

**ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE**



**THE ROLE OF INTERNAL AUDIT ON FRAUD DETECTION
AND PREVENTION IN THE CASE OF ETHIOPIAN MINISTRY
OF REVENUE**

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Later of declaration

I here by declare that this work entitled *“The role of internal audit on fraud detection and prevention in the case of Ethiopia Ministry of Revenue.”* is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which has been accepted for the award of any other degree or diploma of the university or other institute of higher learning, except where due acknowledgment has been made in the text.

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Advisor’s Approval

This Research Project paper has been submitted for examination with my approval as a University advisor.

Advisor name

signature

Abstract

According to the institute of internal auditors practical guide internal auditors evaluate risks faced by their organizations based on audit plans with appropriate testing. Internal auditors need to be alert to the signs and possibilities of fraud within an organization. The role of internal audit must be determined in the investigation process in the internal audit regulations as well as in the fraud related policies and procedures.

The general objective of the study is to examine the role of internal audit on fraud detection and prevention in Ethiopian Ministry of Revenue.

This study was conducted by using a cross sectional survey to investigate the role of internal audit and to compute this study four branch of Ethiopian Ministry of Revenue were selected purposively selected. Descriptive statistic was used to analyse the data from the survey by using SPSS version 20. Both primary and secondary data were used as a data source.

The study found out that there is in appropriate organization set up and undefined scope of internal auditors in the organization and in related to fraud detection, inadequate competence of auditors' and independence problem toward the usefulness of internal audit work to detect and prevent fraud. It also assess the internal audit risk assessment that contributes in detection and prevention of Fraud.

The study concluded that internal audit staff of Ethiopian Ministry of Revenue lacks the necessary competence and independence to prevent and detect fraud. Fraud risk assessment is not exercised which support internal audit to control fraud. As a result, internal audit have had limited role in fraud prevention and detection in the study organization.

Key word: - *Ethiopian Ministry of Revenue, internal audit, fraud*

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List of abbreviations

| | |
|---|-------|
| Ministry of Revenues | MOR |
| Internal Audit | IA |
| Institute of Internal Audit | IIA |
| International Professionals Practices Framework | IPPF |
| Ministry of Finance and Economic Development | MoFED |
| Internal Audit Function | IAF |
| National Standard Audit | NSA |
| Association of chartered certified accountant | ACCA |
| Certified internal auditor | CIA |
| Chief Audit Executive | CAE |

Chapter one

1.1 Introduction

According to the institute of internal auditors practical guide internal auditors evaluate risks faced by their organizations based on audit plans with appropriate testing. Internal auditors need to be alert to the signs and possibilities of fraud within an organization. While external auditors focus on misstatements in the financial statements that are material, internal auditors are often in a better position to detect the symptoms that accompany fraud. Internal auditors usually have a continual presence in the organization that provides them with a better understanding of the organization and its control systems. Specifically, internal auditors can assist in the deterrence of fraud by examining and evaluating the adequacy and the effectiveness.

Fraud negatively impacts organizations in many ways including financial, reputation, psychological and social implications. According to various surveys, monetary losses from fraud are significant. However, the full cost of fraud is immeasurable in terms of time, productivity, and reputation including customer relationships. Depending on the severity of the loss, organizations can be irreparably harmed due to the financial impact of fraud activity.

Therefore, it is important for organizations to have a strong fraud program that includes awareness, prevention, and detection programs, as well as a fraud risk assessment process to identify fraud risks within the organization. Frauds can be committed by an employee at any level within an organization, as well as by those outside the organization. An effective internal audit activity can be extremely helpful in addressing fraud. Although management and the board are ultimately responsible for fraud deterrence, internal auditors can assist management by determining whether the organization has adequate internal controls and fosters an adequate control environment.

Although, management and the board are ultimately responsible for fraud deterrence, an effective internal audit activity can be extremely helpful in addressing fraud issues. Internal auditors evaluate risks faced by their organizations based on audit plans and testing, and need to be alert to the signs and possibilities of fraud. When external auditors focus on misstatements in

the financial statements that are material, internal auditors are often in a better position to detect the symptoms that accompany fraud as they usually have a continual presence within the organization, providing them with a better understanding of the organization and its control systems. Specifically, internal auditors can assist in the deterrence of fraud by examining and evaluating the adequacy and the effectiveness of internal controls. In addition, they may assist management in establishing effective fraud prevention measures by knowing the organization's strengths and weaknesses and providing consulting expertise (International fraud forum 2019).

The internal auditor's roles in relation to fraud risk management could include initial or full investigation of suspected fraud, root cause analysis and control improvement recommendations, monitoring of a reporting/whistleblower hotline, and providing ethics training sessions. If assigned such duties, internal auditing has a responsibility to obtain sufficient skills and competencies, including knowledge of fraud schemes, investigation techniques, and laws.

The role of internal audit must be determined in the investigation process in the internal audit regulations as well as in the fraud-related policies and procedures. This includes collecting sufficient information on specific details and carrying out these necessary procedures to determine whether fraud is committed, who was involved and how it happened. One of the most important outputs of the investigations is the exclusion of innocent people from the circle of doubt or suspicion. Investigation starts with planning and ends with the issuance of a report on the findings of the investigation.

Ministry of revenues is the body responsible for collecting revenue from customs duties and domestic taxes. The main objective of the establishment of MOR was to streamline the public revenue generation function by bringing the relevant agencies under the umbrella of the central revenue collector body. This structuring aimed at improving service delivering, facilitating trade, enforcing the tax and thereby enhancing mobilization of Government revenue in sustainable manner. In addition to raising revenue, the MOR is responsible to protect the society from adverse effects of smuggling. It seizes and takes legal action on the people and vehicles involved in the act of smuggling while it facilitates the legitimate movement of goods and people across the border.

1.2 statement of the problem

Detection of fraud is represented in the internal control methods designed to detect fraud and misconduct when they occur. The existence of sufficient and appropriate detective control methods is one of the strongest deterrents of fraudulent conduct. They are used along with preventive control methods to enhance the effectiveness of the fraud risk management program through the provision of evidence that the preventive control methods are working as planned in the detection of fraud that may occur. Although the detective controls may provide evidence that fraud is occurring, or has already occurred, they are not designed to prevent fraud (Dimitrijevic 2015).

Internal control methods are designed to provide evidence and warnings that fraud is occurring or has already occurred. Effective internal control methods are one of the strongest ways to reduce or prevent fraudulent conduct or procedures. The simultaneous use of detective and preventive internal control methods support the fraud risk management program. Although detective controls may provide evidence for the occurrence of fraud, they do not aim, or are unable, to prevent fraud.

Reduction of the occurrence of fraud is internal control methods designed to reduce the occurrence of fraud risk and misconduct. Despite the efforts of organizations to reduce fraud, there is an inescapable reality, which is the occurrence of fraud, due to the fraud and misconduct committed at different levels of the organization. Therefore, it is necessary to have proper preventive and detective methods (IIA 2009).

The Professional Practices issued by the Institute of Internal Auditors explained the role of internal auditors in helping organizations to reduce the fraud risk through the examination and evaluation of the sufficiency and effectiveness of the Internal Audit Systems in organizations, along with their potential exposures to violations, transgression and non-compliance inside the organization. Thus, internal auditors must take the following factors into consideration control environment, fraud risk evaluation, control activities, information and communication and follow-up activities under the organization.

