



**CHALLENGES OF FRAUD DETECTION BY SUPREME AUDIT INSTITUTIONS:  
THE CASE OF OROMIA REGIONAL STATE OFFICE OF AUDITOR GENERAL**

**BY**

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**Management of Addis Ababa University in Partial fulfillment of the Requirements**  
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## ***Abbreviations***

|                  |   |
|------------------|---|
| <i>ACFE</i> -    | <i>Association of Certified Fraud Examiners</i>                 |
| <i>AFROSAI</i> - | <i>African Organization of Supreme Audit Institutions</i>       |
| <i>AICPA</i> -   | <i>American Institution of Certified Public Accountants</i>     |
| <i>ASOSAI</i> -  | <i>Asian Organization of Supreme Audit Institutions</i>         |
| <i>BOA</i> -     | <i>Board of Audit</i>   |
| <i>CIMA</i> , -  | <i>Certified Institution of Management Association</i>          |
| <i>CSRP</i> -    | <i>Civil Service Reform Program</i>                             |
| <i>FDRE</i> -    | <i>Federal Democratic Republic of Ethiopia</i>                  |
| <i>INCOSAI</i> - | <i>International Congress of Supreme Audit Institutions</i>     |
| <i>INTOSAI</i> - | <i>International Organization of Supreme Audit Institutions</i> |
| <i>ISSAI</i> -   | <i>International Standards of Supreme Audit Institutions</i>    |
| <i>OFAG</i> -    | <i>Office of Federal Auditor General</i>                        |
| <i>ORAG</i> -    | <i>Office Of Regional Auditor General</i>                       |
| <i>SAIs</i> -    | <i>Supreme Audit Institutions</i>                               |
| <i>TI</i> -      | <i>Transparency International</i>                               |
| <i>UN</i> -      | <i>United Nation</i>  |
| <i>UNDP</i> -    | <i>United Nations Development Program</i>                       |

## ***Appendix***

*Appendix 1 Time schedule/Work Plan (using Gant Chart*

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*Appendix 3 Questionnaire Presented To Office of Oromia Auditor General*

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## **Abstract**

*The Supreme Audit Institutions (SAIs) are uniquely suited to provide independent views on the quality of public sector management and the extent to which the executive branch of government is operating within the law. How effective has the Office of the Auditor General of the Oromia Regional State been able to discharge his responsibilities, particular with respect to the detection of fraud in government and what possible challenges could be influencing against this Institution and in what ways and means could these challenges be overcome are the preoccupations of this thesis. The study sought to investigate the challenges faced by Supreme Audit Institution (SAI) with particular reference to Oromia Regional State Office of Auditor General. This study employed both primary and secondary sources. The primary sources questionnaires and interview, which were based on purposive sampling technique. The finding of the study showed that the Office of the Auditor General of the Oromia Regional State faced or encountered challenge to detect fraud the independency of the office to the executive branches of the government is a challenge. Apart from this lack of capacity, absence of motivation is also contributing factors to detect fraud. Therefore based on finding the study provides that measures are required to be undertaken in order to overcome these challenges. Based on findings, researcher recommends that the Office of Auditor-General should be independent of audited organization and should shift from the traditional auditing in such circumstances to forensic auditing or investigation to detect fraud.*

*Key words: Supreme Audit Institution; Office of Auditor General, Fraud detection, forensic audit*

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the study**

Public sector bribery, fraud, and corruption have become leading concerns for legislators around the globe, as the diversion of public funds undermines parliamentary control of the public reward. There is an increasing desire among legislators to take the initiative in controlling bribery, fraud, and corruption. This is a difficult challenge, particularly for legislators who lack the institutional support, knowledge, and experience to achieve the conditions necessary to hold their governments to account. The supreme audit community cannot remain indifferent to the special difficulties faced by legislators laboring within the context of corrupt and often ruthless regimes (World Bank 2007).

Public governance bases on the division of power and responsibility. Traditionally, such a division distinguishes between executives, legislative and judiciary. The executive undertakes public financial management and the audit of this function is the responsibility of either the legislative or the judiciary or the combination of the two branches. The Supreme Audit Institutions (SAIs) are uniquely suited to provide independent views on the quality of public sector management and the extent to which the executive branch of government is operating within the law. Therefore, the function of the Supreme Audit Institution (SAI) helps government organizations to achieve accountability and integrity, improve operation, and instill confidence among citizen and stakeholder (INTOSAI 1998).

In Ethiopia, every year parliament approves a budget for the executive for the administration of the state business. At the end of the fiscal year, the executive is required to render an account of its activities to parliament. Since parliament cannot verify the accounts submitted by the executive, the Supreme Audit Institution (SAI) is mandated to audit these accounts and report its findings to parliament. The Office of Auditor-General is as a Supreme Audit Institution (SAI) is established to provide the highest level of external audit of government bodies in a country (proclamation No. 1/1994 constitution FDRE).

From its establishment, the Oromia Regional State Office of Auditor General has conducted quite a lot of opinion on financial statements and related issues of legality, regularity and fraud as well

as examining whether government institutions are operating economically, efficiently and effectively (Oromia Regional state proclamation 156/2002).

The Oromia Regional state Office of Auditor General has introduced several initiatives and developed partnership with different actors to improve the better audit service delivery to enhance economy, efficiency, transparency, and effectiveness in government operations. Although there have been some reforms and regulations to improve the roles and functions of the Supreme Audit Institution (SAI), there are still some factors that have significantly impeded the Office of Auditor General effectiveness in detecting fraud (Auditor General Annual report 2016)

As a researcher observes the function of office of auditor general from long year experience, one of the challenges that face the office of auditor general is the fraud detection in audit procedure. Fraud as a vice has continued to increase even with their heavy presence there. Funds used for growth and development are lost. This is occasioned by various challenges that face in fraud detection. Even though these gaps exist, based on existing experience and practices the intervention taken so far is less if not limited to some extent. Due to this, fraud detection is a challenging at this institution. Therefore, the challenges faced by oromia office of auditor general (ORAG) in fraud audit are the central concern of this thesis. A challenge, in this context, can be something, which defend or tackle Supreme Audit Institutions (SIAs) from achieving its objectives.

## **1.2 Statement of the problem**

In recent years, there have been a number of high profile public sector frauds throughout the world. Fraud and corruption can result in considerable financial losses to the agencies and organizations involved. According to the Association of Certified Fraud Examiners' 2014 report to the nations on occupational fraud and abuse, a typical organization loses 5% of its revenue to fraud every year. If applied to the 2013-estimated gross world product, this translates to a potential projected global loss of nearly \$3.7 trillion due to fraud. Fraud, corruption, and ethical misconduct have all too often become commonplace across the public and private sectors. Governments, private companies, and not-for-profit organizations have felt the widespread repercussions of fraud, corruption, waste, and abuse. This impact can extend well beyond lost revenue. The African

Union estimates that corruption accounts for 25% of Africa's annual GDP and is limiting the continent's chances of taking off economically (Association of Certified Fraud Examiners 2014). As Walker (2007) states, today SAIs around the world face a new set of challenges. Public expectations of government are changing. Citizens are increasingly intolerant of corruption and poor government services. Increasingly, SAIs will need to consider moving beyond routine audits of government finances to alert their countries to emerging challenges-before they become reach crisis proportions. SAIs will need to educate policy makers and the public to the specific long-term challenges facing their nations. Walker (2007) also noted that, in the future, three elements will be keys to the success or failure of both democracies and audit institutions. These elements are incentives, transparency, and accountability. In the years ahead, SAIs can play several roles. They can help to combat corruption. They can help to ensure accountability. They can help to enhance economy, efficiency, transparency, and effectiveness in government operations. They can increase insight in to how government programs and policies are working (Walker, 2004). However, SAI has not been able to convincingly prevent fraud from taking place. Fraud as a vice has continued to thrive even with their heavy presence there. Funds that were had otherwise been used for growth and development are lost. This has been occasionally by various challenges that face in fraud detection. That is why researcher looks into the challenges of SAI to detect fraud.

Many studies have been conducted on Supreme Audit Institutions (SAI) but a very few have focused on the challenge of fraud detection aspects of Supreme Audit Institutions (SAIs). One existing study, entitled "Challenges Facing Auditors in Detecting Financial Statement Fraud" which was conducted by Stephen K. et.al (2015), in most cases, reflect only the challenge of fraud detection on financial statement audit. It did not targeted on institutional challenge and objectives as they were subjected to too much emphases placed on the technical aspects of the forensic Accounting. It has the scope gape to give recommendation on challenge of fraud detection by SAIs at regional states. Another study such as "Challenges Of Supreme Audit Institutions: Perspective Of Auditor-General Of Nigeria" which was conducted by Augustine E. Akhidime et.al (2012). Which was reviewing the challenges and limitations that may be adversely affecting Auditor-General's office and the possible ways and means of mitigating them were all discussed on the bases of in-depth literature review only. So It has the gape of data to give

recommendation. The researcher considers the challenge of fraud detection of supreme audit institution in deep study by gathering data in questioners and interviews.

In Ethiopia there was another study on “Challenges Faced by Ethiopian Federal Government Auditors: the Case of the Office of the Federal Auditor General” which was studied by Lukas Beyashe (2008) has identified the challenges faced by auditors of the Office of the Federal Auditor General, particularly financial auditors as a general and the ways for solving problems identified. Therefore, it has the gap of scope to give recommendation specifically on challenge of fraud detection. It neglected the fraud audit and institutional aspects of the fraud detection challenges. The studies which researcher was able to review are mainly on the technical aspects of the forensic accounting and auditing. They have attempted to make general challenge of SAI and financial auditors and the ways for solving problems identified or they have evaluated the efficacy of supreme audit institution (SAI) at international levels. At the regional state level, not much had been done so far to reveal the reality on the ground. At the same time, the scoop on challenges of fraud detection specifically also shows a huge research gap in this subject area in Oromia regional state.

Before conducting this study, a researcher was sharing idea with different auditors of Oromia Regional state Office of Auditor General about challenges facing in audit procedure. The effort is made to understand the working environment in order to identify potential research problem areas. From researcher professional experience of long year, auditing was understood that some of the problems faced by SAI are detecting fraud and corruption in audit procedure and challenge of fraud detection in audit procedure to deliver audit service for the public. It is with this background of the statement problem that the study is going to address the following research questions.

### **1.3 Research questions**

During this study, the researcher has tried to find answers to following questions:

- Does the independence of Oromia regional state office of the auditor general capable to detect fraud?
- Do the capacity (The education, training, experience) of Oromia Regional State Office of The Auditor General Auditors is capable to detect fraud?
- How office of Oromia Auditor General does organized forensic audit to detect fraud?

- Is Oromia Regional State Office of The Auditor General involving the clients or public in ascertaining fraud audit?
- What are the general motivational factors to detect fraud by Oromia Regional State Office of The Auditor General?

#### **1.4 Objectives of the study**

In consideration of the above stated research questions, this study come up with both general and specific objectives.

##### **1.4.1 General objective**

The general objective of this study is to identify challenges of fraud detection faced by Oromia regional state office of auditor general in discharging their responsibilities and forward the possible mechanisms to minimize or eliminate these challenges.

##### **1.4.2 Specific objectives**

In addition to the general objective of the study stated above, this study bears the specific objectives. These are:

- To examine the independency of Oromia regional state office of Auditor General capability in fraud detection
- To examine the capacity of Oromia regional state office of Auditor General in fraud detection
- To identify the structure of forensic Audit in Oromia regional state office of Auditor General
- To examine the participation of clients and public in general to detect fraud in audit procedure
- To identify the general motivational factors of Oromia regional state Office Of Auditor General to detect fraud

#### **1.5 Significance of the study**

It is clear that undertaking this study would have different contributions. It helps to fill the existing literature gap. Accordingly, serving as a source of information for SAIs to promote discussion on the context of fraud detection and serving as an important starting point for policy makers to understand the challenge faced by Supreme Audit Institutions (SAIs) in detection of fraud. It

serves as a solution done by Supreme Audit Institutions (SAIs) to minimize and protect fraud. Finally, this study must open up some new directions leading future researchers for further studies in the same area.

## **1.6 Scope of the study**

The Oromiya regional state SAI is selected as case for reasons of no study has been conducted on challenge of fraud detection in Oromia regional state office of the Auditor General . In addition to that though Oromia regional state Office Of The Auditor General have conducted four type of audit like regularity audit, compliance audit, Fraud audit and performance audit, the study focuses only on fraud audit in terms of challenge in detecting fraud. For that reason, these topic and oromia regional state Office Of the Auditor General is more appropriate to get a clear picture of what challenges faced by the SAI in terms of fraud detection. In addition, how SAI would overcome its challenges and what innovations and strategies would work to deliver the better service to the public.

Office of the Oromia Auditor General is the supreme audit institute of the Regional State having its main office at Addis Ababa and four branches at Jimma, Nekemte, Shashemene and Ciroot. Public audits made by this institute, particularly the fraud audits are the main concerns of this paper.

## **1.7 Limitation of the Study**

The study have been conducted with out any sponsorship. As a result, financial and time constraints is the main limitation of this study. At the same time, the scarcity of literature on this subject and topic was the limits that this study faced . However, attempts were made to overcome all of the limitations.

## **1.8 Organization of the study**

This study is organized in to five chapters. The first chapter provides introduction part, which include mainly background of the study, statement of the problem, research questions and objectives of the study. Chapter two provides existing literature review that helps to provide conceptual framework with theoretical issues pertinent to fraud. Following this, the third chapter of the study provides a methodological consideration undertaken for this study. Chapter four is the

main part of this study in which effort is made to provide result and finding discussion. Finally, chapter five provides conclusion and measures that are required to be undertaken as recommendation based on the study made.

