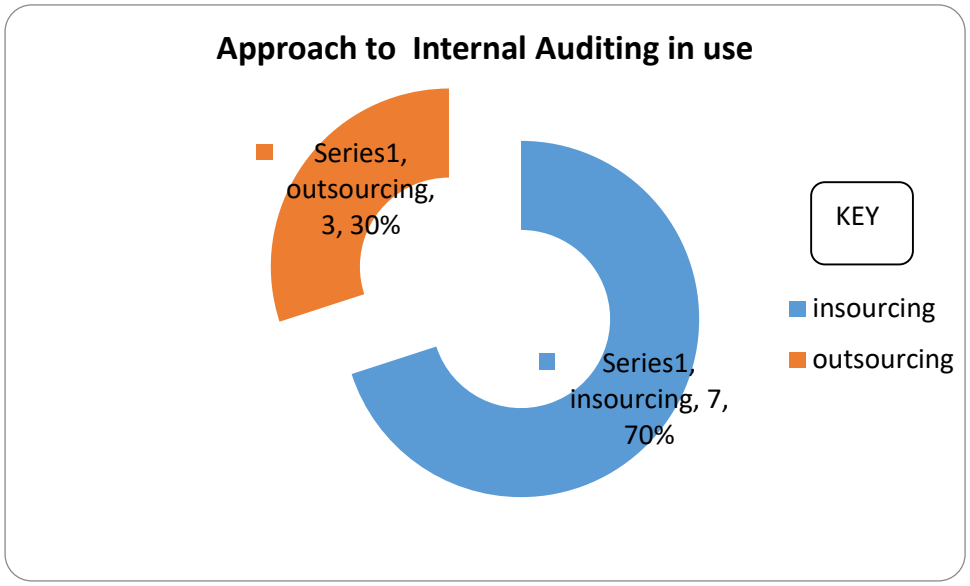
Respondents admitted that their organisation were at the mercy of fraudsters within and outside the organisation. All of the respondents indicated that their organization have in some way been hit by several fraud sagas or cases. All respondents as indicated by the table above revealed that their respective organization have suffered fraud but what differs is mainly the frequency and value of respective fraud cases. As shown by the graph figure 4.4 above the respondents indicated that they have suffered frauds of varying values and magnitude in monetary terms. Forty percent of the respondents revealed that the mean value of fraud encountered by their organization ranges between $20000 and $40000

Most of studies in the are in agreement with the findings that indicate that organisation with IAF are more likely to suffer less frauds in terms of cost. Studies by Coram et al (ibid) showed that organisation with IAF tend to have low mean fraud values than those that do

not have a resident function let. KPMG Forensics also concluded that internal auditing plays a part in reducing direct and indirect costs of fraud as shown in the Fraud survey in India where majority of the organisation understudy had the IAF had lower fraud related costs than those that do not have the IAF.

4.4 Comparing and contrast in-sourcing and outsourcing of the internal audit function

Figure 4.6: Approach to Internal Auditing in use



Source :Raw data

Approach to internal auditing refers the nature of the internal audit function that the host organisation utilises. The approach can either be in the form of an outsourced or in sourced function. Majority, 70% of the respondents indicated that they use the resident approach or the in-sourced approach where the internal audit function is a permanent feature or function of the organisation. Most if not all of these respondents who indicated that they have an in-house function have also reported more fraud cases than those that out-source the function or services of the IAF. Furthermore, these respondents also reported a low to moderate average value of fraud. Majority of the 70% that reported that the function of in-house have recorded more than $500000 per single case. The reminder of respondents 30% indicated that they utilise the out-sourcing approach. These respondents also accounted for less cases

of reported fraud cases and they also recorded most if not all high fraud cases ranging around $50000 per single case.

Most research findings in this area seem to agree that having an internal audit department or function that stands as a permanent arm of the organisation positively influence the organisation's ability to detect and prevent fraud. Coram et al, (2006) affirmed that organisation with a resident IAF detect and prevent fraud effectively than those that do not have it. In other words, Coram et al, (2008) found that organisation that outsource the IAF are likely more to suffer from fraud that is unlikely to be detected. The Mui, (2010) study indicated that due to various factors such ability of in-house internal auditors to work as a team which enables them to build rapport, the organisation is more likely to detect and prevent fraud.