Hence it is important to remember that while auditors do have important responsibility they fail to express their opinion on the fraud committed and even fail to detect financial statement where fraud committed lies. In developing country like Ethiopia the efficient practice of auditing in the irresponsibility has not yet develops very well (Muluneh 2007). Auditor only do their job in a way that secure their personal carrier, there continue contract or promote the other business interest of their firm rather than a way that fulfil their legal and moral professional obligations. There for the entire above problem along with auditor's competency on fraud detection and independency of auditors during fraud investigation create gap inFraud risk assessment which strengthens fraud detection.

Alemayehu Etana(2016) in his study on role of internal audit in detecting fraud in Ethiopia Budgetary Public Sectors found that fraud risk assessment which strengthens fraud detection is not made by public sectors' internal audit and that internal audit is toothless in fraud detection operation. Fury Khristianty Fitriyah (2016) one symptom of fraud is any accounting anomaly marked by under-developed budget planning or late fund disbursements that potentially entice fictitious transactions.

Paul Coram, Colin Ferguson and Robyn Moroney(2006) on their study the value of internal audit in fraud detection show that organizations with an internal audit function are more likely to detect and report fraud than those that do not. It is also shown that having some in sourcing is more effective in detecting and reporting fraud than completely outsourcing the internal audit function.

Auditing remains a mechanism of assurance for decision making in that an audited financial statement gives it a reliable status for decision making. In local government, there exist a standard and more pronounced internal control system and internal audit expected to enable the reduction in waste and fraud perpetuation. But the fact remains that the internal control staff are all members and employees of such establishment where they are placed as mechanisms of check and control. Thus the question remains are does internal auditing actually have a role to play in fraud detection, prevention and control despite their proposed and questionable independence? If they do to what extent is their role and what status are they placed in local governments to enable

fraud detection, prevention and control? These are some of the actual problems and questions that have provoked this research.

And also, the internal audit represents an efficient line of defense against fraud, having a role both in monitoring risks, as well as in fraud prevention and detection (Petrascu et al, 2014). They also searched that Internal Audit did not prepares annual audit plan that addresses fraud risk and a procedure to ensure that Internal Audit can express any concerns about management's obligation to appropriate internal controls or to report distrust of fraud. Furthermore, some of the existing literature (e.g., Al-Twaijry, Brierley & Gwilliam 2003; Cohen; Mihret & Yismaw 2007) suggests that internal audit may not always be effective. However, the antecedents of internal audit effectiveness appear not fully explored as yet.

1.3 Objective of the study

The general objective of the study is to examine the role of internal audit on fraud detection and prevention in Ethiopia Ministry of Revenue. The specific objectives are the following:

- (i) To identify internal audit system adopted by the administration of the Ethiopia Ministry of Revenue;
- (ii) To determine the occurrence of financial fraud in the Ministry of Revenue and
- (iii) To assess the role of internal audit system for fraud detection and prevention in Ethiopia Ministry of Revenue
- (iv) To determine the measures put in place by the management to prevent fraud in the study area.

1.4 Research question

In order to address the problems in the study and to achieve its objectives, the following questions were raised:

- (i) What internal audit system has the Ethiopia Ministry of Revenue adopted in the management of its financial activities?
- (ii) Does internal audit system have any role on fraud prevention and detection in the study area?
- (iii) What kind of measures was put in place by the Ethiopia Ministry of Revenue administration to prevent financial fraud?

1.5 Significance of the Study

The findings will enable the governing body, especially the management, and the higher responsible body of Ministry of Revenue to be aware of the important use of internal audit, and gives perception into how they use the internal audit service most efficiently in improving the function of the unit.

For academics, it further improves the understanding of the factors influencing IA effectiveness in fighting fraud. For practitioners, it helps to solve the practical problems facing the internal audit to fight fraud. Furthermore, the importance of this study create an environment where management highly supports auditors and upgrade public understanding about huge essential audit service in detection of fraud from government resources. In addition, it responds to growing public expectations of the accountability of auditors as one of the main actors in fighting fraud. Finally, the study forwards the general understanding of internal audit and detection of fraud and form a basis for further research.

1.6 Scope and limitation of the Study

The study focus on identifying the role of internal audit in detecting fraud and it would be more successful if the sample were taken from all Ministry of Revenue Branch's. Because of time and financial boundaries it is difficult to select all branch of Minister of Revenue due to this only four branch of Ministry of Revenue are selected which were expected to represent the entire untouched branch. This study provides knowledge and insight about the role of internal auditing and fraud risk assessments, detection and prevention.

Chapter two

2. Literature review

2.1.1 Internal audit overview

Audit refers to the shareholders attendance of external auditors reports which, in effect, started only at the advent of the 19 century. But, we know that some type of auditing existed long before 1494 when Luca Pacioli published his principles of double-entry bookkeeping system in Venice (MoFED, 2004). Auditing is originally a financial management concerned with assessing practice for the internal financial status of the organization and the evaluations of the financial performance of the organization.

After the revolution and beginning the 20th century the reporting practice of auditors, which involved submitting reports of their duties and findings, was standardized as the Independent Auditor's Report (Manal, 1999). Since then, the auditing practices have evolved over the years and develop into the broader aspects. It also provides feedback on organization financial information and reporting. It also becomes a tool for an analysis of any fraudulent activity, potential and actual within the organization. In a generic sense auditing involves a critical examination and verification of accounts and other performance processes for the purpose of ascertaining the true and correct positions and results of operations of organizations-private or public.

It was also an independent appraisal function established within an organization to identify and evaluate its activities as a service to the organization. Later on, the new Institute of Internal Audit (IIA, 2001), defined internal audit as: an independent, objective assurance and consulting activity designed to add and improve organizations operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal auditing historically has been characterized since the Second World War, as one of a transformation from validation of transactions to one of systems auditing (McNamee &

McNamee, 1995; Laura & Micheal, 2003). Internal audit dates back to 3500 B.C, however it was not until 1941 that internal audit gained prominence when the Institute of internal auditors was established in the United State of America (Swinkels, 2012). The IIA over the decades has been at the forefront of enhancing the professional status of the internal audit function through the following: approving and issuing a statement of responsibilities, researching and developing a common body of knowledge, setting up continuing education and professional certification programmes, making and adopting standards for the professional practice of internal auditing along with a code of ethics (Chun, 1997).

The role of internal audit traditionally involved monitoring, reviewing activities and providing assurance to management about effectiveness of internal controls. However in 2000, the IIA issued a new definition of internal audit, which gave the profession a new direction and focus. Internal auditing according to the IIA may be defined as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes”(Institute of Internal Auditors, 2000). By this definition, there is a shift in focus from financial and compliance assurance to include consulting activities and ultimately value addition.

2.1.2 The development of internal audit in Ethiopia

An Internal Auditing function has existed for quite a long time in Ethiopia; however, it got legal recognition in late 1980s. The internal Auditing function started in the budgetary public sector as part of internal control. However the latter part of the 1940s witnessed the establishment of Internal Audit functions in the Ministry of National Defence, Ministry of Education, and Ministry of Finance. It was also at this time that the Internal Auditing units began to sprout in non-budgetary public sector (Public enterprise) like Ethiopian Highway Authority, Ethiopian Airlines, Ethiopian Telecommunication, and financial sector that formed the modern layer of the National Economy (Lemma Argaw, Dec 2000)

Internal Auditing in Ethiopia obtained legal recognition for the first time in 1987 through Proclamation No. 13/1987. This proclamation empowered Office of Auditor General (O.A.G) to

direct the Internal Auditors of Government Offices and Public Enterprises in three aspects that are whether accounting records are properly maintained and reliable, whether the assets of the ministries and enterprises are adequately safeguarded and properly maintained; and whether policies and procedures laid down by top officials/management are complied with that implies less attention was given to operational audit as a service to management.(Lemma Argaw, Dec 2000)

In 1994 the civil service reform program organized a task team that was formed by Prime Minister to assess and review the performance of Civil Service and come with the following findings: absence of Internal Audit functions in some of the Ministries and Public enterprises, internal auditors devoted most of their times and efforts on pre-audit, internal auditors neither have the skills needed nor working manuals.