## CHAPTER TWO: REVIEW OF RELATED LITERATURE

### 2.1 Theoretical framework

#### 2.1.1 The concept of fraud

Fraud means different things to different people under different circumstances. Some are legal definitions; others are academic, while still others give based on personal experience. The Association of Certified Fraud Examiners (2008) defined fraud as the use of one's occupation for personal enrichment through deliberate misuse or misapplication of the employing organization's resources or assets. It is therefore any act of misappropriation, theft or embezzlement of corporate assets in a particular economic environment. It is considered as act of deception performed by somebody to cheat or deceive another person to his detriment or the detriment of any other or to cause injury or loss to another person while the perpetrator has a clear knowledge of his intension to deceive, falsify or take advantage over the unsuspecting and innocent victim (Robinson, 1976) resulting to suffering loss or damage (Stanley, 1994).

There are many different general and specific definitions of fraud in use today. This variety of definitions reflects the various ways in which people perceive and conceptualize fraud. Globally, International Organization of Supreme Audit institution (INTOSAI) and in the public debate and the academic discussion on the subject. Moreover, depending on whether these terms are given a wide or narrow definition, there are also examples of "fraud" being referred to as a subtype of corruption - and vice versa. Taking this into consideration, this thesis uses the International Standards of Supreme Audit institution (ISSAI) 1240-definition of "fraud", provided in paragraph 11 (a):

*"An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage."*

#### 2.1.2 Types Of Fraud

Adewale (2008) classified fraud broadly into two main groups, the internal and external frauds. When employees identify an opportunity to commit acts of fraud, it is classified as an internal fraud whereas when outsiders, such as suppliers and service providers involve in acts of frauds against organisations, this is classified as external fraud (Hansen et al 2005).

Fraud can mean many things and result from many varied relationships between offenders and victims. According to the Association of Certified Fraud Examiners (ACFE), there are three main categories of fraud that affect organizations. The first of these is asset misappropriations, which involves the theft or misuse of an organization’s assets. Examples include theft of plant, inventory or cash, false invoicing, accounts receivable fraud, and payroll fraud.

The second category of fraud is fraudulent statements. This is usually in the form of falsification of financial statements in order to obtain some form of improper benefit. It also includes falsifying documents such as employee credentials. The final of the three fraud categories is corruption. This includes activities such as the use of bribes or acceptance of ‘kickbacks’, improper use of confidential information, conflicts of interest and collusive tendering.

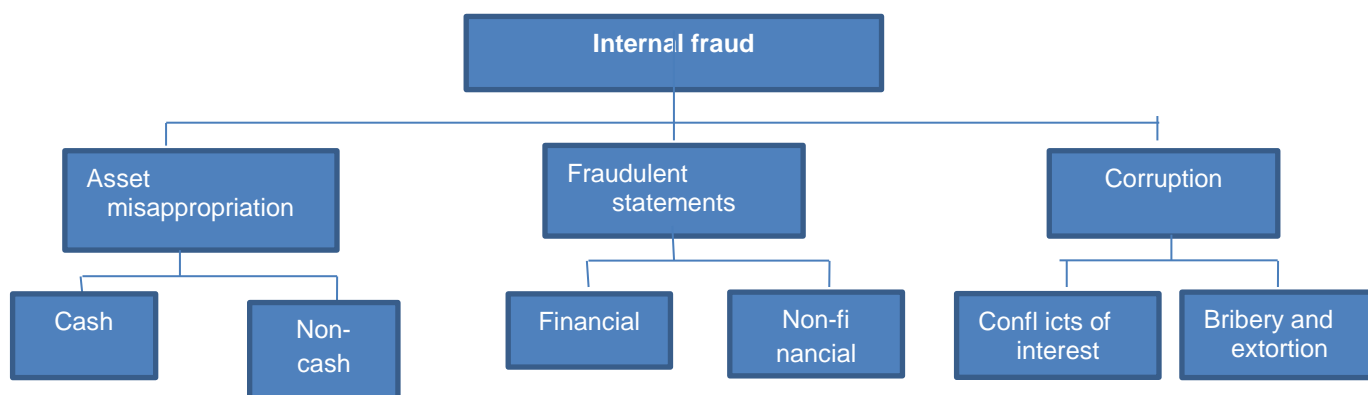


Figure 1 . Types of internal fraud

Source: Adopted from Association of Certified Fraud Examiners(2008)

### 2.1.3 The Causes Of Fraud

Many literature Interviews with persons who committed fraud have shown that most people do not originally set out to commit fraud. Many times the first fraudulent act was an accident – perhaps they mistakenly processed the same invoice twice. But when they realized that it wasn’t noticed, the fraudulent acts became deliberate and more frequent. Fraud investigators talk about the 10 - 80 - 10 law which states that 10% of people will never commit fraud; 80% of people will commit fraud under the right circumstances; and 10% actively seek out opportunities for fraud. So we need to be vigilant for the 10% who are out to get us and we should try to protect the 80% from making a mistake that could ruin their lives.

Generally, When people commit fraud and corruption, three key elements are normally present:

- i. Incentive/Pressure ;
- ii. Opportunity
- iii. Rationalization/Attitude.

Together, these three elements make up what is referred to as the “fraud triangle” (Lou, *el.et* 2009.) The fraud triangle is a simple but powerful tool for auditors when assessing an entity’s vulnerability of fraud and corruption. It is referred to in International Standardes of of Supreme Audit Institution (ISSAI 1240) and used to present examples of fraud risk

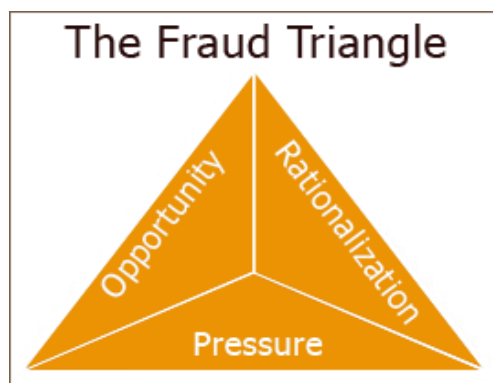


Figure 2. the fraud and corruption triangle

Source: Adopted from Association of Certified Fraud Examiners(2008)

### **2.1.3.1 Incentive/Pressure**

Incentive/pressure is also referred to as “motivation”, greed, or need. When it comes to pressure or need felt by the person committing fraud and corruption, this may reflect a specific financial problem that the person is dealing with, or the need may arise because the salary of the person in question is inadequate for economic survival. Surveys in many countries have identified low salaries as an important reason behind corruption among civil servants.( CIMA, 2008.) On the other hand, the incentives for committing fraud and corruption may also simply come from greed and the wish to have or maintain a lavish lifestyle. According to the United Nations Development Programme, greed is often more relevant as a reason than need, especially when it comes to grand corruption. (UNDP, 2008, pp. 9, 60.)

However, although some of the indicators and so-called “red flags” for greed or need may be well-defined and detectable, it must be remembered that peoples’ motivations for fraud and corruption can be very complex. ( Jones, Peter, 2004).

### **2.1.3.2 Opportunity**

In principle, almost any condition can provide opportunities to commit fraud and corruption. ( Jones, 2004, p. 3. ) Among other things, opportunity reflects the extent of authority that government officials, managers and employees have been entrusted with, and the degree of access they have to assets, information and/or systems. (The Fraud Triangle and What You Can Do About It, p. 69). Furthermore, opportunity is also a function of the likelihood of detection and the clarity and strictness of rules and policies regarding acceptable behavior. (CIMA, 2008, p. 13.)

### **2.1.3.3 Rationalization Or Attitude**

Rationalization refers to the ethical values and arguments which allow individuals to justify fraudulent and corrupt behavior. Factors that may lead to the rationalization of fraud and corruption are, for example, career advancements, which was perceived to be unconnected to merit, and performance, inadequate and delayed budgets, insufficient supplies and equipment, and the lack of a clear and shared purpose for the organization in question. (World Bank, 1997, p. 12.) Another rationalization might be that the employee in question considers the fraudulent or corrupt act as “harmless” because the damage caused is so small compared to the size of the organization and its resources. (CIMA, 2008, p. 13.)

Then, there is the “everyone-else-is-doing-it” syndrome, that is, where an ethos tolerant of fraud and corruption has become entrenched as a cultural norm in large parts of the organization. This can be a particularly serious risk factor because once entrenched it is often very difficult to reverse. (Jones, 2004, p. 3; UNODC, 2004, p. 244) Furthermore, this risk factor may be further exacerbated if the senior officials or political leadership in the organization lead the way when it comes to abusing power for private or political gain. (World Bank, 1997, p. 12.)

As with incentive/pressure, however, peoples’ rationalization or attitude may also be difficult to identify in practice

As Kenneth M. Dye; (2007) describe in Corruption and Fraud Detection by Supreme Audit Institutions by World Bank, ‘The causes of corruption vary from one country to the next. Among the contributing factors are faulty government and development policies, programs that are poorly conceived and managed, failing institutions, inadequate checks and balances, an undeveloped civil

society, a weak (corrupt) criminal justice system, inadequate remuneration of civil servants, and a lack of accountability and transparency’.

#### **2.1.4 The Role of SAIs in preventing and detecting fraud**

Kenneth M. Dye describes ‘The International Organization of Supreme Audit Institutions’ Interest in Fraud and Corruption that (INTOSAI) is the worldwide federation of SAIs. It hosts an international conference every three years called the International Congress of Supreme Audit Institutions (INCOSAI).

The 16th International Congress of Supreme Audit Institutions (INCOSAI), held in Montevideo, Uruguay, in 1998 was devoted partly to preventing and detecting fraud and corruption. As Kenneth M. Dye (2007) describes The conference looked at

- A) the role and experiences of SAIs in preventing and detecting fraud and corruption and
- B) methods and techniques for preventing and detecting fraud and corruption.

The Uruguay INCOSAI agreed that corruption in government wastes resources, reduces economic growth and the quality of life, undermines the credibility of state institutions, and reduces their effectiveness. It noted the strong correlation between corruption and the weakening of state institutions.

The INTOSAI community also observed that it is difficult to detect many acts of corruption and to estimate their financial impact, which does not necessarily get reported in financial statements. SAIs agree that fraud and corruption are significant problems affecting all countries in varying degrees and that the SAIs can and should endeavor to create an environment that is unfavorable to fraud and corruption. As provided in the Lima Declaration adopted by INTOSAI in 1977, SAIs agreed that they should be independent and have adequate mandates that enable them to effectively contribute to the fight against fraud and corruption. It was also agreed that, where possible, SAIs should:

- seek an adequate level of financial and operative independence and breadth of audit coverage;
- take a more active role in evaluating the efficiency and effectiveness of financial and internal control systems and aggressively follow up on SAIs recommendations;
- focus audit strategy more on areas and operations prone to fraud and corruption by developing effective high risk indicators for fraud;

- establish an effective means for the public dissemination of audit reports and relevant information including establishing a good relationship with the media;
- produce relevant audit reports that are understandable and user friendly;
- consider a closer cooperation and appropriate exchange of information with other national and international bodies fighting corruption;
- Intensify the exchange of experiences on fraud and corruption with other SAIs;
- encourage the establishment of personnel management procedures for the public service that select, retain, and motivate honest, competent employees;
- encourage the establishment of guidance for financial disclosure by public servants, and monitor compliance as part of the ongoing audit process;
- use the INTOSAI Code of Ethics to promote higher ethical standards and a code of ethics for the public service;
- consider the establishment of a well-publicized means to receive and process information from the public on perceived irregularities; and
- continue work regarding fraud and corruption through INTOSAI's existing committees and working groups; for example, the Auditing Standards Committee will consider these issues as part of developing implementation guidance as part of a broader standard framework (INTOSAI 1998). While these recommendations may have been appropriate in 1998, it is becoming apparent that more could and should be done to detect fraud and corruption and that SAIs are well positioned to do so, including by opining explicitly on the state of internal controls' (Kenneth M. Dye 2007pp309-310)

### **2.1.5 The Difficulty of Fraud Detection**

Due to the nature of auditing and its inherent limitations, fraud is very difficult to detect. Interestingly, a survey of British accountants by the Audit Faculty found that the two areas considered as the most difficult to detect were transactions with related parties and manipulation of computer programs ("Fraud Fears", 1997:13). One reason fraud is difficult to detect is because it may be committed by people who are familiar with accounting procedures and can cover it up. In addition, auditors do not have the: requisite education and background to recognize its characteristics ...

[and] because of the limited amount of time an auditor spends looking at the records of a business, he or she typically does not have the time or inclination to review the personal characteristics and lifestyle of possible white-collar criminals. (Wells, 1993:93-94) Wells also mentions that there is a built-in conflict since auditors are asked to investigate upper management who indirectly are the same group that take action. Another reason fraud is difficult to detect is because auditors do not possess the necessary skills. In fact, the U.K.'s APB discussion paper (APB, 1992) identified the auditors' lack of skills as a key issue giving a cause for concern. Knox, Deputy Director of the serious fraud office (1994), believes that auditors fail to detect fraud for the following reasons:

- the scope of audit testing and inquiries were inadequate;
- the scope of the auditors' work has been restricted by management;
- the auditors have failed to understand the company's business;
- failure to identify related party transactions;
- reliance on uncorroborated representations from management; and
- Detection practiced on auditors. (p.128)

A further difficulty is time pressure. The AICPA (1978:114-121) recognized that the time pressure auditors face leads to increased reliance on management's representations. Furthermore, due to tight reporting deadlines, senior personnel are spread too thin, hence having an impact on the effectiveness of the amulet.. Despite the above-mentioned difficulties, there are some auditors who are able to detect fraud even though it might be well hidden

### **2.1.6 Independence of Supreme Audit Institutions**

The IXth Congress of the International Organisation of Supreme Audit Institutions (INTOSAI), meeting in Lima to call for independent government auditing. As Dr Franz Fiedler the secretary general of INTOSAI forwarded The issue of the independence of Supreme Audit Institutions continues to be a theme repeatedly discussed within the INTOSAI community. However, the demands of the Lima Declaration are not satisfied by a SAI just achieving independence; this independence is also required to be anchored in the legislation. For this, however, well-functioning institutions of legal security must exist, and these are only to be found in a democracy based on the rule of law.