DeZoort and Harrison, (ibid) also indicated that there is a positive relationship between having an in-house IAF and ability to detect and prevent fraud. Soh and Martinov-Bennie, (2011) presented findings that showed that though an in house IAF it would be more effective in fraud detection and prevention it would be economic and effective for organisation to adopt a partial approach. Soh and Martinov-Bennie, (ibid) found that organisation that adopted this partial approach are more effective in fraud detection due to advantages which both outsourced and in-house approach cannot match.

4.5 Limitations and challenges faced by the IAF in fraud detection and prevention.

Table 4.4: Challenges Faced by IAF

Problems and challenges emanate from	YES	NO
Fraud skills and qualifications	**21**	**5**
Operating environment	**12**	**14**

Source: Raw data

The above table presents a variety of problems and challenges that respective IAF face. The major challenge to the function as shown in the data gathered is the lack of special fraud skills and qualifications in internal audit function. Most internal audit functions do

not have other qualifications that have been proven to be critical in enhancing the function's ability to help in detection and prevention of fraud.

The IIA and ACFE, (2019) in a combined manual for managing business fraud risk affirm that these skills and qualifications aide the internal audit function in discharging effective service in fraud detection and prevention and that their absence adversely affect the delivery thereto. Deloitte Fraud Survey, (2020) showed that much of their respondents 90% indicated their IAF either do not have or do not know whether they have adequate skills such as ACFS and CFE. Deloitte Fraud Survey, (ibid) concluded that lack of these skills is a major problem or challenge to the IAF in fraud detection and prevention. Ernst and Young, (2008) recommended that IAFs should rope in new fraud skills and qualifications to enhance fraud detection and prevention. This recommendation was in response to the findings that revealed that most internal auditors do not have such qualifications and their absence was a cause of concern for both management and the IAFs themselves.

Operating environment as a challenge was explained as a nature of working conditions that internal audit function is subjected to within the organisation. Most respondents 46% (12) indicated that their environment renders them weak if not powerless as managers may deliberately override some controls (management override). The same respondents 46% also indicated that their respective IAF face ever increasing expectations from both management and other stakeholders. These respondents who include all auditors understudy and audit committee members have indicated that these expectations have led respective auditors into disregarding internal auditing standards in order to please their paymasters. This has led most IAFs into ineffective discharge of service as they delve in areas they are not which makes difficult for them to help. In theory the IAF is supposed to report to the audit committee but in practice this has been found as otherwise. This alone, weak reporting structures, left most IAFs in quandary over next move as their fate is often in the hand of management. In event of such cases most respondents indicated that they are forced to ignore otherwise material issues when discharging anti-fraud duties.

Many studies on the challenges have indicated that the operating environment is not conducive for internal auditors to effectively discharge their duties. Hallison et al, (1999) found that for most IAFs the greatest challenge is lies within the environment that they

operate. In their study Hallison et al they found out that most internal auditing functions were facing funding challenges. This challenge was cited as critical as it affect the function's effective discharge of duties. Hallison et al also concluded that it its funding that allows the function to hire fraud expert skills that are also critical in fraud detection and prevention. PwC, (2008) also found out that the major limitation on IAF's efforts has much to do funding and management and belief in the processes in instituted by the IAF.80% of respondents in the KPMG Internal Audit Fraud Survey, (2018) cited management commitment and funding (or the lack thereof) as the major reasons why many IAFs fail to discharge their duties effectively. Ernst and Young, (2008) found that most impeding factors in the operating environment are as a result of high management expectations that do not tally with their commitment

4.6 Interview data analysis

Table 4.5 Interview response rate

Targeted personnel	**Number of targeted**	**Number of interviews conducted**	**Response rate**
	Respondents		**Percentage**
Top level management	**1**	**1**	**100**
Audit committee members	**1**	**1**	**100**
Internal auditors	**1**	**1**	**100**
TOTAL	**3**	**3**	**100**

Source: Raw data

The response rate for the interviews was 100%. This shows that of all the three interviews that the researcher wanted to conduct were all successfully conducted. The researcher interviewed one participant from each group of participants and these were 1 Top level management, 1 Audit committee member and 1Internal auditor.