On July 1, 1997 the Financial Administration Regulations No. 17/1997 was issued in which the responsibility of internal audit function was transferred from the Office of the Auditor General to the Ministry of Regulation set out the responsibilities of the Minister of Finance to develop and maintain appropriate standards of work and conduct for application throughout all the public bodies internal audit function and after this financial regulations almost all public bodies established Internal Audit Services; almost all public bodies discontinued pre-audit or pre-checking.(Wolderuphael W. Giorgis, 2000)

In 1998 the Ministry of Finance issued an Operational Audit Manual to strengthen the Audit function in the Public bodies. According to this manual internal audit services are made to report to the top persons of the organizations. In May 2007 policy directive was issued to further strengthen the Internal Audit service function in the public bodies, however, the legal basis laid down by both in the Regulations of Council of Ministers and the Ministry of Finance Directive is applicable only to internal auditing under the auspices of Public bodies and does not apply to public enterprises and the private sector, but recently Public Enterprises Supervising Authority has issued policy directive for establishment of audit committees in all public enterprises and an audit manual to maintain uniformity of audit work in all public enterprises.

Generally, the history of internal auditing in Ethiopia dated back to the 1940s just about the time the profession was also evolving in Europe and in the United States. Although, the prologue of internal auditing in our country counts half a century and all the above endeavours has made to the development of internal audit in Ethiopia there are challenges that hinders or slows the speedy growth of internal audit. (Lemma Argaw, Dec 2000.)

In general, according to MoFED definition the major scope of the internal auditors are making assurance to the organization and giving consultant services to the overall managements of the corporate governance. By providing the independent opinion and conclusions regarding the operation, function, system and wellbeing of the organization the IA can provide assurance services; and by giving the advisory service based on the specified requests of an engagement client the internal auditor can give the consulting service to the organization.

Internal audit are the mechanism through which information about the effectiveness of the quality system is gathered by auditors selected from within the company but, who are independence of the area, function or procedures being audited. Or the Internal Audit Function (IAF) is the mechanism through which the operation of the quality management system is formally monitored and in accordance with the documented quality system is assured (MoFED, 2004).

2.1.3 Internal audit function and its roles

An effective internal audit function is a key component of good governance. Internal audit is one of the four pillars of an organization's governance process, and must be allowed to work effectively and collaboratively with the other three pillars (Board of Directors, management, external audit) to ensure the achievement of organizational objectives (Carmen, 2011).

According to the institute of internal auditors (IIA), the internal audit function's activity must evaluate and contribute to the improvement of an institution's governance process, risk management, etc using a systematic and disciplined approach (IIA, Institute of internal auditors, 2008). Governments acknowledge the crucial role of internal auditing in ensuring the efficiency, economy and effectiveness of public administration at all levels of the governance structure (IIA

Research Foundation 2009). One of the main activities of any government is the production of goods and services and to regulate private producers of goods and services. The government on behalf of the public performs this activity through public sector organizations.

Internal audit function started mainly as protection against fraud and asset loss. Organizations grew in size and complexity which led to their decentralization. Management needed to internally evaluate accounting information that was used for making decisions. They also needed to control efficiency of work and to ensure that no deceitful actions took place. Then first companies that realized the potential of internal auditing beyond audit of financial statements were railroad, defence, and retail industries. Quickly, internal auditing became a mean to verify all transactions and to summarize business and its activities. In this way internal audit provided further insights and ensured integrity and objectivity (Rama-moorti,2003).

The role of internal audit traditionally involved monitoring, reviewing activities and providing assurance to management about effectiveness of internal controls. However in 2000, the IIA issued a new definition of internal audit, which gave the profession a new direction and focus. Internal auditing according to the IIA may be defined as “an independent, objective assurance and consulting activity designed to add value and improve organizations’ operations. It helps an Organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes”(Institute of Internal Auditors, 2000). By this definition, there is a shift in focus from financial and compliance assurance to include consulting activities and ultimately value addition.

Until recently many nations did not have national requirements for internal audit function in public sector organizations. This is not just the case of developing nations but some developed nations did not have internal audit requirements, for example as of 2004, New Zealand had no requirement for internal audit for public sector organizations and Australia had less clear cut requirements (Goodwin, 2004).

Though the audit function has always been seen as playing a key role in government financial management, the emphasis has mostly been placed on external audit and not internal audit.

However, the interest for internal audit in public sector organizations has been on the ascendancy in response to calls from users of public goods and donor agencies for improved accountability, transparency and increased consumer choice (Goodwin, 2004; Diamond, 2002). This renewed interest in internal audit in the public sector has led to the development and issuance of internal auditing guidelines for public sector organizations by the Institute of Internal Auditors (IIA) and the International Organization of Supreme Audit Institutions (INTOSAI).

Coupland in his article “the internal auditor’s role in public service orientation” also reiterated the evolving role of internal audit from an appraisal function to, determining and reporting on the extent of control exercised over financial systems. He argued that this shift in focus of IA has had to compel the internal auditor to develop complex approaches to their work and at the same time increase their capacity or capability to assess efficiency and effectiveness of operations (Coupland, 1993). It is quite clear from Coupland’s submission, the importance of examining the capacity of the internal audit function in organizations to assess their ability to perform these roles effectively and efficiently.

Therefore, internal audit’s role changed from typical clerical function to a management practice. It described internal audit as the activity which independently applies consistent procedures and inspection standards in order to assess the relevance and performance of all or part of the actions within the organization, in reference to standards” (Autissier, 1998, p.3)

2.1.4 Fraud

The terms “fraud” has received attention and different definitions from different scholars, researchers and authors. What is very peculiar to the definitions is that the concept has been associated with embezzlement, financial misstatement and misappropriation, extortion, illegal amassing of wealth through dubious means, act of deception, bribery, false representation, theft, concealment of material fact etc. According to Adeyemo (2012), fraud is defined as “any illegal act characterized by deceit, concealment or violation of trust. These acts are not dependent on the application of threat or violence or of physical force. On the other hand, Mutesi (2011) defined fraud as “any premeditated act of criminal deceit, trickery or falsification by a person or group of persons with the intention of altering facts in order to obtain undue personal monetary advantage.

Osioma (2013) defined fraud as all the multifarious means which human ingenuity can devise and are resorted to by one individual to get any advantage over another. It includes all surprise, trick, cunning, dissembling and unfair ways by which another is deceived. Fraud covers a plethora of corporate crimes like embezzlement, larceny, theft, misappropriation of assets, among others. Penny (2002) explains fraud as an illicit financial gain for the fraudster or loss for the victim while Mahinda (2012) introduces a different concept to the definition of fraud. He argues that the menace occurs as a result of a person in position of trust or accountability who advances his own personal interests at the expense of the public interests through digressing from the set standards and rules.

Fraud encompasses a wide range of irregularities and illegal acts characterized by intentional deception or misrepresentation. The Institute IPPF defines as: “Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.” Another definition of *fraud* from the publication “*Managing the Business Risk of Fraud: A Practical Guide*,” sponsored by The IIA, the American Institute of Certified Public Accountants, and the Association of Certified Fraud Examiners, states: “Fraud is any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain.” Frauds are characterized by intentional deception or misrepresentation. This practice guide may refer to certain actions as “fraud,” which may also be legally defined and/ or commonly known as *corruption*.