The Independence and the Legal Framework of SAIs is covering the demands on the independence of a SAI as formulated in the Lima Declaration (ISSAI 1) and the Mexico Declaration (ISSAI 10). This includes the following elements:

### **2.1.6.1 Independence of the SAI – Constitutional/legal framework**

A legislation that spells out, in detail, the extent of SAI independence is required (Mexico Declaration / ISSAI 10 Principle 1). Ideally, the establishment of SAIs and the necessary degree of their independence should be laid down in the Constitution. However, the details may be set out in legislation such as in a separate Audit law / act.

### **2.1.6.2 Independence of the SAI - Financial autonomy, Managerial/administrative autonomy and Appropriate human, material and monetary resources**

SAIs should have available necessary and reasonable human, material and monetary resources – the Executive should not control or direct the access to these resources. SAIs manage their own budget and allocate it appropriately. The Legislature or one of its commissions is responsible for ensuring that SAIs have the proper resources to fulfil their mandate. (Mexico Declaration, ISSAI 10, Principle 8)

### **2.1.6.3 Independence of the Head of SAI (HoS) and the staff of the SAI**

The independence of SAIs is inseparably linked to the independence of its head and the staff. The Lima Declaration recommends that the independence of the HoS should be guaranteed by the Constitution. The legislation should specify the conditions for appointments, reappointments, employment, removal and retirement of the HoS and of the members of collegial institutions. Audit staff must not in their profession be influenced by the audited organisations or be dependent on such organisations. (Mexico Declaration ISSAI 10, Principle 2, 3; Quality Control of SAIs, ISSAI 40, Element 4)

## **2.1.7 Conditions for successful of supreme audit institutions and its Limitation**

A note series which is intended to summarize good practice and key policy findings on poverty reduction and economic management topic of World Bank (2001) describes that Conditions for successful supreme audit institutions are

- i. Supportive environment
- ii. Clear mandates
- iii. Independence
- iv. Adequate funding, facilities, and staff

- v. Sharing of knowledge and experience
- vi. Adherence to international auditing standards ( WB 2001 )
  - i. Supportive environment

Supreme audit institutions function within a wider institutional setting. Thus they are effective only to the extent that they are permitted to conduct their work and their reports are used to promote accountability. In many countries public accounts are poorly maintained, parliament may be weak, and the ministry of finance may not ensure that audit issues are addressed. Flagrant abuses identified by supreme audit institutions may not be prosecuted—and in some cases their work may be sabotaged.

- ii. Clear mandates

Auditing mandates should be anchored in rules set by parliament. Before drafting such legislation, supreme audit institutions and governments must determine the auditors' independence and reporting responsibilities, the scope of audits, and the entities to be audited—elements shaped by national legislation and domestic conditions. In Westminster parliamentary systems an audit also ensures that the supreme audit institution addresses all the issues parliament wants scrutinized by an independent body.

- iii. Independence

Independence is a basic feature of supreme audit institutions in industrial countries.

Autonomy is essential for an auditor general given the need to report directly to parliament without interference from other branches of government. The leader of a supreme audit institution needs both legal and traditional status to ensure that senior bureaucrats will make information available and respond appropriately to recommendations. Independence can be strengthened by setting out the auditor general's role in the country's constitution—as in India, Indonesia, Japan, Uganda, and Zambia. In the Napoleonic model, for example, the autonomy of the *cour des comptes* is guaranteed by its status as a court, by the security of tenure of its magistrate members, and by its right to design its own program of activities.

- iv. Adequate funding, facilities, and staff

Supreme audit institutions require adequate funding, equipment, and facilities. In the developing world, where such elements are often inadequate, there is potential for supreme audit institutions to operate more efficiently. But it is unlikely that increased efficiency alone would generate enough savings to provide competitive salaries and modern technology. Governments need to

recognize the costs as well as the high returns of audits, and provide commensurate funding. To ensure high-quality work, supreme audit institutions need well-qualified, adequately remunerated staff who are encouraged to continuously improve, especially in their areas of expertise. For example, auditors can enhance their skills in fraud detection and information technology through a combination of training, education, and experience. The number of authorized personnel should be determined independently of government control. For example, in the board model the audit commission determines the number of workers in the general executive bureau. To maintain their credibility, supreme audit institutions should be managed such that a performance audit of their operations would result in a favorable report.

v. Sharing of knowledge and experience

International exchanges of ideas, knowledge, and experience improve audits, harmonize standards, promote best practices, and generally help supreme audit institutions fulfill their mandates. International congresses and training seminars, regional and interregional conferences, and international publications have promoted the development of auditing. Moreover, supreme audit institutions should work closely with enforcement officials in government agencies to share skills and insights and to become more adept at uncovering corruption

vi. Adherence to international auditing standards

Audits are more effective when supreme audit institutions adhere to professional auditing standards, such as those promulgated by the International Organization of Supreme Audit Institutions (INTOSAI) or international professional accountancy bodies

### **2.1.7.1 Supreme audit institutions Limitations**

A note series which is intended to summarize good practice and key policy findings on poverty reduction and economic management topic of World Bank (2001) describes Supreme audit institutions face different limitations because of countries' distinct constitutional, legal, political, social, and economic systems, making it impossible to offer universal remedies. The main limitations are:

- Limits on independence.
- A shortage of qualified, experienced personnel— a severe problem for many institutions because staff cannot keep up with the changing scope, techniques, and complexities of their work.

- A lack of adequate monitoring and follow- up of audit findings. Control over public funds is less effective if audit queries and recommendations are not followed up by parliament and acted on by the executive branch.
- Limits on the scope of audits. Restricted audits undermine the effectiveness of supreme audit institutions and call into question the motivations for their existence. Some supreme audit institutions cannot audit enterprises if the state has only a limited financial interest; others cannot conduct external control over international organizations

### 2.1.8 The Importance Of Good Governance For Prevention And Detection Of Fraud

In article 5 of the United Nations Convention Against Corruption the importance of good governance for the prevention and detection of fraud and corruption is recognized. This convention states that State Parties should “develop and implement or maintain effective, coordinated anti-corruption policies. This can promote the participation of society and reflect the principles of the rule of law, proper management of public affairs and public property, integrity, transparency and accountability. This system of co-ordinated anti-corruption policies is also referred to as the National Integrity System. Its purpose is to provide the necessary checks and balances by separating power between the different agencies and branches of the public sector, and between the public sector and civil society. ( Langseth, Petter; et.el 1997).



Figure 3. The National Integrity System ;

Source: Pope, Jeremy, 2000. The Elements of a National Integrity System, TI Source Book 2000,

Generally, the characteristics of fraud and corruption risk factors associated with weaknesses in the integrity system do not lend themselves to being integrate into the specifics of planning and conducting audits. Nevertheless, these risk factors/governance elements do need to be kept in mind at some level, because they may be important when addressing fraud and corruption

### **2.1.9 Government's Program To Improve Governance And To Reduce Corruption And Fraud**

The World Bank Poverty Reduction and Social Development Unit Africa Region Report indicates that corruption can be reduced through economic policy reform, which includes liberalization of the economy, elimination of excessive regulation, and promotion of competitive market conditions and greater transparency. Such measures must be accompanied by reforms to improve governance and institutional capacity, including the judiciary. Many of these are contained in the government's Civil Service Reform Program (CSRP). Importantly, the pay and incentives of public servants must be enhanced, while establishing higher standards of performance and accountability. The Bank could help Government determine the cost of increasing the pay and pensions of strategic professions or units of government, and establish service or performance standards in areas where corrupt practice is known to flourish. ( World Bank 1998)

The Government's program to improve governance and to combat corruption is embedded in an ambitious program entitled the Civil Service Reform Program (CSRP). The CSRP covers a broad agenda dealing with judicial, legal, and financial management reform . The implementation of the five pillars of the reform are:

- a) Economic Management And Control.
- b) Ethics And Judicial Reform
- c) Human Resource Management
- d) Service Delivery
- e) Top Management Systems.

### **2.1.10 Fraud control framework**

A UN- INTOSAI Joint Project on Strengthening Capacities of Supreme Audit Institutions on the Fight against Corruption states the occurrence of fraud within an organization may be viewed as governance failure in the absence of a Fraud Control Framework. A Fraud Control Framework has three main functions including Fraud Prevention, Fraud Detection, and Fraud Response.

### **2.1.10.1 Fraud Prevention**

Fraud can be prevented by promoting the ethical behaviour of leaders and having an ethical organizational culture provided by the Code of Conduct, Conflict of Interest Policy, Ethics and Fraud Awareness Training, Pre-employment Screening, and Assigning Responsibilities. To be more specific, an organization's code of conduct is an important document that sets clear standards of conduct for employees and supports effective fraud prevention. Second, organizations should have a clear policy on identifying and resolving conflicts of interest. Third, all employees should receive regular training in ethics and fraud awareness. Such training should be designed to promote ethical behavior. Fourth, pre-employment screening helps to reduce the risk of employing people who have previously been in trouble. Types of pre-employment screening include confirmation of identity, police check for any convictions, security clearance, verification of qualifications claimed, and employment check with previous employers. Lastly, fraud prevention calls for clearly defining and assigning specific responsibilities and duties for all employees. Fraud Risk Management is also a key part of a fraud control framework. A fraud Control Plan provided by Fraud Risk Management describes the organization's approach to controlling fraud. It includes actions to be taken to reduce the fraud risks identified through the process of the fraud risk assessment. Consequently, a Fraud Risk Assessment is a process used to identify fraud risks, analyze the risks, evaluate the risks, and respond to the risks. ( *A UN-INTOSAI Joint Project October 2013 ST/ESA/PAD/SER.E/193*)

### **2.1.10.2 Fraud Detection**

The Fraud Audit manual Prepared by Core teams from Ethiopia government Office Of Federal Auditor General (OFAG), Office Of Amara Auditor General National Regional State (OAGANRS) and Office Of Auditor General of Gumuze Benishangul National Regional State (OAGBGNRS) describe Fraud Detection as consists of identifying indicators of fraud and then pursuing those indicators until either it is determined that fraud does not exist or carrying out sufficient work to detect the fraud. These indicators may be the result of controls established by management, tests conducted by auditors, and other source both within and outside the organization.

Auditor should have sufficient knowledge of fraud to be able to identify indicators that fraud might have been committed. This knowledge includes the characteristic of fraud, the technique used to commit fraud, and the types of frauds associated with the activities audited. A strong and effective Internal Audit Department is important in the prevention and detection of fraud. An organization's internal audit resources should be used to assist in fraud prevention and detection through audits undertaken as part of the Annual Internal Audit Program. Internal Audit should review the implementation of organization's Fraud Control Plan. Any such information received should be treated as confidential. Upon receiving a report of suspected fraud, the matter should be recorded in a Fraud Register. In this way, internal audit can contribute to effective fraud prevention and detection. ( A UN-INTOSAI Joint Project October 2013 ST/ESA/PAD/SER.E/193)

### **2.1.10.3 Fraud Response**

Fraud response refers to appropriate actions to be taken in response to fraud, including securing evidence for criminal action, establishing lines of communication with the police, reviewing internal controls following a fraud, and fraud reporting arrangements. Where a fraud is detected, a review should be undertaken to assess the adequacy of the organization's internal controls and determine what action needs to be taken. Effective fraud control requires elements of this model to act together in a properly focused way. The occurrence of fraud within an organization may be viewed as governance failure in the absence of such a focus. ( A UN-INTOSAI Joint Project October 2013 ST/ESA/PAD/SER.E/193)

### **2.1.11 The SAIs And Citizens Cooperation**

The literature since the late 1990s has been increasingly focusing on the transformation of values and worldviews that citizen participation in governance can generate, including empowerment and creating social capital among citizens through collective efforts (Ostrom 1996).

productive cooperation between SAIs and citizens can be a means to improved quality of governance. This cooperation is especially important considering the complexity of the governance process, layered and thick web of interdependent relationships that diffuse responsibility and thwart transparency in delicate matters affecting public interest. The International Federation of Accountants (IFAC) summarized the following benefits that SAIs can generate through closer cooperation with citizens:

- Increasing public awareness and knowledge of government policy, processes and performance;
- Improving data quality (accuracy, consistency and timeliness);
- Shifting to open management;
- Real time, instant, diverse feedback from the public;
- Open collaboration with the public to solve complex issues;
- Collaboration for decision-making;
- Ensuring integrated governance structures and processes for public engagement;
- Expanding the scope and depth of transparency, participation and collaboration capabilities; and
- A strong partnership in dealing with corruption<sup>2</sup>, mismanagement and inefficiencies in public management
- Creating and sustaining public interest and participation
- Increasing government accountability (IFAC 2003, 4).

INTOSAI too has taken notice of the potential of SAIs-citizens collaboration. The last two UN and INTOSAI joint symposiums were precisely focused on relationships between audit institutions and citizens. The theme of the 21st UN/INTOSAI Symposium in 2011 was “Effective practices of cooperation between SAIs and citizens to enhance public accountability.” The latest 22nd Symposium in 2013 was focused on “Audit and Advisory by SAIs: Risks and Opportunities, as well as Possibilities for Engaging Citizens.” These initiatives provided an opportunity to assess both how SAIs engage citizens in their own work, as well as how SAIs communicate their work to citizens. International Standards of Supreme Audit Institutions (ISSAI) 213 also prescribe that the SAIs make publicly available their mandate, their missions, and strategy in their relationships with various stakeholders, including legislative bodies and executive authorities (INTOSAI Professional Standards Committee n.d).