4.6.1Question1

What is the role of internal audit function in fraud prevention and detection?

All the respondents managed to understand the roles of an internal audit in fraud prevention and detection. All the respondents noted that the audit function supports management's efforts to establish the culture that embraces the ethics, honesty, integrity. They also noted that the function assist management with the evaluation if internal controls used to mitigate fraud., evaluation of organisation's assessment of the fraud risks. They also stated that, though it is the duty of management to design the internal controls of an entity so as to mitigate fraud issues, it is the internal audit's role to assess the effectiveness of what the management has set. The respondents also stated that, on prevention of fraud, the role of an internal audit function is to be a watchdog for the potential fraud risks.

In conclusion all respondents showed that the they understand the roles of internal audit as supported by questionnaires issued where 80% (24/30) respondents showed to be much aware of the roles and responsibilities.

4.6.2 Question 2

In order to prevent and detect fraud, which strategy works much to the benefit of the organization between insourcing and outsourcing of internal auditors.

All the participants indicated that, their organization benefits much from insourcing of internal audit function. They also indicated that, having an internal audit function that is being insourced positively influence the ability to detect and prevent fraud in an organisation since the members are much aware of the organisation itself, the organizational culture and the way in which the entity prepares and presents its Annual Financial Statements. The internal auditors also indicated that there is an element of independence added to the internal audit function that may not be effectively realized using only employee internal auditors that are being directly paid and possibly influenced by the organization itself. The management members indicated that if the internal audit function is outsourced, this means that there will clearly be a lack of depth of internal knowledge

and awareness of the culture of the organisation. This will result into an inevitable acclimatisation period to get used to the organisation's systems and processes hence time wastage. In addition to that there is a risk to the credibility of the internal audit function if a serious lack of a cultural "fit" develops between the organisation and the provider of the outsourced service.

In conclusion insourcing of the internal audit function is of important to the organisation since the function will be in a better position to detect and prevent fraud in an organisation than outsourcing as all respondents were in support of insourcing giving a 100% vote. The above result is also supported by the outcome from the questionnaires which showed that 21/30 (70%) used insourcing rather than outsourcing and it is also supported by Simpson (2018) who noted that there was a worldwide adoption of insourcing of internal auditors.

4.6.3 Question 3

What are the limitations and challenges of the internal auditor's role in fraud detection and prevention?

All respondents noted the major challenge of the IAF is the lack of special fraud skills and professional qualifications in their internal audit function. They indicated that, due to lack of skills, the audit function will not be able to detect and prevent fraud in an organisation and this will result in an increase in the fraud cases. The committee indicated that lack of skills means that the function also lacks some professional code of ethics. They also indicated that the IAF lacks knowledge of fraud schemes and undue trust in management.

In conclusion to the above all the respondents agreed on the same challenges that are posed by internal audit function. They agreed on the issue of insufficient skills to prevent and detect fraud by the respondents in the interviews.

4.7 Chapter summary

This chapter presented the research findings obtained basing on the research objectives whilst using the research method presented in chapter 3. The findings compiled from the research instruments of online questionnaires and online interviews have been used to make recommendations to stakeholders in financial reporting process and those involved

in antifraud efforts so that they yield the maximum benefit from the utilisation of internal auditing. The next chapter gives the summary of major findings, conclusions, recommendations to all parties concern in the financial reporting.

CHAPTER FIVE

SUMMARY CONCLUSION AND RECOMENDATIONS

5.0 Introduction

This chapter looks at summary, conclusion, recommendations and further research areas. The summary summarizing all the chapters of the study. The conclusion looked at constraints experienced, findings and observations. The recommendations looked at the contribution and suggested solutions.

5.1 Chapter summaries

5.1.1 Chapter One

This chapter introduces the topic of the research which titled the effectiveness if internal audit in fraud detection and prevention. The main objective of the research was to find out the impact of internal auditing on organisation's ability to detect and prevent fraud. The significance of the study, limitations and delimitations of the study were outlined in this chapter.