2.1.5 Potential Fraud Indicators

Fraudsters often display certain behaviours or characteristics that may serve as warning signs or red flags. For example, some perpetrators act unusually irritable, some suddenly start spending lavishly, and some become increasingly secretive about their activities. However, the presence of those symptoms does not in and of itself signify that a fraud is occurring or will occur in the future. Red flags may relate to time, frequency, place, amount, or personality. Red flags include overrides of controls by management or officers, irregular or poorly explained management activities, consistently exceeding goals/objectives regardless of changing business conditions and/or competition,

Preponderance of non-routine transactions or journal entries, problems or delays in providing requested information, and significant or unusual changes in customers or suppliers. Red flags also include transactions that lack documentation or normal approval, employees or management hand-delivering checks, customer complaints about delivery, and poor access controls such as poor Password controls.

Personal red flags include living beyond one's means; conveying dissatisfaction with the job to fellow employees; unusually close association with suppliers; severe personal financial losses; addiction to drugs, alcohol or gambling; change in personal circumstances; and developing outside business interests. In addition, there are fraudsters who consistently rationalize poor performance, perceive beating the system to be an intellectual challenge, provide unreliable communications and reports, and rarely take vacations or sick time (and when they are absent, no one performs their work). These red flags are often indicators of misconduct, and an organization's management and internal auditors need to be trained to understand and identify the potential warning signs of fraudulent conduct. While none of these mean an employee is actually committing fraud combination

2.1.6 Fraud Detection

Detective controls are designed to provide warnings or evidence that fraud is occurring or has occurred. Effective internal controls are one of the strongest deterrents to fraudulent behaviour and fraudulent actions. Simultaneous use of preventive and detective internal controls enhances any fraud risk management program's effectiveness. Although detective internal controls may provide evidence that fraud exists, detective internal controls are not intended to prevent fraud. Fraud detection methods need to be flexible, adaptable, and continuously changing to meet the changes in the risk environment. While preventive measures are apparent and readily identifiable, detective controls may not be as apparent (i.e., they operate in the background).

2.1.7 Responsibilities in Fraud Prevention

The internal audit refers to (Boulescu M.2003): a permanent review of the economic activity of an entity; an independent activity of assessing on behalf of the economic entity's management that involves examining the financial, accounting, and other kind of operations concerning the services as a whole; an evaluation of tasks and conformity of the accounting entries, reports, assets, capitals, and results; or an attestation or certification of financial accounting documents. The responsibilities concerning fraud prevention within an organization are divided between the executive board, the audit committee, and the internal audit (Munteanu V., Zuca M., Zuca ., 2010). Firstly, the executive board has the final responsibility for implementing the mechanisms of detecting and preventing a fraud early on.

The members of the executive board are those who should offer explanations in case of discovering certain cases of fraud. According to the National Standard on Audit 240 'Fraud and Error' (NSA 240), the executive board is responsible for the prevention and detection of fraud and error by applying and maintaining appropriate accounting and internal control systems. These systems can also reduce the possibility that fraud and error occur, but they cannot completely eliminate them. Secondly, the audit committee has the role of supervising the management of fraud risks and actively monitoring the efforts of the executive board against fraud committing. Thirdly, the internal audit represents an efficient line of defense against fraud, having a role both in monitoring risks, as well as in fraud prevention and detection.

The internal audit constitutes a tool at the disposal of the audit committee, the only one able to independently assess fraud risks and anti-fraud measures implemented by the executive board. In their current activities, the internal auditors must: have enough knowledge in order to identify the signs of a possible fraud; be attentive of the cases that involve a risk of fraud; and appreciate the necessity to further investigate a case, inform the responsible persons from an organization and take actions to eliminate or reduce fraud.

2.1.8 Internal Auditors role and responsibility in fraud detection and prevention

According to the institute of internal auditors guide line IIA 2001 internal auditors evaluate risks faced by their organizations based on audit plans with appropriate testing. Internal auditors need to be alert to the signs and possibilities of fraud within an organization. While external auditors focus on misstatements in the financial statements that are material, internal auditors are often in a better position to detect the symptoms that accompany fraud. Internal auditors usually have a continual presence in the organization that provides them with a better understanding of the organization And its control systems. Specifically, internal auditors can assist in the deterrence of fraud by examining and evaluating the adequacy and the effectiveness of internal controls. In addition, they may assist management in establishing effective fraud prevention measures by knowing the organization's strengths and weaknesses and providing consulting expertise. The importance an organization attaches to its internal audit activity is an indication of the organization's commitment to effective internal control and fraud risk management.

The internal auditor's roles in relation to fraud risk management could include initial or full investigation of suspected fraud, root cause analysis and control improvement recommendations, monitoring of a reporting/whistleblower hotline, and providing ethics training sessions. If assigned such duties, internal auditing has a responsibility to obtain sufficient skills and competencies, including knowledge of fraud schemes, investigation techniques, and laws (Poul .H 2018) .

Internal auditors may conduct proactive auditing to search for misappropriation of assets and information misrepresentation. This may include the use of computer-assisted audit techniques, including data mining, to detect particular types of fraud. Internal auditors also can employ analytical and other procedures to find unusual items and perform detailed analyses of high-risk accounts and transactions to identify potential fraud. At the appropriate time when enough information has been obtained, the CAE should keep senior management and the audit committee informed of special investigations in-progress and completed.

According to IIA internal audit and fraud practical guide line 2009, internal auditors support management's efforts to establish a culture that embraces ethics, honesty, and integrity. They assist management with the evaluation of internal controls used to detect or mitigate fraud, evaluate the organization's assessment of fraud risk, and are involved in any fraud investigations. Although it is management's responsibility to design internal controls to prevent, detect, and mitigate fraud, the internal auditors are the appropriate resource for assessing the effectiveness of what management has implemented. Prevention: As a part of their assurance activities, internal auditors watch for potential fraud risks, assess the adequacy of related controls, and make recommendations for improvement. Detection: Because the internal auditors are exposed to key processes throughout the organization and have open lines of communication with the executive board and staff, they are able to play an important role in fraud detection.

In many organizations, the chief audit executive (CAE) is responsible for responding to issues raised on the ethics hotline or through another process that may lead to detection of fraud. Investigation: Internal auditors may either have a direct role in investigating fraud incidents, or act as a resource to those responsible, they generally are not expected to have the expertise of those whose primary responsibility is detecting and investigating fraud.

Chapter three

3. Method

3.1 Research approach

To conduct this study descriptive cross-sectional study design were used to achieve the stated research objective and to answer research questions. Specifically, the study used document analysis and interview questioner. Using mixed method approach helps; to address different objectives of the study, which cannot be achieved by a single method and to enable one approach to inform another approach, either in design or in interpretation.

According to Creswell (1994) the descriptive part also can help to show the different facts that are connected with the nature of the status of the current problem or condition as it happens at the time of the study. Furthermore, it will offer logical use in the studies which focus on dissemination of information, at the same time, it can help in order to investigate based on normative standards. It will help to focus on the practices which exist, beliefs and processes that are currently going on and the effects that are being felt and experienced, together with the trends that are currently developing (Best, 1907).