### **2.1.12 Practics of fraud audit in Oromia regiona state office of Auditor General**

Regarding fraud and corruption the Oromia regional state office of auditor general established describes that where requested by the the “Caffee” of the regional administration or the supreme court of the region office of auditor general can audit it. Also when petition is submitted from the

public as well as where illegal performances are observed during the regular auditing works, it shall audit or get audited the matters.

If the result of the audit in criminal or civil liability occur, it shall refer to an organ having the power of criminal investigation or suing so that the organ takes measure, follows up the implementation there of and report to the “Caffee” about its result.

An attempt to uncover corruption has taken place by auditing and reviewing of financial statements and bank reconciliation. SAI auditors report the detected corrupt activities and transactions cases to the Ethics and Anti-Corruption Commission and he refers the Cases to the Judiciary for follow them. Oromia’s SAI submit the audit reports findings on corrupt activities and transactions to the Judiciary.(Oromia regional state proclamation 156/2002)

While reviewing of fraud audit manual, it was learnt that, intended to assist auditors to cope-up with the growing complexity of fraudulent activities. Therefore, the approach of the manual is in such a way that gives guide to auditors in all circumstances of an audit engagement, i.e., it could be used during financial, performance, control, Information System, and environmental audits. Whenever the auditor finds indicators of fraud at his/her regular audit procedures; or could also be used on special engagements and when information is obtained in advance about a suspicion of fraud

## **2.2 An Empirical Literature Review**

This section is concerned with other case study conducted by other researcher in country side and foreign in similar discipline.

### **2.2.1 Auditing for fraud and corruption and future challenges**

The first case study that was taken as an empirical framework is a case study conducted in 2009, under the sponsorship of the Japan International Cooperation Agency (JICA). It was the Asian Organization of Supreme Audit Institutions (ASOSAI) held a seminar on fraud and corruption and future challenges on this issue, with particular emphasis on how to learn each other’s systems and experiences. To be more specific, the paper from this seminar explains the present situation and challenges of the Board of Audit (BOA) of Japan regarding auditing for fraud and corruption in order to facilitate the exchange of experiences and views by the SAI officials. The paper points out

that fraud cases are most likely to be targets of auditing because they financially damage the account-keeping entities, and therefore the Board of Audit (BOA) has a significant number of audited cases. The Board of Audit (BOA) has hardly conducted audits for corruption because financial damage to account keeping entities is not necessarily apparent, consequently corruption cases have been almost exclusively the target of investigation by the police and prosecuting authorities. The Board of Audit (BOA) actively addresses fraud cases as core or basic auditing of accounts. The paper explains that it is effective to conduct audits for fraud according to the entity, i.e., to review and check internal controls in cases committed by individual insiders, to utilize whistle-blowing from inside in cases committed by organizations as a whole, and to evaluate selection criteria for spot inspections by the examination department or division in cases committed by outsiders. Lastly, the paper points out how each SAI should conduct auditing for fraud and corruption varies not only according to the SAI's auditing mandate but also to the relevant laws and systems, such as criminal laws and regulations concerning public officials.

Another case study was conducted by The official report on the 21st UN/INTOSAI Symposium which took place 13-15 July 2011 in Vienna, Austria. The document reflects the high relevance and firm commitment of the UN, INTOSAI and SAIs to enhance public accountability and to fight corruption through cooperation between SAI's and citizens. The UN/INTOSAI conclusions and recommendations at the beginning and the following articles do not present citizen engagement in auditing as an alternative to traditional forms of audit and related methodologies. Rather, citizen engagement presented as a complementary element to be integrated into the work of audit institutions.

Another case study was conducted by Lukas Beyashe (2008) in Ethiopia. This study has identified the challenges faced by auditors of the Office of the Federal Auditor General, particularly financial auditors and the ways for solving problems identified. the researcher has identified large number of challenges which were generally classified in to eleven. One of the problems (challenges) encountering auditors of OFAG have been the lack of an opportunity to pursue education. The study identified that there are problems in collecting the necessary information and timely delivery of information by auditee's is very much poor. In order to minimize the challenges related to pursuing education, its better if OFAG tries to work in harmony with educational institutions, like universities and colleges from with in and foreign countries. In addition to

providing educational opportunities, these educational institutions can help OFAG by considering their curriculum in relation to audit needs and giving short term trainings.

### **2.2.2 Factors Affecting The SAIs Fraud Detection Process**

Stephen K. Asare , et.al ( 2015) study on Challenges Facing Auditors in Detecting Financial Statement Fraud: Insights from Fraud Investigations; framework identifies three main factors impacting the audit process:

- i. “Institutional forces,” which includes elements such as the regulatory regime, standard setting mechanisms, and peer reviews,
- ii. “Auditor knowledge, training and experience,” which represents the intellectual capital the auditors bring to the engagement and,
- iii. “Auditor incentives,” which encompasses elements such as time pressure and salary paid by the SAIs on auditors’ motivations to detect fraud.

In addition to these they suggests that audit failures are not as likely to result from several factors as these factors just mentioned. The factors that they participants did not view as being as critical to the audit failure include:

- An incorrect belief that detected misstatements were either unintentional or insignificant,
- Ineffective communication about audit findings from lower-level auditors to supervisors,
- Ineffective follow up of key findings by higher level auditors,
- A failure to consult experts and
- Negotiation practices between the auditor and management that led to ineffective pursuit of the fraud. Each of these areas appears to require less focus by the profession in its effort to help auditors improve their ability to detect fraud.

## **CHAPTER THREE: RESEARCH METHOD**

### **3.1 Introduction**

For this research, with in the domain of “social science research methodology” an embedded single case study strategy that has mainly used a mixed approach has been chosen as a most fitting method. This chapter presents a description of the research approach data type, data source, data collection methods and the sampling technique used for this study have been discussed. Data presentation methods and ethical consideration are presented in last part of the chapter.

### **3.2 Research Approach**

The research approach employed in this study is descriptive method since the data was gathered from both respondents and informants and different documents recorded and described. Both qualitative and quantitative approach designed where qualitative approach is administered through questionnaires while qualitative approach administered through interview conducted. The other reason for selecting descriptive research approach is that the data gathered from all possible sources were described to assess the challenge of fraud detection by SAIs. Among different types of mixed research designs this study employed case study approach. This is so because once data is collected through the above-mentioned procedures, this study took an institution called Oromia regional state office of general audit (ORAG), as a case study.

### **3.3 Data collection methods and instruments**

This study used both primary and secondary data. The primary data is gathered using questionnaires and interviews. Most of the secondary data are documents and books related to fraud audit, manuals and annual audit report of office of auditor general of Oromia. For the collection of the secondary data, all relevant sources of information on the topic under study is assessed.

#### **3.3.1 Questionnaires**

Both close-ended and semi-open-ended questionnaires were formulated and administered to all of respondents. The respondents were all audit directors, audit managers and senior auditors of Oromia Office of Auditor General from head and branch office. A total of 138 questionnaires were administered to respondents at Office of Auditor General, of which 84 questionnaires were filled

by audit directors, audit managers and senior auditors at head office and the remaining 54, were filled by those of branch office audit managers and senior auditors.

### **3.3.2 Interviews**

Interview is an attractive primary data collection method. Knowledgeable respondents are thought to be better informed and more motivated than other respondent. The method can allow collection of a wealth of timely information. Still the validity of the information collected depends on the quality of the experts. Knowledgeable respondents are likely to provide more valid information (Dorussen, Lenz, & Blavoukos, 2005). In this study, researcher used deputy auditor general of oromia regional state, one audit director, one audit manager and one senior auditor who were particularly dedicated to work against fraud audit in the regional state office of auditor general who work and have firsthand experience with the SAI and the work.

### **3.3.3 Document review**

For the achievements of the objectives of the study, documents or manuals describing fraud audit standards, criteria and were reviewed and eventually challenges in detecting fraud were observed. The rationale for the use of the above data gathering instruments in data collection methods is to minimize the shortcoming of using only one instrument and to consolidate the reliability of the study. Hence, using a variety data collection instruments helped to utilize the advantages associated with it.

## **3.4 Sample Selection Techniques**

For data collection system, the study employed non-probability sampling technique (purposive sampling) to select the auditors of Oromia office of Auditor General used as population for the study. Because it helped the researcher to apply his judgment to select or pick only those who best meet the purpose of the study to get deep information. That is the relevant and sufficient data and information about challenge of fraud detection could only be obtained from senior Auditors of SAI . The target populations of the study are 210 Auditors of the Office of Oromia Auditor General who is working in different Zone of a region. From this population, to arrive at sample size, the use of arithmetical formula was adopted with 5% level of significance (Adefila, 2008).

$$n = \frac{N}{1 + N(e^2)}$$

Where: n = Sample size  
 N = Population size  
 e = Level of significance

$$n = \frac{210}{1 + 210(0.05^2)}$$

**n= 138**

The sample size of 138 (68 %of population) selected from Auditors ,Senior Auditors, Audit Managers and Audit Directors using the purposive (judgmental) sampling technique to fill questionnaires.

Deputy Auditor General of Oromia National Regional State and one audit directors ,one audit manager and one senior auditor particularly dedicated to work against fraud audit in the regional state who work and have firsthand experience with the SAI and the work were interviewed using unstructured type of interview.

The sample of informants in Oromia Office of Auditor General might seem small, but the organizations did not have more experts on the subject. The experts researcher selects are also highly competent and well-informed, which contributes to reliable and valid information. The respondents hence represent an exclusive and highly targeted sample, a sample made with the aim to reach the relevant informants rather than a larger but less informed group of informants. In this respect, the method employed express the essence of the both the quantitative and qualitative research method with all its strengths and weaknesses.

### **3.5 Data presentation and analysis**

Data presentation and analysis processes entailed organizing and analyzing the accumulated mass of data obtained from the field into comprehensive research report. Tables and percentage were used in the analysis of the data collected from the respondents. It involves typing and editing, tabulation and interpretation. While analyzing the collected data, the study employs both qualitative and quantitative (mixed) approach was used. Because the data gathered through, document reviews and interview were qualitatively described; individual narrative and case profiles obtained through close-ended and open-ended questionnaires were summarized and analyzed quantitatively. Triangulation technique was also applied to reach at reliable conclusions by using qualitative approaches such as narration of the ideas of the respondents.

### **3.6 Ethical Considerations**

The entire research process were conducted with due respect to ethical considerations by maintaining the consent of the respondents to participate in the study and treated the respondents' views with utmost confidential and acknowledgement. In general, a high degree of openness, cultural conformity and dignity regarding the purpose and nature of the research is observed.

## CHAPTER FOUR: DATA ANALYSIS

### 4.1 Introduction

As indicated in the previous chapter, survey was the main strategy of inquiry adopted to investigate the challenges of fraud detection by SAIs: in Oromia Office of Auditor General. To this end, the results obtained from the survey are analyzed through frequency distribution of questioner, interview and document review. Results presented in the subsequent sections. This chapter discusses the results of findings based on the analysis done on the data collected. The results of the study are discussed by triangulating the different source results: questionnaire results, interview and document review results. The discussion attempts to accomplish the objectives of the study and answer the research questions.

A total of 137 questionnaires which dealt with the factors of supreme audit institutions (SAIs) challenges for fraud detection were distributed to a sample of Oromia regional state Office of Auditor General auditors. However, only one hundred ten (110) questionnaires (80% response rate) were collected. Since the respondents were on field in different Weredas, difficulty of collecting considered 80% response rate was reasonably very good.

Therefore, this chapter is organized into two sections. The first section, deals with background of the study participants while the second section provide analysis of questionnaires and interviews administered to Office of Auditor General auditors to address each research question and achieve the overall objective of the study.

### 4.2 Background of the Study Participants

As already noted, this study is based on the information gathered from Oromia regional state Office Of Auditor General auditors. Thus, demographic characteristics of respondents are presented as follow.

Table 4.1: Demographic characteristics of respondents of Oromia regional state Office Of Auditor General auditors.

| <b>Descriptions</b> | <b>Count</b> | <b>Percent</b> |
|---------------------|--------------|----------------|
| <b>Age</b>          |              |                |
| <20                 | 0            | 0              |
| 20-24               | 9            | 8%             |
| 25-29               | 24           | 21%            |

CHALLENGES OF FRAUD DETECTION BY SUPREME AUDIT INSTITUTIONS:

|                                |     |      |
|--------------------------------|-----|------|
| 30-35                          | 25  | 23%  |
| 35-39                          | 27  | 25%  |
| >40                            | 9   | 23%  |
| total                          | 110 | 100% |
| <b>Gender</b>                  |     |      |
| Male                           | 99  | 90%  |
| Female                         | 11  | 10%  |
| <b>Total</b>                   | 110 | 100% |
| <b>Educational level</b>       |     |      |
| Diploma                        | 0   | 0    |
| Bachelor Degree                | 99  | 90%  |
| Master degree                  | 11  | 10%  |
| PHD                            | 0   | 0    |
| Total                          | 110 | 100% |
| <b>Study discipline</b>        |     |      |
| Economics                      | 16  | 14%  |
| Accounting                     | 66  | 60%  |
| Management                     | 23  | 21%  |
| other                          | 5   | 5%   |
| <b>Total</b>                   | 110 | 100% |
| <b>Work Experience in year</b> |     |      |
| 1-3 years                      | 22  | 20%  |
| 4-6 years                      | 27  | 25%  |
| 7-9 years                      | 22  | 20%  |
| >10 years                      | 39  | 35%  |
| <b>Total</b>                   | 110 | 100% |
| <b>Position</b>                |     |      |
| Junior auditor                 | 27  | 25%  |
| Senior Auditor                 | 49  | 44%  |
| Audit Manager                  | 22  | 20%  |

CHALLENGES OF FRAUD DETECTION BY SUPREME AUDIT INSTITUTIONS:

|  |     |      |
|--|-----|------|
| Audit Director   | 12  | 11%  |
| <b>Total</b>   | 110 | 100% |
| Have you ever received training in Fraud auditing skills?                          |     |      |
| Yes  | 51  | 46%  |
| No   | 59  | 54%  |
| <b>Total</b>   |     |      |
| Are you a certified member of a professional fraud investigation association body? |     |      |
| Yes  |     |      |
| No   |     |      |
| <b>Total</b>   |     |      |
| Fraud audits undertaken since joining the Office of the Auditor General?           |     |      |
| none   | 30  | 27%  |
| 1-3  | 36  | 33%  |
| 4-6  | 23  | 21%  |
| 7-9  | 9   | 8%   |
| >10  | 12  | 11%  |
| <b>Total</b>   | 110 | 100% |

As it is indicated above, majority of the respondents (25% ) were within age level ranging 35-39 years. About 23% percent of the respondents were at age level ranging above 40 years and the remaining 52% percent were between 20- 34 years. This implied that almost all of the respondents are at matured age level and was able to provide reasonable information to the study.