5.1.2 Chapter Two

This chapter discussed the available literature of the of internal auditors giving details on how to effectively prevent and detect fraud stating some of the major ways to consider to reduce fraud. More detail is given on the major question of the study which is to find out the impact of internal auditing on organisation's ability to detect and prevent fraud siting the issue of insourcing and outsourcing of internal auditors. Arguments against the insourcing and outsourcing of internal audit as well as the challenges associated by the internal auditors in prevention and detection of fraud.

5.1.3 Chapter Three

This chapter explained the research method and design used in collecting and analysing data. A mixed descriptive research approach which used qualitative and quantitative designs was used by the researcher. The sample of 30 was used and this sample was made up of 10 audit committee members, 10 top management (directors and executives), and 10

internal auditors. For reliability purposes, the researcher used primary and secondary data. This was achieved through the use of online questionnaires and online interviews.

5.1.4 Chapter Four

This chapter contains the findings of the research. Data presentation was done using tables, pie charts and bar graphs. The mode of the data was used as a measure of central tendency and was used for data analysis. Further analysis was done by linking all research findings to existing literature. Data collected from interviews was used in comparison with data generated through questionnaires so as to ensure reliability of the data.

5.2 Major Research Findings

Research findings showed that Internal auditing plays a critical role in fraud detection without which an organisation can never effectively prevent and detect fraud and the majority of both respondents of questionnaires and interviews were in support of this. Supporters of in-house internal auditors argued that it provides a positive influence of the organisation's ability to detect and prevent fraud. The findings also showed that professional incompetency is the major limitation for internal auditors to detect and prevent.

5.3 Research Conclusions

The research was successful in analysing the effectiveness of internal audit in fraud detection and prevention., the challenges associated on the internal auditor's role in fraud detection and prevention as well as the comparison between insourcing and outsourcing of internal audit function

5.4 Recommendations

In this era of economic disturbance, it is an internal auditor's role that can only bring a sense of reasonableness on fraud prevention and detection. In that light the researcher recommends that internal auditors and management should strive to maintain a balance in auditor involvement and responsibility in fraud detection and prevention so as to maintain objectivity and independence to ensure effectiveness of controls designed. In this endeavour management should strive not to burden the IAF but at the same time utilising the IAF's expertise to ensure auditable and effective fraud controls.

Management should consider having an in-house IAF as an approach to internal auditing since it is endowed with benefits over a fully outsourced approach. Advantages such as reduced cost for fraud and low frequency of cases of fraud should the entice organisation into adopting the resident IAF approach.

Respondents have been of the view that the major hindrance faced by internal auditors in prevention and detection of fraud is professional incompetence. The researcher recommends vocational trainings and educating internal auditors on how to detect and prevent fraud.

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APPENDICES

Midlands State University
Established 2000
Our Hands, Our Minds, Our Destiny

APPENDIX A: RESEARCH LETTER

I am Pretty Neghanda (R167156Z), a fourth year student at Midlands State University doing Bachelor of Commerce Accounting Honours Degree. Essential to my academics is the undertaking of a research project on a preferred topic which reads:

"The effectiveness of internal audit in fraud detection and prevention: (Case of Grain Marketing Board).

The information provided is for academic purposes and will be treated with outermost confidentiality.

QUESTIONNAIRE FOR ACCOUNTANTS AND VALUATORS

Instruction

APPENDIX B: QUESTIONNAIRE FOR MANAGEMENT

Instructions

Kindly tick or fill in your response in the appropriate box or space provided to each of the questions below;

Please respond by putting in the appropriate box and writing in the spaces provided

1. Please indicate your age group

25-30	30-35	35-40	40-45	45-50	above 50
☐	☐	☐	☐	☐	☐

2. Number of years in the industry

0-2yrs 3-4yrs 5and above

3. Approach to internal auditing in use

In sourcing

Outsourcing

4. Do you understand the function of the internal audit function in fraud detection and prevention?

Yes No

Can you explain the role of the of internal auditors in fraud detection and prevention……
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……
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5. Level of involvement of the Internal Audit function in antifraud efforts within the organisation