3.2 Sample Size and sampling technique

Based on the scope identified the study area is Ethiopian minster of revenue. The Ethiopia minster of revenue regular audit cover 12 main branches out of these branches only 4 branches were selected purposively, then study participant were purposely selected based on their department and role. Based on this the selected site were

1. East Addis Ababa Small tax payers
2. West Addis Ababa Small tax payers
3. Large tax payers
4. Medium tax payers

3.3 Study participant

The study participants were branch managers, internal audit, team leaders, senior auditors and financial directors

3.4 Data type and data source

In organizing the paper and arriving at the specified objectives primary and secondary sources of data were be used.

Primary data

- ✓ Interview with semi structure questionnaires were used. Interview candidates are branch managers, internal audit team, team leaders, senior auditors and financial directors.

Secondary data

- ✓ The main source of secondary data that is serve as an input for the research is information from audit report ,audit report feedback, internal auditing policy and internal audit manual, management meeting, internal audit exit conference, internet and related literature to internalized auditing practices.

The open ending questionnaires and semi structured interview guides using a 5 scale likert were developed based on literature review relevant to the issue and the specific objectives, both tools were judged for their validity using professionals in the area, the questionnaires and interview were administered by the researcher. Besides, the review of documents was very helpful to the researcher to understand the key facts on the role of auditors.

3.5. Data Analysis Methods

The analysis of the study used both primary and secondary data. The interview data were integrated with document evidence. Interpretations of interview data were cross validated with multiple data source to explain the rationale of this study. The data were analysed by Statistical Package for Social Science (SPSS) version 20.

Descriptive statistic like frequency, percentage, mean, standard deviation was used to analyse and find out the result. The descriptive method of data analysis was important to analyse the demography of the sample in a population at the study area in terms of age educational status

work experience and so on. And likert scale was used to measure the response of the study participant in each section of the questioners and mean values were used for analysis and interpretation.

3.6 Organization of the paper

The research paper is composed of five chapters. It begins with introductory outlines under which an overview of the topic under study is presented and then description is made on the statement of the problem, the general and specific objectives of the study and the significance of the study. The second chapter is devoted to the review of related literature. Under this topic a detailed coverage on the concept of the proposed study is given. The third one deal with the research methodology and here an attempt is made to deal with data presentation and analysis and organization of the paper. Data presentation and analysis presented in Chapter 4 and Findings, conclusion and recommendation presented in chapter 5.

Chapter four

4 Result

4.1 Background information

From the total respondent 22 (55%) of them were female and the rest 18(45%) of them were male.

Table 1:- gender of participant

| | | Frequency | Percent |
|-------|--------|-----------|---------|
| Valid | Male | 18 | 45.0 |
| | Female | 22 | 55.0 |
| | Total | 40 | 100.0 |

When we see the age of the participant 17(42.5%) of the respondent were age between 30-40 years, 13(32.5%) of them were between age 40-50 years only 2 respondent were age above 50 and the rest are below 30 year.

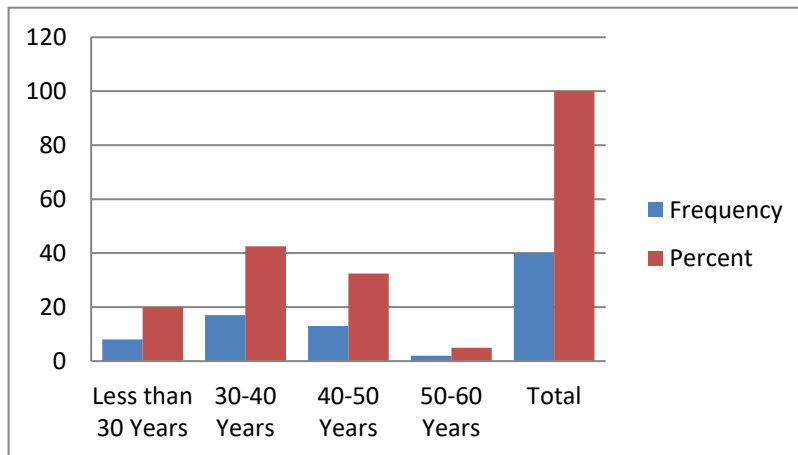


Figure 1:- age of the participant

When we see the educational status of the respondent 21 (52.5%) of the respondent have had their first degree and the rest 19(47.5%) of them were second degree holders.

Table 2:- educational status of the participant

| Educational Level | Frequency | Percent |
|--------------------------|-----------|---------|
| BSC/BA | 21 | 52.5 |
| MSC/MA/ MBA | 19 | 47.5 |
| | | |
| Total | 40 | 100.0 |

The current work position of the respondent majority 40% of the respondent were at the managerial level, 25% of them are senior internal auditor and 12 % of them are internal auditors.

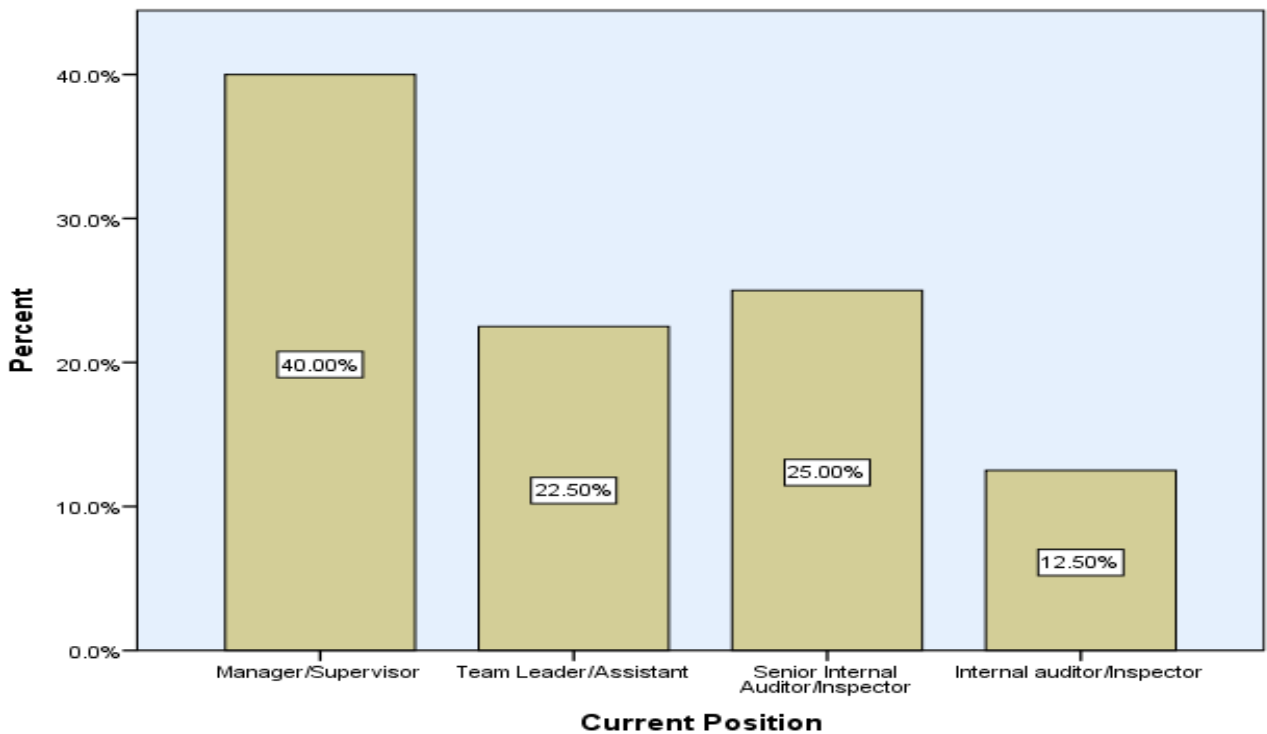


Figure 2:- current work position of the participant

When we see the number of respondent that have additional professional certificate majority 37(92%) of them have no additional certificate only 2(5%) of the respondent have had ACCA and one respondent have had CIA certificate.(table 4)

Table 3:- professional certificate of the participant

| Professional certification | | Frequenc y | Percent |
|----------------------------|--------------------------|---------------|---------|
| | ACCA | 2 | 5.0 |
| | CIA | 1 | 2.5 |
| | No related certification | 37 | 92.5 |
| | Total | 40 | 100.0 |

The pie chart below shows majority (50%) of the respondent work experience was between 5-10 years and 20% of the participant have had 11-15 years' work experience.