Concerning the gender of the respondents, (90% percent) were male and 10% percent were female auditors at both levels at senior position to include in the study.

In addition to gender, when looking at the educational level of the respondents, entirely no illiterate is found while 10% percent are MSC/MA holders, and the remaining 90% percent were

BSC/BA holders. Thus, the educational level identifies that majority of the respondents (99 percent) have had good educational background and expected to provide knowledge-based information about challenges of fraud detection by SAI to the study.

Regarding the general work experience of the respondents, only 20% of the respondents had low level of work experience (<3 years). The remaining large group (80%) of the respondents had works of 4 and above years' experience. Thus, it is possible to consider that majority of the respondents had enough work experience to deliver reasonable information to the study.

Coming to the respondents study discipline about 66% of the respondents are accounting graduates and 23% of respondents are management graduates while the rest 16% were economics graduates and 4% of respondents are other field of study. This shows that the respondents study discipline are related to audit and can contribute in fraud audit challenges.

Most of respondent's positions are senior auditors that it holds 12% audit directors, 22% audit managers and 49% senior auditors. The remaining 27% of respondents are junior auditors. Since most of the respondents are at senior position and the experience and competency of the respondents are appropriate to gain sufficient information on challenges of fraud detection. They can provide significant information.

Regarding to training of respondent in fraud audit, there is no respondent who is certified member of a professional Fraud Investigation Association body but about 46% of respondents were received training in fraud auditing skill by Oromia office of auditor general as a refreshment course for three day for fresh auditors.

The other discussion concerning respondent background is regarding to number of fraud audit undertaken by respondents. About 21% of respondents were undertaken 4-6, 8% of respondents undertake 7-9 and 11% undertake greater than Ten (10)-fraud audit which were asked by judiciary organ of the government and commission of Ethics and anti-corruption since joining the Office of the Auditor General.

To validate the study framework, the researcher interviewed Deputy Auditor General of Oromia Regional State, one audit Director, one-audit managers and one senior auditor. All interviewee of this study were working in ORAG as either government employee or an appointee. Respondent's

educational status is second degree. The respondents possess extensive experience and knowledge about auditors' detection of fraud and can identify what they perceived to be the main factors that challenge SAI effectiveness at detecting fraud. Each interview lasted approximately 30-45 minutes and commenced by asking the fraud detection issues based on their experiences of why auditors find it difficult to detect fraud.

In the above background of the study participant's, it has shown that all of the respondents were auditors. Most of them were taking fraud audit in oromia office of auditor general. From this, it is possible to understand that these respondents were able to provide reliable information about challenges of fraud detection in SAI. Therefore, they are highly relevant to the audit procedure and the theme of the study.

Finally, the results of data obtained from different methods involved in this study are presented following this section. The results obtained from the survey are analyzed through descriptive statistics. Descriptive measures and questions response, interview and document source results presented in the subsequent sections.

### **4.3 Oromia Regional State Office of the Auditor General capability: A look at its independence to detect fraud**

The survey is conducted in order to assess the independency of office of the auditor general and its auditor in detecting fraud. Thus, it tries to identify whether office of the auditor general have an adequate degree of independence from the executive /audited entity and maintain its independence to detect fraud. The survey result concerning to independence presented follows.

Table 4.2 Descriptive statistics of ORAG Independency in fraud detection

| Items  | Strongly agree | agree | undecided | disagree | Strongly disagree | Total |
|--|----------------|-------|-----------|----------|-------------------|-------|
| The oromia regional state office of auditor general has adequate independence to play an effective role in promoting transparency, governance and accountability | 0              | 20    | 11        | 76       | 3                 | 110   |
|  | 0%             | 18%   | 10%       | 69%      | 3%                | 100%  |
| The financial and human resource management autonomy of oromia regional  | 0              | 21    | 10        | 64       | 15                | 110   |

CHALLENGES OF FRAUD DETECTION BY SUPREME AUDIT INSTITUTIONS:

|   |    |     |     |     |     |      |
|---|----|-----|-----|-----|-----|------|
| state office of auditor general is independent from the the executive(audited organization).  | 0  | 19% | 9%  | 58% | 14% | 100% |
| Oromia regional state office of auditor general auditors has security of tenure and legal immunity in the normal discharge of their duties. | 0  | 27  | 8   | 67  | 8   | 110  |
|   | 0  | 25% | 7%  | 61% | 7%  | 100% |
| The political environments in which auditors operate have impact on their ability to detect fraud.  | 8  | 63  | 15  | 24  | 0   | 110  |
|   | 7% | 57% | 14% | 22% | 0   | 100% |
| The scope of auditors in auditing work restricted by Executive organ of government (audited organization).                                  | 0  | 23  | 6   | 59  | 22  | 110  |
|   | 0  | 21% | 5%  | 54% | 20% | 100% |

Source: Survey results

As shown in table 4.8, the survey result shows that 72% of the respondents were stating that the Oromia regional state Office of Auditor General has no adequate independence to play an effective role in promoting transparency, governance and accountability. From this result, it is understood that where there is no adequate independency of SAI, it is difficult to detect fraud in audit procedure.

Regarding the financial and human resource management autonomy of the office of auditor general of Oromia and its independency from the executive (audited organization) about 72% of respondents described that the office has no financial and human resource management autonomy and it is dependent to the executive (audited organization). This result show that since the SAI is dependent to the executive (audited organization) in all financial and human resource management, they fear the audited organization to detect fraud due to the influence that may come as result of being dependent on it.

Concerning the security of tenure and legal immunity of auditors in the normal discharge of their duties, about 68% of respondents confirm that, as there is no security of tenure and legal immunity of auditors at all in their audit discharge. From this result, it is possible to state that lack of security of tenure and legal immunity of auditor leads them to fear in detecting fraud.

The issue that has to be clear here is the political atmosphere of SAIs independency, in which the political environments that auditors operate have impact on auditor’s ability to detect fraud. About 64% of respondents states that, as there is political impacts on their audit procedure. From this

result of data the political impact on audit procedure affect the independency of SAI and is challenge in fraud audit.

Concerning whether the scope of auditors audit work been restricted by executive branch of government (audited organization) or not, about 69% of respondents answer that as there is no scope restriction by executive. This shows that the right of SAI to investigate issues of financial management and corruption that creates conducive environment though in principle that helps auditor to detect fraud though it is not in practice.

On the other hand, as determined from the interview result, all the interviewee replied that even though the oromia regional state office of auditor general recognized by the constitution and established through proclamation to enhance accountability, transparency and good governance, in practices that some of its independency remain on paper without implementation. As all of the respondents replied still it did not have adequate independence to play its role. The reason they expressed was that the financial, human, material and monetary resources of oromia regional state office of auditor general is dependent to executives (audited organization). All the respondents witnessed annual budget of office of auditor general is prepared by BOFED and approved through council of people's representative. The approved budget is not adequate to play its role. Bureau of Civil Service and Human Recourse Management also approved the Organizational structure and salary scale of office of auditor general. From this interview result, it is possible to understand that the office of auditor general of Oromia dependency to the executive organ or audited organization can result in difficulty to detect fraud.

Regarding the security of tenure and legal immunity of auditors at fieldwork of audit procedure, all of the respondents of interview identified that there is no any especial legal immunity protection given to the auditors on their audit procedure. Thus, it is possible to assume its impact in making auditors to effectively and efficiently discharge their responsibilities of detecting fraud.

As stated on the 2016 annual report of Auditor General of the oromia regional state submitted to the regional council '*Caffee*' indicate that organizational structure of SAI of oromia and recalibration of process of audit procedure were not approved by bureau of civil service and human resource management of oromia. Due to this, the turnovers of the auditors were increase year to year. From this document, it was evidenced that the office were dependent in its human

resource management to audited organization. Therefore, this is a challenge to office of auditor general to detect a fraud occurred in audited organization.

While reviewing fraud audit manual, SAI is required to prepare annual reports of fraud audit, which is an effort to promote transparency and accountability. However, when the 2016 annual report of the auditor general submitted to the council “*Caffee*’ was reviewed it were not include fraud audit report according to the AFROSAI-E fraud cheek list.

The above overall result shows that most of respondents of questioner, interview and document express, as there is no adequate independence to play an effective role in promoting transparency, governance and accountability. There was a fear and luck of willingness of auditors to detect fraud. Even though, the Oromia Regional State Office Of Auditor General is the SAI recognized by the constitution and established by proclamation to enhancing accountability, transparency and good governance, in practices that some of its independency remain on paper without implementation in practice.

As formulated in the Lima Declaration (ISSAI 1) and the Mexico Declaration (ISSAI 10) of INTOSAI, discussed under chapter two the Independence and the Legal Framework of SAIs is covering the demands of the independence of a SAI. The Congress of the International Organization of Supreme Audit Institution’s (INCOSAI) 1977 Lima Declaration stated as follows: “*Supreme Audit Institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence*”.

The Declaration specified a number of key features of independence: the SAI is independent of the executive and bodies it audits; its members are protected against arbitrary removal; and, the SAI is provided with the financial means to enable it to accomplish its tasks (INTOSAI 1998).

It is possible to understand that the majority of respondents of questioner state that the office of auditor general of Oromia is not independent and informant supports this reality. As data from literature indicate, independency is required to exist for effective implementation of SAI to its duty. Thus, this would have impact and it is possible to conclude that the office of auditor general of Oromia regional state is not independent. The dependency of SAI to audited organization can cause the challenge of fraud detection.

In general, survey result of this study show that the office of the oromia auditor general face different challenges in detecting fraud when conducting its activities. The survey result shows that oromia regional state office of auditor general has no adequate independence to play an effective role in promoting transparency, governance and accountability. The Financial and human resource management autonomy of Oromia regional state office of auditor general is dependent to the executive (audited organization). When auditors of the office of auditor general undertake they have no security of tenure and legal immunity in the normal discharge of their duties. These all show the lesser independency of oromia regional state office of auditor general.

#### 4.4 The competency of Office of The Auditor General of Oromia: capability to detect fraud

The survey result on the capacity of office of auditor general and its auditor’s competency in fraud detection presented below. It helps us to understand to what extent oromia regional state office of auditor general has the capacity in addressing fraud related challenges. This in turn helps to understand factors that may challenge this office. To this objective, the table below provides the capacity related issue of office of auditor general of Oromia.

Table 4.3 Descriptive result of ORAG capacity in fraud detection

| Items   | stro. agree | agree | undecided | disagree | stro. disagree | Total |
|---|-------------|-------|-----------|----------|----------------|-------|
| Training, case studies, and experience sharing provided by your organization (SAI) is sufficient enough to prepare auditors to play their role in detecting fraud effectively | 0           | 38    | 3         | 68       | 1              | 110   |
|   | 0           | 35%   | 2%        | 62%      | 1%             | 100%  |
| While experience is the best teacher, the experience you have in financial and performance audit can detect fraud in audit procedures without any fraud case training         | 0           | 29    | 6         | 72       | 3              | 110   |
|   | 0           | 26%   | 5%        | 65.4%    | 3%             | 100%  |
| Repeated exposure to the fraud audit helps to develop auditors fraud detection task   | 8           | 81    | 9         | 12       | 0              | 110   |
|   | 7%          | 74%   | 8%        | 11%      | 0              | 100%  |
| Training, case studies, and experience sharing you have keep updated you with fraud detection knowledge   | 0           | 16    | 4         | 90       | 0              | 110   |
|   | 0           | 15%   | 3%        | 82%      | 0              | 100%  |
| Your organization (SAI) auditors are  | 0           | 25    | 25        | 56       | 4              | 110   |

CHALLENGES OF FRAUD DETECTION BY SUPREME AUDIT INSTITUTIONS:

|   |    |     |     |     |    |      |
|---|----|-----|-----|-----|----|------|
| competent enough to conduct forensic audit effectively  | 0  | 23% | 23% | 51% | 3% | 100% |
| Oromia Regional State Office Of Auditor General auditors awareness's to obtain all relevant data in fraud audit is a challenge of fraud detection | 9  | 85  | 6   | 10  | 0  | 110  |
|   | 8% | 77% | 5%  | 9%  | 0  | 100% |

Source: Survey results

As depicted under table 4.9, the respondents showed that regarding training, case study and experience sharing in fraud audit provided by office of auditor general, about 68% of the respondents were not provided sufficient training, case study and experience to play their role in detecting fraud effectively. This shows that the existing training, experience as well as study intended to help them in avoiding if not reducing fraud is less which have its own contribution as it will elaborated later.

Coming to the experience in financial and performance audit to detect fraud in audit procedures, without any fraud case training, most of the respondents about 68% were confirm that the experience they have in financial and performance audit cannot detect fraud in audit procedures without any fraud case training. Here, it is wise to indicate that fraud can detected by experience of fraud auditing and training on fraud audit manuals. In the absence of these trainings, it is impossible to consider that fraud would not detected by financial and performance audit only.