A) Highly (assisting in setting up of controls to fraud investigations)

B) Moderate (evaluation of controls to fraud investigation and remediation

C) Low/minimal (evaluation of controls) as advised by the IIA

6. Level of organisational responsibilities and obligations bestowed on the internal audit function with regards to fraud issues

High moderate low

7. Have you ever encountered fraud in years of auditing experience

Yes No

If your response is yes explain the course of action taken by the internal audit function

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8. Frequency of fraud cases within a year

0 ☐ 0-5 ☐ 5-10 ☐ above 10 ☐

9. Range of Average value of frauds encountered

<$20000 ☐ <$40000 ☐ <$60000 ☐ >$6000 ☐

10. Does the internal audit function have adequate skills base for fraud detection and prevention

Yes ☐ No ☐

If your answer is yes briefly describe the skills and qualifications ……
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11. Challenges and limitations met in discharging antifraud duties

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Thank you very much for completing my questionnaire

APPENDIX C: QUESTIONNAIRE FOR INTERNAL AUDIT AND THE AUDIT COMMITTEE

Midlands State University
Established 2000
Our Hands, Our Minds, Our Destiny

Instructions

Kindly tick or fill in your response in the appropriate box or space provided to each of the questions below;

Please respond by putting in the appropriate box and writing in the spaces provided

1 Please indicate your age group

25-30	30-35	35-40	40-45	45-50	above 50
☐	☐	☐	☐	☐	☐

2 Position (occupational)

.....

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3Number of years in the industry

0-2yrs	3-4yrs	5and above
☐	☐	☐

4 Approach to internal auditing in use

In sourcing ☐

☐

Outsourcing

5 Do you understand the function of the internal audit function in fraud detection and prevention?

☐ Yes ☐ No

If yes can you explain the role of the of internal auditors in fraud detection and prevention……
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6 What are your expectations on the internal audit function with special emphasis on fraud detection and prevention?

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7 Is the internal Auditing Function meeting your expectations?

Yes ☐ No ☐

If your answer is no explain the areas where how the function is failing to meet your expectations……
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……....

8 Level of involvement of the Internal Audit function in antifraud efforts within the organisation

D) Highly (assisting in setting up of controls to fraud investigations) ☐

E) Moderate (evaluation of controls to fraud investigation and remediation ☐

F) Low/minimal (evaluation of controls) as advised by the IIA ☐

9 Level of organisational responsibilities and obligations bestowed on the internal audit function with regards to fraud issues

High ☐ moderate ☐ low ☐

10 Have your organisation ever encountered fraud?

Yes ☐ No ☐

If your response is yes explain the course of action taken by the internal audit function

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11 Frequency of fraud cases within a year

0 ☐ 0-5 ☐ 5-10 ☐ above 10 ☐

12 Range of Average value of frauds encountered

<$20000 ☐ <$40000 ☐ <$60000 ☐ >$6000 ☐

13 Any areas of internal auditing in fraud detection and prevention you feel the function need to improve or remedy for the organisation to effectively deter, detect and prevent fraud at all levels

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Thank you very much for completing my questionnaire.

APPENDIX D: INT ERVIEW

Midlands State University
Established 2000
Our Hands, Our Minds, Our Destiny

I am Pretty Neghanda (R167156Z), a fourth year student at Midlands State University doing Bachelor of Commerce Accounting Honours Degree. Essential to my academics is the undertaking of a research project on a preferred topic which reads:

"The effectiveness of internal audit in fraud detection and prevention"(Case of Grain Marketing Board).

The information provided is for academic purposes and will be treated with outermost confidentiality.

Appendix C: Interview Guide

Interview questions

1. What is the role of Internal Audit in fraud detection and prevention?
2. Does the function assist management in setting fraud controls?
3. What does the IA charter highlight about the role of IAF?
4. What is the average value of fraud that the organisation has encountered?
5. What is the level of organisational expectations on the performance of IAF
6. Does the function host specially trained antifraud personnel?
7. Any problems that the IAF faces in discharging anti-fraud duties

THANK YOU FOR TAKING YOUR VALUABLE TIME TO PARTICIPATE IN THIS INTERVIEW.