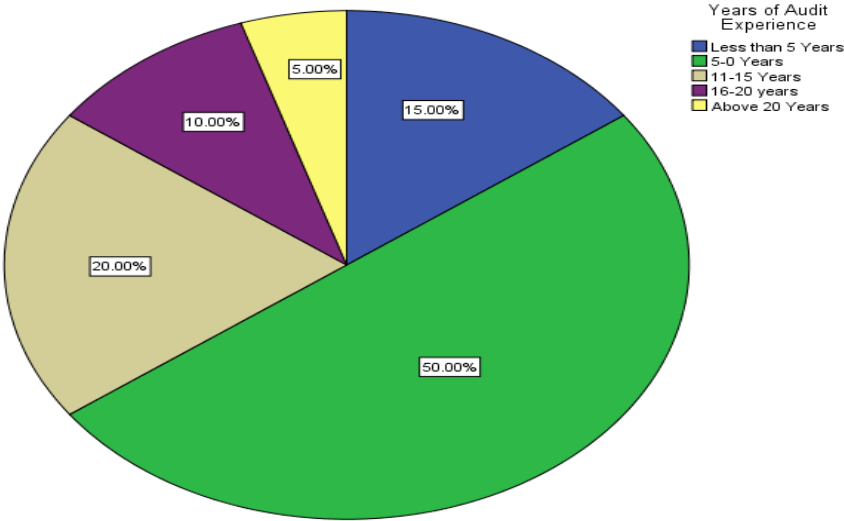


Figure 3:- year of work experience of the participant

When we see the adequacy of the staff in each department majority of the staff 19(47.5%) of them think the department were moderately staffed and 10(25%) of them believe the department were poorly staffed.

Table 4:- perception of participant on adequacy of department staffing

| Department Staffing | Frequency | Percent | |
|----------------------------|-----------|---------|--|
| Adequately staffed | 11 | 27.5 | |
| Moderately staffed | 19 | 47.5 | |
| Poorly Staffed | 10 | 25.0 | |
| Total | 40 | 100.0 | |

4.2 Scope of internal audit

Before talking about the scope and function of internal audit Availability of a formal document (charter) including the scope, responsibilities, purpose of IA is important and mandatory within the organization who perform internal auditing. Majority of the respondent in this study 25(62.5%) strongly agree that their organization have a formal charter with the scope responsibilities, purpose of IA. The rest 5% and 10% of the participant did not agree and strongly disagree with the availability of formal document

Internal audit involves five major functions or areas of operation. The first one is *Reliability and Integrity of Information*: The internal auditor should review the reliability and integrity of financial and operating information and examine the effectiveness of the means used to identify, measure, classify, and to report such information. The finding of this study shows 42.55% of the participant strongly agree and 27.5% of them agree with the scope of IA include evaluating and reporting on internal controls applicable to identified high risk areas as identified by management.

The second part is *Compliance with Policies and Procedures*: The systems and procedure also have considerable impact on the operation of the business enterprise. The internal auditor should gauge the effectiveness and impact of such systems and report thereon. Majority 60% of the participant in this study strongly agree with the scope of IA include the consideration of the following Compliance with applicable laws and regulations; only 2 participant disagree with this content.

The third one is *Economical and Efficient Use of Resources*: The internal auditor should also appraise the economy and efficiency with which the resources are employed. Further the internal auditor should identify the conditions, which would prevent the economical use of resources. 40 % of the participants strongly agree and 27.5 % participants agree with this scope of internal audit.

The last one is *Safeguarding the Assets*: The internal auditor should review the existing system for safeguarding the assets and if necessary should verify the existence of such assets. 67.5 % of the participants agree with the availability of written provision from the accounting officer providing IA unrestricted access to all records, assets etc. of the audited entity.

Table 5 :- scope of internal audit

| Sr.no | Questions | 5 | 4 | 3 | 2 | 1 | Mean |
|-------|--|----------|----------|---------|--------|--------|------|
| 1. | There is a formal document (charter) including the scope, responsibilities, purpose of IA. | 25(62.5) | 7(17.5) | 2(5) | 2(5) | 4(10) | 4.18 |
| 2. | The scope of IA include evaluating and reporting on internal controls applicable to identified high risk areas as identified by management. | 17(42.5) | 11(27.5) | 8(20) | 2(5) | 2(5) | 3.97 |
| 3. | The scope of IA include the consideration of the following Compliance with applicable laws and regulations; | 24(60) | 13(32.5) | 1(2.5) | 2(5) | 0 | 4.48 |
| 4. | Efficiency, economy and effectiveness of operations. | 16(40) | 11(27.5) | 7(17.5) | 3(7.5) | 1(2.5) | |
| 5. | There is a written provision from the accounting officer providing IA unrestricted access to all records, assets etc. of the audited entity. | 18(45) | 9(22.5) | 9(22.5) | 3(7.5) | 1(2.5) | 4 |

N/B 5= strongly agree, 4= agree, 3= neutral, 2= disagree and 1= strongly disagree

4.3 Organization setting

When we see the organizational setting where internal audit performed only half 55% of the participant strongly agree with the authority of internal audit is clearly defined. When we see internal audit department is large enough to successfully carry out its duties about 27.5 % the respondent strongly agree with this finding. The issue of financial support and budget allocation for internal audit to successfully carry out its duties 45% of the respondent agree and 27.5% of them disagree internal audit obtains a sufficient budget to successfully carry out its duties. About 70% of the respondent strongly disagree with their organization have the internal audit policies for hiring internal audit staff.

Table 6:- organization setup

| Sr.no | Question | 5 | 4 | 3 | 2 | 1 | Mean |
|-------|---|----------|----------|----------|---------|--------|------|
| 1. | The authority of internal audit is clearly defined. | 22(55) | 11(27.5) | 5(12.5) | 2(5) | 0 | 4.32 |
| 2. | The internal audit department is large enough to successfully carry out its duties. | 11(27.5) | 13(32.5) | 12(30) | 4(10) | 0 | 3.78 |
| 3. | Internal audit obtains a sufficient budget to successfully carry out its duties. | 9(22.5) | 18(45) | 11(27.5) | 2(5) | 0 | 3.85 |
| 4. | Internal audit has policies for hiring internal audit staff. | 4(10) | 5(12.5) | 2(5) | 1(2.5) | 28(70) | 1.90 |
| 5. | There is a complete internal audit manual to guide internal audit work. | 17(42.5) | 16(40) | 5(12.5) | 2(5) | 0 | 4.2 |
| 6. | Organizational structure provides the framework within which the segregation of duties is determined. | 17(42.5) | 11(27.5) | 7(17.5) | 5(12.5) | 0 | 4.0 |
| 7. | Information communicated effectively both up and down within your function and across to other function. | 11(27.5) | 10(25) | 10(25) | 9(22.5) | 0 | 3.57 |
| 8. | The purpose of internal audit is clearly defined. | 19(47.5) | 9(22.5) | 10(25) | 2(5) | 0 | 4.12 |
| 9. | The purpose of internal audit is in line with Standards for the Professional Practice formulated by the Institute of Internal Auditors. | 21(52.5) | 11(27.5) | 6(15) | 1(2.5) | 1(2.5) | 4.25 |