Regarding repeated exposure to the fraud audit, most of the respondents, about 81% were agree and strongly agree that repeated fraud audit experience can develop fraud audit detection. Hence, in order to, address the challenges of fraud detection, exposure to the issue plays critical role which require due emphasis in one hand and in the absence of these exposure it hints that it is difficult to detect fraud.

About 74% of respondents witnessed that training, case studies, and experience sharing they have in fraud audit cannot increase fraud detection knowledge. This shows that there is no enough training and well skilled case studies designed and given to respondents that helps them in detecting fraud.

The other focus is concerning effectiveness and competency to conduct forensic audit. As one can understand from the table, almost majority of the respondent 54% confirmed that there is absence

of competent and effective forensic audit. Here, it is possible to suggest the impact that it may have in order to effectively and efficiently discharge their responsibilities of fraud detection.

Coming to the awareness of auditors to obtain all relevant data in fraud audit, about 85% of respondents state that obtaining relevant data in fraud audit is a challenge of fraud detection. This suggests that there is awareness gap of auditors to get all the required relevant data that will allow them to detect fraud.

On the other hand, concerning the issue of training an interview is held for key informants and they witnessed that there is 40 hours training annually in office of auditor general of Oromia. However, fraud audit manual training was given in 2004 for three days (24 hours) only. When newly entrant recruit auditors were selected training on over view of fraud audit was given to fresh auditors for only 16 hours. In the view of the respondents training provided in such condition was not sufficient enough to prepare auditors play their role in detecting fraud. In considering the effectiveness of case studies, and experience sharing provided by office of auditor general was asked all respondents of this study highlighted that as there was experience sheering between regional ORAGS and audit forums held annual by OFAG. However, the experience sharing provided was focus on performance and regulatory audit and administrative issues. The respondents states the training, workshop and experience sharing provided by office of auditor general were not effective in helping auditors to detect fraud .

This clearly shows us that though there is training given annually, it is limited and does not match with the required training for fraud audit. For this reason, it is wise to understand that there is training and experience gap of fraud detection that may still have its own contribution to challenges of fraud detection.

When respondents are asked to give their view about the auditor's qualifications and competence in conducting forensic audit, all of the respondents witnessed that since there is no forensic accounting expert in office of auditor general most auditors are not competent enough to conduct forensic audit effectively. According to an interview made with senior auditors, the capacity required to investigate fraud need a minimum of forensic audit experience and professional training. It is believed that individuals can face difficulty of meeting requirements of professional standards. Based on informants view it is possible to hint out that there is a challenge or gap of

professional competency in forensic audit. This will be a contributing factor of challenges for fraud detection.

Coming to the existing conceptual frameworks, as discussed under chapter two, the audit organization needs skills and experience necessary for effective discharge of the audit mandate. To undertake fraud audit, persons whose education and experience is commensurate with the nature, scope and complexities of the audit task should carry out the audit work. Capacity of auditor is a major concern for the SAI and has a great impact on fraud detection. Educational specialization in a given field is important, but a blend of skills is necessary to assure that the audit function can perform its duties efficiently and effectively. Auditors must rely on technical expertise, professional judgment and a good understanding of how an error or fraud is committed in order to detect misstatements. Inadequate staff capacity and training can therefore have a severely debilitating effect on the ability of audit institutions to address their objective(s).

In general, the result of the questionnaires and interview held indicate that, training, case studies, and experience sharing provided by office of auditor general of Oromia were not sufficient to prepare respondents to play their role in detecting fraud effectively. In addition to this, as it is stated somewhere awareness gap combined with lack of proficiency in forensic audit experience has influence on fraud detection. A part from this, the data gathered shows that none of the auditors is certified to a professional fraud investigation body. The overall results of capacity analysis shows that capacity of auditors is a challenge for the detection of fraud.

Although, auditing has become the subject of attention in government circles, it remains the major key control function in government financial control system. Unfortunately, the Auditor- General office in Oromia remains ill equipped for its fraud detection responsibility towards the Checkmating of official corruption. The auditor-general is ill equipped with low skilled manpower in forensic audit. Poor training and skill update in modern forensic auditing techniques leaves the available Auditor-General staff ill equipped to detect and gather sufficient evidence, and effectively to carry out its functions. Capacity of fraud detection is acquired through experience or Repeated exposure, Training, case studies, and experience sheering and professions. When all of these assessed through survey and interview, lack of training and experience sharing concerning fraud and corruption were identified.

#### 4.5 The general motivational factors to detect fraud at Oromia regional state office of the auditor general

Six questions were distributed to assess auditor's motivational factors in fraud detection. Here, effort is made to investigate factors that may influence auditor motivation in order to detect fraud. Result of responses from auditor's concerning motivation in fraud detection is presented as follows:

Table 4.4 Descriptive statistics of ORAG motivation in Fraud detection

| Item  | stro. agree | agree | undecided | disagree | stro. disagree | Total |
|---|-------------|-------|-----------|----------|----------------|-------|
| Promotional aspects such as motivation of salary and benefit paid to auditors have effect on willingness of auditors to detect fraud in audit procedure.        | 40          | 48    | 1         | 15       | 6              | 110   |
|   | 36%         | 44%   | 1%        | 14%      | 5%             | 100%  |
| The standardized time budget given to audit procedure can motivate auditors to detect fraud   | 6           | 40    | 14        | 46       | 4              | 110   |
|   | 5%          | 36%   | 13%       | 42%      | 4%             | 100%  |
| Parliament ("Caaffee") allocate sufficient budget to meet auditors' needs and enhance fraud detection   | 3           | 11    | 12        | 67       | 17             | 110   |
|   | 3%          | 10%   | 11%       | 61%      | 15%            | 100%  |
| The legislative and/or executive authority, the public and the audited entities are fully assured of the fairness and impartiality of Oromia SAI auditors work. | 3           | 25    | 20        | 60       | 2              | 110   |
|   | 3%          | 23%   | 18%       | 54%      | 2%             | 100%  |
| The responsible of audit team and composition practices (Team matrix of audit team) has effect for detection of fraud.  | 16          | 72    | 6         | 15       | 1              | 110   |
|   | 15%         | 65%   | 5%        | 14%      | 1%             | 100%  |
| Oromia SAI promotes trust and confidence on its auditors and their work since auditors adopt and apply the INTOSAI code of ethics.                              | 13          | 55    | 14        | 26       | 2              | 110   |
|   | 12%         | 50%   | 13%       | 24%      | 2%             | 100%  |

Source: Survey results

The response collected from auditors shows 80% percent of them confirm that the promotional aspects such as motivation of Salary and benefit paid to them can increase willingness to work

and motivation of auditors to detect fraud in audit procedure. This clearly state that salary and benefit paid to auditors play a role to increase their motivation to detect fraud.

When the respondents were asked that the allocation of budget by council of peoples representative “*Caffee*” to office of auditor general was enhance auditors to meet auditors’ needs and enhance fraud detection. About 76% of respondents confirm that the allocation of budget by council to the office does not encourage them to detect fraud. This may entail that the budget allocated to this office is either it mismatch with the existing need or based on allocated amount of budget from itself auditors may face motivation due to other interrelated factors. One thing that has to be taken in to account is that there is less motivation due to budget allocation made by council to this office of auditor general.

When the assurance of the fairness and impartiality of all the Oromia SAI auditors is concerned, about 56% of the respondents stated that the legislative and/or executive authority, the public and the audited entities are fully assured that there is no as such fairness and impartiality of all the Oromia SAI auditors work. This suggests that both organs of government are not fair and impartial which may have its own impact to motivate auditors to detect fraud.

When the responsibility of audit team and composition practices (Team matrix of audit team) effect for detection of fraud, about 80% of respondents stated that audit team and composition practices motivate auditors to detect fraud. This confirm us that while they work with competent team matrix, their motivation to detect fraud will encouraged.

Coming to the confidence of office of auditor general on its auditors and their work, almost 62% of respondents suggested that the office of auditor general promotes trust and confidence on its auditors and their work since auditors adopt and apply the INTOSAI code of ethics. Based on this, it is possible to forward that there confidence of office of auditor general’s that helps them to enhance their motivation to detect fraud.

According to the interview made, majority of the respondents identified that the promotional aspects such as motivation of salary and benefit paid to office of auditor general auditors alone cannot increase willingness of auditors to detect fraud in audit. In addition to this, the respondents suggest that other audit facilities such as audit team need to detect fraud effectively including

salary and benefits, health and life insurance and legal immunity for auditors are motivational factors for SAI fraud detection challenges. Here, readers are required to know the factors that contribute to increase the motivation of auditors to detect fraud may go beyond increasing salary as it is suggested by respondent from questionnaires' discussed above.

According to the 2016 annual report of the auditor general of Oromia submitted to the council "Caffee" the SAI of Oromia cannot play its role effectively because of the lack of motivational factors of auditors in salary and benefits paid to auditors. Auditor General in here annual report explained that the salary and paradigm paid were not go with current market and it was not sufficient.

The response collected from auditors regarding promotional aspects such as motivation of salary and benefit paid to auditors have effect on willingness of auditors to detect fraud in audit procedure. From the interview of senior auditors it can be understood that the motivational factors like salary and benefit of auditors did not initiates auditors to detect fraud. This result agrees with the idea of Mills (1993: 30), the motivation of auditors in carrying out audit is basically to continue operations and business continuity in its favor. Motivation auditor also arise as confident that he can carry out these audits, as well as the customer demand and the existence of several commercial needs. Tan (2000), said there are several factors to consider auditor's motivation at work, for instance, the variation of tasks and activities, auditor's salary, an increase in status, the awards will be given, and to demonstrate the ability to work.

Now, as discussed under theoretical framework, motivation of auditors to detect fraud play critical role and it is difficult to determine existence of enough motivation in absence of salary and benefits towards them. Therefore, such related factors challenge oromia regional state office of auditoria general to effectively and efficiently detect fraud.

To detect fraud in audit procedure willingness of auditors are the key factors of fraud detection. When promotional aspects such as motivation of Salary and benefit paid to auditors were assessed most of respondents, were response that Salary and benefit paid to auditors have effect on Willingness of auditors to detect fraud in audit procedure. Budget allocated to meet auditor's needs' were not sufficient and motivate auditors. This would contribute its own challenge while detecting fraud.

#### **4.6 Organizational Structure of Forensic Audit in Office of Oromia Auditor General to Detect Fraud**

To address fraud risk effectively whether Oromia regional state office of Auditor General establish forensic audit unit or not, the respondents result discussion is provided under this section. Here effort is made to understand the institutional effectiveness at unit level to detect fraud through distribution of two questions. This is to assess the importance of fraud audit unit in Oromia Office of Auditor General and its impact on fraud detection.

Table 4.5 Descriptive statistics of the Unit of Fraud Audit structure

| Item   | stro.<br>agree | agree | undecided | disagree | stro.<br>disagree | Total |
|--|----------------|-------|-----------|----------|-------------------|-------|
| Your organization ( SAI) have to Established a Specific Unit of forensic audit unit to address Fraud Risk in government agencies                       | 4              | 51    | 20        | 32       | 3                 | 110   |
|  | 4%             | 46%   | 18%       | 29%      | 4%                | 100%  |
| Fraud can be detected by financial and performance audit unit in audit procedure and need not necessary to establish a special unit of forensic audit. | 1              | 24    | 14        | 64       | 7                 | 110   |
|  | 1%             | 22%   | 13%       | 58%      | 6%                | 100%  |

The results in table 4.10 show that about 50% of the respondent stated that Oromia regional state office of Auditor General have to establish a specific unit of forensic audit unit to address fraud risk in government agencies. The result of this data shows that the office of auditor general has not established the special unit in its structure yet to address fraud risk in auditing organization.

When respondents were asked whether financial and performance audit unit in audit procedure can detect fraud or need to establish a special unit of forensic audit, about 64% of respondents confirm that it is necessary to establish a special unit of forensic audit in SAI. This shows that fraud cannot detected by financial and performance audit only in audit procedure and need to establish a special unit of forensic audit in SAI.

In considering significant roles of forensic unit in office of auditor general all key informant of the study described as there is no forensic audit unit/department in Office of auditor general of Oromia and it should establish a specific unit of forensic audit to address and detect fraud in governmental organizations effectively.

As review of organizational structure of the office of auditor general made, there is no special or forensic audit unit. The survey result show that as there was no special team (unit of fraud audit) in Oromia Office of Auditor General and it is necessary to establish a specific unit of forensic audit unit in Oromia Office of Auditor General. All the respondents viewed fraud cannot detected by financial and performance audit team (unit) only in audit procedure.

Therefore, the absence of a specific unit of forensic audit in Oromia office of Auditor General is one of the challenges for detecting fraud. The result of data indicates that the use of forensic accounting significantly reduces the occurrence of fraud in public sector, as it equally showed that there is significant difference between professional forensic accountants and traditional external auditors in terms of skills and techniques applied in fraud detection and prevention.