N/B 5= strongly agree, 4= agree, 3= neutral, 2= disagree and 1= strongly disagree

4.4 Competency of internal auditor

Since fraud detection need deep internal audit knowledge and experience by checking the competency of the internal auditors we can measure the role of internal audit on fraud detection and prevention. Based on these assumption 6 questions related to competency of internal auditors about fraud were prepared and interviewed. So, 40% of the respondent agree and 12.5 of them disagree that internal auditors possess adequate experience in detecting fraud. Only 42.1% of the respondent internal auditors are fully aware of provisions by government and laws relating to fraud detection. Despite of, half of the respondent did not agree with internal auditor's possess adequate experience regarding fraud detection 67.5% of the respondent disagree with ongoing anti-fraud training are provided to internal auditor of your organization meaning no on job training related to fraud were given to the internal auditors. Forty percent of the respondent with a mean value of 2.98 disagree or did not think competence of internal auditor is approved by Office of auditor general before recruitments is made.

Table 7:- competency of internal auditor

| Sr.no | Questions | 5 | 4 | 3 | 2 | 1 | Mean |
|-------|--|----------|----------|----------|----------|----------|------|
| 1. | Internal auditors possess adequate experience in detecting fraud. | 11(27.5) | 16(40) | 8(20) | 5/(12.5) | 0 | 3.82 |
| 2. | Ongoing anti-fraud training are provided to internal auditor of your organization | 9(22.5) | 4(10) | 10(25) | 11(27.5) | 6(15) | 3.12 |
| 3. | The auditors in my organization are qualified to undertake audit function. | 14(35) | 13(32.5) | 12(30) | 0 | 1(2.5) | 3.98 |
| 4. | Internal auditors are fully aware of provisions by government and laws relating to fraud detection. | 7(17.5) | 17(42.5) | 13(32.5) | 2(5) | 1(1.5) | 3.68 |
| 5. | The competence of internal auditor is approved by Office of auditor general before recruitments is made. | 7(17.5) | 14(35) | 3(7.5) | 3(7.5) | 13(32.5) | 2.98 |
| 6. | The minimum level of skill, knowledge and experience required by internal auditor and the Head of Internal Audit is not fulfilled. | 10(25) | 10(25) | 7(17.5) | 9(22.5) | 4(10) | 3.35 |
| 7. | Internal audit use red flags questions to detect fraud. | 11(27.5) | 16(40) | 8(20) | 4(10) | 1(2.5) | 3.80 |

N/B 5= strongly agree, 4= agree, 3= neutral, 2= disagree and 1= strongly disagree

4.5 Independence of internal auditor

In order to the internal audit perform their role especially in fraud detection and prevention effectively independency of internal auditor should be fulfilled. Miheret and Yismaw (2007) described the characteristics of effective internal auditing system undertakes an independent evaluation of financial and operating system procedures. Only 30% of the respondent disagree with the internal audit unit is vested with the power of independent checks, in order to assess compliance with established rules and regulations of your organization with the mean value of 4.02. 60 % of the participant think internal auditors render impartial and unbiased judgment in the conduct of their engagement in order to detect fraud. With the mean value of 3.78, 67.5% of the participants agreed that auditors are free to report any audit finding of fraud to senior management. One third 35% and 43% of the respondent disagree that audit unit is independent and no interference by management in the role of fraud detection and auditors provide an independent opinion on the effectiveness of detection processes to reduce the risk of fraud respectively.

Table 8 :- independence of internal auditor

| Sr.no | Question | 5 | 4 | 3 | 2 | 1 | mean |
|-------|--|----------|----------|---------|---------|--------|------|
| 1. | The internal audit unit is vested with the power of independent checks, in order to assess compliance with established rules and regulations of your organization. | 15(37.5) | 13(32.5) | 10(25) | 2(5) | 0 | 4.02 |
| 2. | Internal audit activity is empowered to be independent by its appropriate reporting relationships to executive management. | 11(27.5) | 18(45) | 6(15) | 5(12.5) | 0 | 3.88 |
| 3. | Internal auditors render impartial and unbiased judgment in the conduct of their engagement in order to detect fraud. | 10(25) | 16(40) | 10(25) | 3(7.5) | 1(2.5) | 3.78 |
| 4. | Auditors are free to report any audit finding of fraud to senior management. | 13(32.5) | 14(35) | 5(12.5) | 7(17.5) | 1(2.5) | 3.78 |
| 5. | Audit unit is independent and no interference by management in the role of fraud detection. | 12(30) | 14(35) | 5(12.5) | 8(20) | 1(2.5) | 3.7 |
| 6. | Internal Auditors freely access necessary documents, information and data about the organization/sector for audit work. | 12(30) | 13(32.5) | 6(15) | 7(17.5) | 2(5) | 3.65 |
| 7. | Auditors Provide an independent opinion on the effectiveness of detection processes to reduce the risk of fraud. | 11(27.5) | 13(32.5) | 9(22.5) | 3(7.5) | 4(10) | 3.6 |

| | | | | | | | |
|----|--|---------|----------|-------|-------|-------|------|
| 8. | Internal Auditors are independent of management in exercising auditing related decision. | 9(22.5) | 17942.5) | 6(15) | 4(10) | 4(10) | 3.57 |
|----|--|---------|----------|-------|-------|-------|------|

N/B 5= strongly agree, 4= agree, 3= neutral, 2= disagree and 1= strongly disagree

4.6 Fraud risk assessment

To assess the fraud risk assessment around 14 questions were used. Almost half of the respondent 55% of the respondent disagree that there are any risks assessment processes in the entity. Only 42.5% of the respondent agrees that internal audit establish a fraud risk assessment process that considers fraud risk factors and fraud schemes with the mean value of 3.18. Half of 55% of the participants agree with the audit have a documented and approved risk management policy. Almost three fourth of the participants 65% have formal risk assessments been performed on a regular basis (e.g. at least twice a year depending on the size and nature of the audited entity).

As IA standard the fraud risk assessment identified and addressed at least the following areas: Asset management; Revenue management (completeness of revenue); Expenditure management; Personnel management, Fraud; and Service deliver. So based on this about 62.5% of the participants disagree that the risk assessment address asset management. Three fourth of the participants agree with the risk assessment address revenue management (completeness of revenue) but almost 70% of the participants disagree with the risk assessment address the rest area of intervention.

In related to questions about fraud prevention about 69.5% of the respondent agreed with auditors have no integrated fraud detection system with fraud prevention system. Only 20% of the respondent disagree with auditors design the procedures to be followed in attempting to identify the perpetrators, extent of the fraud, techniques used and cause of fraud with the mean value of 3.15. Almost three fourth, 77.5% of the participants agreed with the internal audit activity's plan of engagements is based on a risk assessment.