#### **4.7 The involvement of the clients or public in ascertaining fraud audit in Oromia regional state office of the Auditor General**

As discussed under conceptual frameworks and existing experience, the relationship between community and SAI’s plays a vital role to detect fraud. Keeping this line of argument, this study tries to look this principle at Oromia Regional State Office of The Auditor General. To this objective, apart from distribution of questionnaires’ and interview a closer cooperation and appropriate exchange of information from existing literature with national and international bodies is made in order to analysis the nexus between community and SAI’s in fraud detection. The result of respondent is presented as follows;

**Table 4.6 Descriptive statistics of Cooperation of ORAG and Citizen**

| Item   | stro. agree | agree | undecided | disagree | stro. disagree | Total |
|--|-------------|-------|-----------|----------|----------------|-------|
| Oromia Regional State Office Of Auditor General has a closer cooperation and appropriate exchange of information with other national and international bodies which can help to detect fraud | 6           | 33    | 17        | 51       | 3              | 110   |
|  | 5.5%        | 30%   | 15.4%     | 46.4%    | 2.7%           | 100%  |
| Cooperation of community with Oromia Regional State Office Of Auditor General auditors is effective.   | 8           | 72    | 4         | 23       | 3              | 110   |
|  | 7%          | 65%   | 4%        | 21%      | 3%             | 100%  |

CHALLENGES OF FRAUD DETECTION BY SUPREME AUDIT INSTITUTIONS:

|   |     |     |    |     |   |      |
|---|-----|-----|----|-----|---|------|
| communication of auditors to management and audited entity is not good.                         | 9   | 79  | 2  | 20  | 0 | 110  |
|   | 8%  | 72% | 2% | 18% | 0 | 100% |
| Auditors of ORAG were have Limited access to records and intentional delays in gating records . | 12  | 75  | 3  | 20  | 0 | 110  |
|   | 11% | 68% | 3% | 18% | 0 | 100  |

Source: Survey results

Table 4.5 firstly tries to analysis in case there is closer cooperation between Oromia regional state office of Auditor General and national and international bodies. Almost 49.1% argues that there is no closer cooperation and appropriate exchange of information with other national and international bodies. Additionally, cooperation of community, communication and access to records of Oromia Regional state Office of Auditor General is low if not limited. Now, it is obvious that cooperation and appropriate exchange of information can help to detect fraud. Thus, the SAI cooperation and exchange of information with other national and international bodies can enhance to detect fraud.

When Cooperation of community with Oromia regional state office of Auditor General auditors were assessed 72% of respondents were describe that as there were no cooperation of community in fraud procedure. From this result it can be understood that that the absence of cooperation of community in fraud audit it cannot make completion of audit easy and detect fraud effectively fraud. So lack of cooperation of community in audit procedure is one of the challenges to detect fraud.

About 80% of respondents also stats that the office Oromia Auditor General have no good communication with management and audited entity in audit procedure . This shows that communication of management and audited organization with the auditors in office of oromia regional state office of auditor general cannot enhance auditors to detect fraud.

Additionally when the auditors access to records of audited entity were assessed 79% of respondents were describe that auditors of auditor general of oromia were have Limited access to records and intentional delays in gating records .The intentionally delays in production of records and limited access to records of auditors can causes auditor not to detect fraud.

From the result of above data, when cooperation and appropriate exchange of information with other national and international bodies which can help to detect fraud is assessed most of the respondents witnessed as there were no closer cooperation and appropriate exchange of information with other community. Most of the respondents agree that Cooperation of community with Oromia Regional State Office of Auditor General auditors can make completion of audit easy and detect fraud effectively.

Considering the possibility of involving the clients or citizens in ascertaining in audit procedure all of the the interview respondents witnessed that Oromia Regional state Office of Auditor General has no a community participation strategy. It also has no a closer cooperation and appropriate exchange of information with other national and international bodies which can help to detect fraud.

Coming to the existing conceptual frameworks, as it is discussed under chapter two of this study, the literature since the late 1990s has been increasingly focusing on the transformation of values and worldviews that citizen participation in governance can generate, including empowerment and creating social capital among citizens through collective efforts (Ostrom 1996).

From the interview held to senior auditors it was understood that as there were no community participation strategy in Office of Auditor General auditors. But from interview held to deputy auditor general it was explained that in addition to experience sheering between ORAGs, there was a forum of judiciary and executive agency of governments which can help to detect fraud and follow up on audit findings. In general, from the result of the survey it was understood that lack of community participation in fraud audit procedure is one of the challenges to detect fraud in audit procedure.

An empirical study conducted by the official report on the 21st UN/INTOSAI Symposium, which took place 13-15 July 2011 in Vienna, Austria. The document reflects the high relevance and firm commitment of the UN, INTOSAI and SAIs to enhance public accountability and to fight corruption through cooperation between SAI's and citizens. The UN/INTOSAI conclusions and recommendations at the beginning and the following articles do not present citizen engagement in auditing as an alternative to traditional forms of audit and related methodologies. Rather, citizen

engagement presented as a complementary element to be integrated into the work of audit institutions.

From the survey result of questioner, interview and document review it was found that Oromia Regional state Office of Auditor General has no a community participation strategy. It also has no a closer cooperation and appropriate exchange of information with other national and international bodies which can help to detect fraud. So Oromia Regional State Office of The Auditor General were not participate the clients or public in ascertaining fraud audit.

Fraud and corruption cannot be detected and prevented without a participation of community. From the survey and interview held Office of auditor general of Oromia on of the challenge identified in fraud detection is lack of community participation in audit procedure.

## **CHAPTER 5: CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This study explored the challenges of fraud detection by SAI: in Oromia Office of Auditor General . Auditor-General of the Oromia regional state is a supreme audit institution whose function is expected to provide unbiased objective assessments of whether public resources are responsibly and effectively managed to achieve intended results. This function aims to help government organizations to achieve accountability and integrity, and instill confidence among citizen and stakeholder.

This paper to confront, weaken or sometimes completely hinder the effectiveness of the Auditor-General of the Oromia Regional State to detect fraud exposes several challenges at varying degrees of strictness. From the findings, it is evident that the indicators of the challenges of fraud detection in the Auditor-General of the Oromia regional state fall in five categories. The first is independency of Office Of Auditor General and its auditors, capacity of Office Of Auditor General , motivational factors of auditors, Organizational structure of SAI and community participation in audit procedure are thus the most used indicator as major challenge. Therefore, in this chapter the conclusion of the finding and based on it measures that are required to be undertaken to overcome the challenges as recommendation is provided.

### **5.2 Conclusions**

Although there is a general agreement that the SAI should play an effective role in promoting transparency, governance and accountability, yet Auditor-General of the Oromia Regional State still lack adequate independence and resources to play this role. While the Auditor-General report serves as an effective instrument for legislative oversight over the executive's dealings with public finance, there is dependence on audited organization, which has its own impact to discharge effectively its mandates. The Financial and human resource management of Oromia Regional State Office Of Auditor General is dependent on the executive (audited organization). Apart from this, existence of fear that emancipate due to absence of independence contributed as a challenges to auditor to perform with full objective and non-bias. So the independency of Oromia regional state office of auditor general is not capable to detect fraud.

Other key challenges for detecting fraud by Auditor-General of the Oromia Regional State is the institutional and its auditors capacity and competency. Although, auditing has become the subject of attention in government circles, it remains the major key control function in government financial control system. Unfortunately, the Auditor- General office of Oromia remains ill equipped for its enormous responsibility towards the fraud detection. The Auditor-General is poor equipped with low forensic audit skilled manpower. Poor training and skill update in modern forensic auditing techniques leaves the available Auditor-General staff ill-equipped to detecting and gathering sufficient evidence, and to effectively carry out its functions or roles of fraud investigative responsibilities. Since competency of auditor for fraud, investigation is much less. Absence of training, case studies, and experience sharing regarding fraud investigation (Forensic Audit) provided by SAI of Oromia , the capacity of fraud detection of SAI of Oromia is in question. The training, case studies, and experience sharing regarding fraud investigation given by office of Auditor General was not sufficient enough to prepare auditors play their role in detecting fraud effectively. While experience and repeated exposure to the fraud detection are the best teacher in building competency of auditors, the experience of fraud investigation auditors of office of Auditor General of Oromia was one of challenges to detect fraud. It is identified that the experience in financial and performance audit cannot develop auditors' fraud detection task in audit procedures. Oromia Regional State Office Of Auditor General auditors awareness to obtaining all relevant data in fraud audit and competency to conduct forensic audit effectively cannot keep update auditors with fraud detection knowledge. On this basis, the researcher argues that the auditors at the Office of the Auditor General of Oromia regional state have limited technical knowledge and skills to effectively undertake fraud audits.

Due to the nature of auditing and its inherent limitations, fraud is very difficult to detect. One reason why fraud is difficult to detect is that it is difficult at institutional level through financial and performance audit unit only in the absence of forensic audit unit. This is so because the use of forensic accounting do significantly reduces the occurrence of fraud cases in the public sector, as it equally showed that there is significant difference between professional forensic and traditional external auditors in terms of skills and techniques applied in fraud detection and prevention.

From the finding discussed, it is clear that motivation and willingness of auditors of Oromia regional state Office of auditor general was low to detect fraud in audit procedure. Auditor

motivation is the strength of a tendency of an auditor to act in certain ways and force it to rely on the hope that it would be followed by specific output and attractiveness of the output for the auditors. Therefore, the magnitudes of the effect of auditor's motivation have an influence on fraud detection. The challenges faced by SAI of Oromia were general and not necessarily restricted to fraud detection alone. In addition to this, different factors contributed for the lack of motivation and willingness that include but not limited to salary related issues, poor working and social security issues.

International, national, regional or local exchange of ideas, knowledge and experience is an effective means of raising the quality of fraud audit, harmonizing standards, sharing best practices and generally helping audit organizations to fulfill their mandate. One of the challenges of fraud detection for SAI of Oromia was that the participation of community was not active in audit procedure. However, the image of SAI of Oromia has been slowly changing around the region in light of the broader transformations in government's roles, still SAI of oromia did not practices, and increased public participation in its audit procedure.

Finally, this study has been conducted to critically examine the challenge that could influence SAI to fraud detection. The survey results revealed that the office of auditor general of oromia had a challenges of lack of independency, lack of capacity, absence of forensic audit unit, motivation of auditors and lack of participation of community in fraud audit are some of the challenges for fraud detection by SAI of Oromia. Therefore, the next section provides possible measures that are required to be undertaken to overcome these challenges.

### **5.3 Recommendations**

In this section, the possible recommendations are forwarded in order to help SAIs in exercising their professional responsibilities to detect fraud. Based on findings, suggestions that may help in dealing with the challenges of fraud detection faced by Office of auditor General of Oromia Regional State is provided below.

- Oromia Regional state Office of Auditor General is required to be independent. As stated under theoretical framework, Lima Declaration (ISSAI 1) and the Mexico Declaration (ISSAI 10) Supreme Audit Institutions can accomplish their tasks objectively and effectively

only if they are independent of the audited entity and protected against outside influence. However, Oromia Regional state Office of Auditor General is dependent that would have extreme impact to discharge its responsibilities effectively. Therefore, it should manage its own budget and allocate it appropriately to detect fraud without fears. The Legislature or one of its committee have to responsible for ensuring that the office of auditor general have proper resources to fulfill their mandate.

- Oromia Regional state Office of Auditor General should develop its professional and institutional capacity to discharge the requirements of its mandates in the most efficient and effective way. It may need to review its training program and build staff capacity to detect potential fraud as part of their regular audits. Cooperation with other legislative auditors domestically and internationally may also help to develop the capacity of the office of auditor general to conduct challenging audits in forensic audit. The Oromia regional state Office of auditor general should work on a capacity-building initiative in the area of reporting on fraud actions and integrate it into decision-making. The Office of auditor general of oromia regional state needs to be proactive in fraud education and awareness. They should regularly hold workshops for sensitization and sharing of information and intelligence on fraud to improve their detection procedures.
- Attention is required to be given to encourage auditor's motivation and willingness that helps to effectively participate in fraud detection. It is impossible to think that without motivation nothing could be done in general and fraud detection in particular. In doing so, it is better to address the challenges that reduce if not limit motivation and willingness of auditors such as salary related, working condition issues and social security issues. In particular, this study recommends that government should design and address motivation and willingness related factors through policy.
- More than ever, there is now the need for the development of specialized forensic audit skills to handle fraud auditing. There is an urgent need for the Office of auditor general of Oromia to create a special audit unit in the position or even as an independent accountable expert unit to be burden primarily with the fraud audit functions only. There is no doubt that such unit will helps to monitor how the government is committed to fight corruption and contributes its own.

- The office of Auditor General of Oromia should aim to facilitate citizens' participation and access to the information generated by the Office and such information needs to be relevant, trustworthy and in a comprehensive format easily accessible by the public. As stated on the UN and INTOSAI joint symposium there is a need for collaboration between SIA and citizens. In the absence of such kind of relationship, it may difficult to discharge its role effectively. Therefore, it is no longer sufficient for SAI of Oromia to keep it isolated from the public to fulfill its mission. In doing so, it is possible to recommend that increasing public awareness and enough knowledge of government policy and performance and encourage strong partnership in dealing with fraud, mismanagement and inefficient public management.

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## Appendix 1

Research Proposal Title: Challenges And Practices Of Fraud Detection By Supreme Audit Institution; In Case Of Oromia Office Of Auditor General

Prepared by: Geremew Asefa

Date of Preparation: November 31/2016

Time schedule/Work Plan (using Gant Chart)

| S. No | Activity   | Time Period |     |     |     |     |     |
|-------|--|-------------|-----|-----|-----|-----|-----|
|       |  | Dec         | Jan | Feb | Mur | Apr | May |
| 1.    | Final Thesis Proposal                            |             |     |     |     |     |     |
|       | Final Literature Review                          |             |     |     |     |     |     |
| 2.    | Review Secondary data and develop questionnaires |             |     |     |     |     |     |
|       | Final Data Collection Instruments                |             |     |     |     |     |     |
|       | Submission of Progress Report to the Department  |             |     |     |     |     |     |
| 3.    | Pilot test and revise questionnaires             |             |     |     |     |     |     |
|       | Data Collection                                  |             |     |     |     |     |     |
| 6.    | Final Data Processing and Discussions            |             |     |     |     |     |     |
| 7.    | Final Report Writing                             |             |     |     |     |     |     |
| 8.    | Submission of Final Thesis to the Department     |             |     |     |     |     |     |
|       | Thesis Defense                                   |             |     |     |     |     |     |
| 10.   | Print, bind and submit                           |             |     |     |     |     |     |

## Appendix 2

### Work sheet for estimating Budget

| S. No                               | Title                        | Number Required | Unit cost | Total Cost in Birr | Remark         |
|-------------------------------------|------------------------------|-----------------|-----------|--------------------|----------------|
| <b>Per-diem Expense</b>             |                              |                 |           |                    |                |
| 1.                                  | Per-diem for data collectors | 1               | 500       | 4000               | 8*500 complete |
| 2                                   | Per-diem for driver          | 1               | 500       | 4000               |                |
| <b>Transport</b>                    |                              |                 |           |                    |                |
| 1.                                  | Fuel                         | Nekemtee        | 1500      | 1500               |                |
|                                     |                              | Jimmaa          | 1700      | 1700               |                |
|                                     |                              | Shashemene      | 1300      | 1300               |                |
|                                     |                              | Ciroo           | 1600      | 1600               |                |
| <b>Office Supplies</b>              |                              |                 |           |                    |                |
| 1.                                  | Paper                        | 2 Pad           | 500       | 1000               |                |
| 2.                                  | Note Pad                     | 5 Pad           | 40        | 200                |                |
| 3.                                  | Pens                         | 10 Pcs          | 5         | 50                 |                |
| <b>Service</b>                      |                              |                 |           |                    |                |
| 1.                                  | Photo copy                   | 500 pages       | 1         | 500                |                |
| 2.                                  | Printing                     | 200 Pages       | 4         | 800                |                |
| <b>Electronic Supplies</b>          |                              |                 |           |                    |                |
| 1.                                  | Flash 2GB                    | 2               | 200       | 400                |                |
| 2.                                  | Cassette Recorder            | 2               | 600       | 1200               |                |
| 3.                                  | cassette                     | 5Pcs            | 20        | 100                |                |
| 4.                                  | Batteries for recorders      | 10Pcs           | 10        | 100                |                |
| <b>Other Miscellaneous Expenses</b> |                              |                 |           | 3000               |                |
|                                     | <b>Total Budget</b>          |                 |           |                    |                |
| 1.                                  | Pardiem expense              | 8000            |           |                    |                |
| 2.                                  | Fuel                         | 6100            |           |                    |                |
| 3.                                  | Office Supplies              | 1250            |           |                    |                |
| 4.                                  | Service                      | 1300            |           |                    |                |
| 5.                                  | Electronic Supplies          | 1800            |           |                    |                |
| 6.                                  | Miscellaneous expenses       | 3000            |           |                    |                |
| <b>Total budget of expenses</b>     |                              | 18.750          |           |                    |                |

### Appendix 3

**Addis Ababa University**  
**College of Business and Economics**  
**Department of Public Administration and Development Management**

*Questionnaire Presented To Oromia Regional State Office Of Auditor General Auditors*

#### **Introduction**

I am undertaking a Thesis as part of the fulfillment of the requirements of my Masters program. The theme of the project focuses on the Challenges Of Fraud Detection By Supreme Audit Institutions, The Case Of The Oromia Regional State Office Of The Auditor General, with the aim of helping to safeguard the resource by facilitating management control of fraud practices and assessing compliance with public policies, which would include meeting regulatory requirements. The Office of the Auditor General has been undertaking audits of Fraud issues for quite some time. I would, therefore, be pleased if you can offer your views on how you feel the Office of the Auditor General of Oromia Regional State (ORAG) is performing in terms of carrying out the audit of Fraud related issues and challenges.

#### **Dear Respondents**

This questioner is for academic purpose only. So you have been selected to voluntarily participate in this study and you are kindly requested to freely and objectively provide your answer for the following questions. Be assured that the information you give out will be treated with utmost confidentiality.

#### **Section A. Personal details**

**Note:** Make (√) or choose the appropriate letter and give short description for the asked questions.

##### **1. Age**

<20     20-24     25-29     30-34     35-39     >40

##### **2. Gender**

Male     Female

##### **3. Highest education level attained**

Diploma     Bachelor's degree     Master's degree     PhD

##### **4. Study discipline**

Economics     Accounting     Management     Other--

**5. How long have you been working for the Office of the Auditor General?**

1yr  1-3 yrs  4-6 yrs  7-9 yrs  >10 yrs

**6. What position do you hold?**

Auditor  Senior Auditor  Audit Manager  Audit Director

**7. How many Fraud audits have you undertaken since joining the Office of the Auditor General?**

None  1-3  4-6  7-9  >10

**8. Have you ever received training in Fraud auditing skills?**

Yes  No

If Yes, name the program and Institution-----

-----

**9. Are you a certified member of a professional Fraud Investigation Association body?**

Yes  No

If Yes, please name the Organization-----

-----

**Section B: Elements affect SAIs and its Auditors performance in fraud detection**

**Questionnaires**

Rate the following in terms of how well, in your opinion, (make “√” mark for your choice).

|   | <b>I. Independency</b>  | Strongly agree | Agree | undecided | disagree | Strongly disagree |
|---|---|----------------|-------|-----------|----------|-------------------|
| 1 | The Oromia Regional State Office Of Auditor General has adequate independence and resources to play an effective role in promoting transparency, governance and accountability. |                |       |           |          |                   |
| 2 | The Financial and human resource management autonomy of Oromia Regional State Office Of Auditor   |                |       |           |          |                   |

CHALLENGES OF FRAUD DETECTION BY SUPREME AUDIT INSTITUTIONS:

|   |  |  |  |  |  |  |
|---|--|--|--|--|--|--|
|   | General is independent from the the excutive (Audited Organization).   |  |  |  |  |  |
| 3 | Oromia Regional State Office Of Auditor General auditors have security of tenure and legal immunity in the normal discharge of their duties. |  |  |  |  |  |
| 4 | The political environments in which auditors operate have impact on their ability to detect fraud.   |  |  |  |  |  |
| 5 | The scope of Auditors audit work been restricted by Executive branch of government( audited organization).                                   |  |  |  |  |  |

Rate the quality of Capacity level in terms of how the following issues are clearly articulated (make “√” mark for your choice).

|    | <b>II. Capacity</b>  | Strongly agree | Agree | undecided | disagree | Strongly disagree |
|----|--|----------------|-------|-----------|----------|-------------------|
| 6  | Training, case studies, and experience sheering provided by your organization (SAI) sufficient enough to prepare auditors play their role in detecting fraud Effectively |                |       |           |          |                   |
| 7  | While experience is the best teacher, the experience you have in financial and performance audit can detect fraud in audit procedures without any fraud case training    |                |       |           |          |                   |
| 8  | Repeated exposure to the fraud detection develop auditors fraud detection task   |                |       |           |          |                   |
| 9  | Training, case studies, and experience sheering you have keep updated with fraud detection knowledge   |                |       |           |          |                   |
| 10 | Your organization (SAI) auditors are competent enough to conduct forensic audit effectively  |                |       |           |          |                   |
| 11 | Oromia Regional State Office Of Auditor General auditors awareness to obtaining all relevant data in   |                |       |           |          |                   |

CHALLENGES OF FRAUD DETECTION BY SUPREME AUDIT INSTITUTIONS:

| <b>II. Capacity</b> |   | Strongly agree | Agree | undecided | disagree | Strongly disagree |
|---------------------|---|----------------|-------|-----------|----------|-------------------|
|                     | fraud audit is a challenge of fraud detection |                |       |           |          |                   |

| <b>III. Fraud audit structure</b> |  | Strongly agree | Agree | undecided | disagree | Strongly disagree |
|-----------------------------------|--|----------------|-------|-----------|----------|-------------------|
| 12                                | Your organization (SAI) have to Established a Specific Unit of forensic audit unit to address Fraud Risk in government agencies                        |                |       |           |          |                   |
| 13                                | Fraud can be detected by financial and performance audit unit in audit procedure and need not necessary to establish a special unit of forensic audit. |                |       |           |          |                   |

| <b>IV. Participation of Client and community</b> |   | Strongly agree | Agree | undecided | disagree | Strongly disagree |
|--|---|----------------|-------|-----------|----------|-------------------|
| 14   | Oromia Regional State Office Of Auditor General has a closer cooperation and appropriate exchange of information with other national and international bodies which can help help to detect fraud . |                |       |           |          |                   |
| 15   | Cooperation of community with Oromia Regional State Office Of Auditor General auditors can make completion of audit easy and detect fraud effectively   |                |       |           |          |                   |
| 16   | The good communication of auditors to management and audited entity can enhance auditors to detect fraud.   |                |       |           |          |                   |

CHALLENGES OF FRAUD DETECTION BY SUPREME AUDIT INSTITUTIONS:

| <b>IV. Participation of Client and community</b> |  | Strongly agree | Agree | undecided | disagree | Strongly disagree |
|--|--|----------------|-------|-----------|----------|-------------------|
| 17   | Limited access to records and intentional delays in production of records by auditee is a challenges to detect fraud |                |       |           |          |                   |

This Section is about Motivational factors, Lack of Data collection, Time pressure and Ethical Factors. Rate the factors of challenges for fraud detection in the following issues clearly articulated (make “√” mark for your choice).).

| <b>V. Motivation of Auditors</b> |   | Strongly agree | Agree | undecided | disagree | Strongly disagree |
|----------------------------------|---|----------------|-------|-----------|----------|-------------------|
| 18                               | promotional aspects such as motivation of Salary and benefit paid to auditors have effect on Willingness of auditors to detect fraud in audit procedure.                        |                |       |           |          |                   |
| 19                               | The standardized Time budget given to audit procedure can motivet auditors to detect fraud  |                |       |           |          |                   |
| 20                               | parliament (“Caaffee”) allocate sufficient budget to meet auditors’ needs and enhance fraud detection   |                |       |           |          |                   |
| 21                               | The legislative and/or executive authority, the general public and the audited entities are fully assured of the fairness and impartiality of all the Oromia SAI auditors work. |                |       |           |          |                   |
| 22                               | The responsible of audit team and composition practices (Team matrix of audit team) has effect for detection of fraud.  |                |       |           |          |                   |
| 23                               | Oromia SAI promotes trust and confidence on its   |                |       |           |          |                   |

CHALLENGES OF FRAUD DETECTION BY SUPREME AUDIT INSTITUTIONS:

| V. Motivation of Auditors  | Strongly agree | Agree | undecided | disagree | Strongly disagree |
|--|----------------|-------|-----------|----------|-------------------|
| auditors and their work since auditors adopt and apply the INTOSAI code of ethics. |                |       |           |          |                   |

25. Do you have any comments you wish to make with respect to certain aspects or issues covered in this questionnaire regarding the challenges of fraud detection by SAI (be brief and concise) -----  
 -----  
 -----  
 -----

Thank you for your time and effort

**Return Completed Questionnaire to:** Mr Geremew Asefa , Phone no. 0911739871

Appendix 4

KEY INFORMANTS INTERVIEW GUIDES/QUESTIONS

**I. Introduction**

I am undertaking a Thesis as part of the fulfillment of the requirements of my Master's program. The theme of the project focuses on Fraud Detection, with the aim of helping to safeguard the resource by facilitating management control of fraud practices and assessing compliance with public policies, which would include meeting regulatory requirements. The Office of the Auditor General has been undertaking audits of Fraud issues for quite some time. I would, therefore, be pleased if you can offer your views on how you feel the Office of the Auditor General of Oromia Regional State (ORAG) is performing in terms of carrying out the audit of Fraud related issues and challenges .

Hence, I seek your support and cooperation in learning more about Challenges of Fraud Detection by Supreme Audit Institutions as well as related issues. I assure you that the information you provide to me will be uses only for this academic research purpose and kept confidentially.

I thank you in advance for your support and cooperation!

**II. Interview Questions Related to the Study:**

**A. Independence**

1. The Superem Audit Insititutions (SAI) are playing an effective role in promoting transparency, governance and accountability. Does the Oromia Regional State Office Of Auditor General adequate independence and resources to play this role?
2. Does oromia SAI have Financial and managerial/administrative autonomy and the availability of appropriate human, material and monetary resources ?
3. Do you enjoy in independence from excutives to deliver transparent audit reports?
4. Are auditors safe or secured in terms of their lives and jobs in corrupt environment? Is there security of tenure and legal immunity of auditors in the normal discharge of their duties?if there is no tenure and legal immunity, did auditor can dectect fraud with out fear ?

**B. Organizational capacity and auditors Compitancy**

5. Do your organization give effective training and workshop which helps auditors to detect or recognize fraud?

6. Do you think Training, case studies, and experience sheering provided by your organization sufficient enough to prepare auditors play their role in dectectng fraud
7. What about audeter's qualifications and competence? Is auditors competent enough to conduct forncic audit effectively?

**C. Forensic Audit**

8. Does Your organization ( SAI) Established a Specific Unit of forensic audit to address Fraud Risk in government agencies? If your answer is no why?
9. Do you think that a special unit of forensic audit is necessary? For your organization?

**D. Participation of citizines in audit procidure**

10. Does Oromia Regional State Office Of Auditor General has a community participation strategy ? If not why
11. Does it has a closer cooperation and appropriate exchange of information with other national and international bodies which can help to detect fraud ?

**E. Motivation of auditors**

12. Do the promotional aspects such as motivation of Salary and benefit paid to your organization auditors increase Willingness of auditors to detect fraud in audit procedure?
13. Which kind of audit facilities does audit team need to detect fraud effectively?

**Declaration**

I am Geremew Aseffa Edossa, registered Identification Number GSD/316/07. I hereby declare that, to the best of my knowledge and belief, I am the sole author of this thesis. The work presented in this thesis has never been submitted to Addis Ababa University or to any other university or institution for any academic award partially or in full. Thus, the work is original and my own thesis and where others work used, I have been dully acknowledged.

Declared by: Geremew Aseffa

Signature. \_\_\_\_\_ Date \_\_\_\_\_

This thesis has been submitted with acknowledge and approval of my advisor as university supervisor.

Name of the advisor: Bikila Hurisa (PHD)

Signature: \_\_\_\_\_ Date: \_\_\_\_\_