Table 9:- fraud risk assessment

| Sr.no | Question | 5 | 4 | 3 | 2 | 1 | mean |
|-------|---|----------|----------|----------|----------|----------|------|
| 1. | There are any risks assessment processes in the entity. | 4(10) | 14(35) | 21(52.5) | 1(2.5) | 0 | 3.52 |
| 2. | There Has been identified any risks of material misstatement and / or is aware of any fraud, suspected fraud or fraud investigation currently being conducted. | 7(17.5) | 9(22.5) | 12(30) | 9(22.5) | 3(7.5) | 3.2 |
| 3. | There are any areas of the financial statements which were identified as high risk areas as a result of fraud. | 5(12.5) | 8(20) | 10(25) | 13(32.5) | 4(10) | 2.93 |
| 4. | Internal audit establish a fraud risk assessment process that considers fraud risk factors and fraud schemes. | 5/(12.5) | 12(30) | 9(22.5) | 13(32.5) | 1(2.5) | 3.18 |
| 5. | Internal audit department's charter includes emphasis on conducting activities designed to detect fraud. | 5(12.5) | 8(20) | 20(50) | 5/12.5 | 2(5) | 3.23 |
| 6. | The audit have a documented and approved risk management policy. | 3(7.5) | 19(47.5) | 12(30) | 4(100) | 2(5) | 3.25 |
| 7. | Have formal risk assessments been performed on a regular basis (e.g. at least twice a year depending on the size and nature of the audited entity). | 2(5) | 10(25) | 14(35) | 12/30 | 2(5) | 2.95 |
| 9. | Have the risk assessment identified and addressed at least the following areas: | | | | | | |
| | (a) Asset management; | 7(17.5) | 1(2.5) | 2(5) | 5(12.5) | 25(62.5) | 1.95 |
| | (b) Revenue management (completeness of revenue); | 31(77.5) | 6(15) | 1(2.5) | 1(2.5) | 1(2.5) | 4.63 |
| | (c) Expenditure management; | 7(17.5) | 0 | 2(5) | 3(7.5) | 28(70) | 1.88 |
| | (d) Personnel management; | 7(17.5) | 0 | 1(2.5) | 3(7.5) | 29(72.5) | 1.83 |
| | (e) Fraud; and | 6(15) | 2(5) | 1(2.5) | 3(7.5) | 28(70) | 1.88 |
| | (f) Service delivery (e.g. failures in delivering services)? | 6(15) | 3(7.5) | 2(5) | 1(2.5) | 28(70) | 1.95 |
| 10. | Auditors have no integrated fraud detection system with fraud prevention system. | 4(10) | 7(17) | 17(42.5) | 9(22.5) | 3(7.5) | 3.00 |
| 11. | Auditor evaluate whether fraud risk factors indicate incentives or pressures to perpetrate fraud, opportunities to carry out fraud, or attitudes or rationalizations used to justify a fraudulent action. | 3(7.5) | 8(20) | 17(42.5) | 12(30) | 0 | 3.05 |
| 12. | Auditors design the procedures to be followed in attempting to identify the perpetrators, extent of the fraud, techniques used and cause of fraud. | 0 | 14(35) | 19(47.5) | 6(15) | 1(2.5) | 3.15 |
| 13. | The internal audit activity evaluates the potential for the occurrence of fraud and how the organization manages fraud risk. | 2(5) | 16(40) | 13(32.5) | 7(17.5) | 2(5) | 3.22 |

| | | | | | | | |
|-----|--|-------|----------|--------|---------|------|------|
| 14. | The internal audit activity's plan of engagements is based on a risk assessment. | 4(10) | 17(42.5) | 10(25) | 7(17.5) | 2(5) | 3.35 |
|-----|--|-------|----------|--------|---------|------|------|

N/B 5= strongly agree, 4= agree, 3= neutral, 2= disagree and 1= strongly disagree

4.6 Measure taken by Management

The last hypothesis of this study was about the measure taken by management in case of fraud was detected during internal auditing system. Based on the hypothesis 6 question were developed, 47.5% of the respondent agree with evaluate the evidence that management is assessing the internal controls and that adequate actions have been taken to address material weaknesses identified during the year. Almost half of the respondent 52.5%, 52.5%, 47.5%, 52.5% agree with management uses the reports of internal audit to monitor controls, Major recommendations of internal audit, consultants been implemented timely, and also the management has been using these reports to monitor key aspects of operations and management identified non-compliances and was there corresponding correction in the operation of internal control practices respectively.

Table 10:- Measure taken by Management

| Sr.no | Questions | 5 | 4 | 3 | 2 | 1 | mean |
|-------|--|----------|----------|----------|---|---|------|
| 1. | Evaluate the evidence that management is assessing the internal controls and that adequate actions have been taken to address material weaknesses identified during the year. | 19(47.5) | 13(32.5) | 8(20) | 0 | 0 | 4.27 |
| 2. | By enquiry with relevant officials / other parties document any concerns about the nature, extent and frequency of management's assessment of the internal control systems in place to prevent and detect fraud. | 20(50) | 9(22.5) | 11(27.5) | 0 | 0 | 4.23 |
| 3. | Management uses the reports of internal audit to monitor controls. | 21(52.5) | 14(35) | 5(12.5) | 0 | 0 | 4.4 |
| 4. | Major recommendations of internal audit, consultants been implemented timely. | 21(52.5) | 16(40) | 3(7.5) | 0 | 0 | 4.45 |
| 5. | Management has been using these reports to monitor key aspects of operations. | 49(47.5) | 11(27.5) | 10(25) | 0 | 0 | 4.38 |
| 6. | Management identified non-compliances and was there corresponding correction in the Operation of internal control practices. | 21(52.5) | 13(32.5) | 6(15) | 0 | 0 | 4.23 |

N/B 5= strongly agree, 4= agree, 3= neutral, 2= disagree and 1= strongly disagree

Chapter five

5. Conclusions and recommendation

5.1 conclusion

In order to assess role of internal audit in fraud prevention and detection at the Ethiopian ministry of revenue the scope of the internal audit, organization set up, competency of internal auditor, independency of internal auditors and fraud risk assessment were measured and from the finding of this study the following point are concluded.

Internal audit function started mainly as protection against fraud and asset loss of the audited entity. The finding of this study shows gap internal auditors face restriction and have no full access to record and assets.

Almost half of the participants supposed there organization have a set up with uncertain and undefined authority of internal audit and purpose of internal audit is in line with Standards for the Professional Practice formulated by the Institute of Internal Auditors.

In this study competency of internal auditors used to measure the role of internal audit on fraud detection and prevention and the finding revealed internal auditors are not fully aware of provisions by government and laws relating to fraud detection in addition to this there is a huge gap concerning ongoing anti-fraud training are provided to internal auditor in the organization.

Independency of internal auditor is a major component for the internal auditor's effective role in fraud detection. However, the finding of this study revealed that internal auditors are not fully independent to assess compliance with established rules and regulations of the organization and have interference by management in the role of fraud detection.

Concerning fraud risk management majority of the respondent perceived the internal audit activity did not evaluates the potential for the occurrence of fraud and how the organization manages fraud risk in there organization. And also the finding revealed there is a problem in addressing all fraud risk assessment intervention area.

Concerning measured taken by management the finding of this result revealed only half of the respondent agree with management uses the reports of internal audit to monitor controls, major

recommendations of internal audit, consultants been implemented timely, and also there is still problem related to the management using these reports to monitor key aspects of operations and management identified non-compliances.

Based on the summary of major findings of the study, internal audit staff of Ethiopian ministry of revenue lacks the necessary, competence of fraud detection, auditors are not fully aware about ways of fraud assessment and sufficiently independent from those they are required to audit and they conduct their work with interference also the use of the audit report to control the entity internal control system is weak. Finally, Fraud risk assessment which strengthens fraud detection is not made by the minster internal audit staff. As a result it is difficult to understand the risk related to the ministry, not able to identify gaps or weakness in control to mitigate those risks, and challenging to develop practical plan to reduce risk.

5.2 Recommendation

On the basis of the findings, the following recommendations are proposed for the consideration Ministry of revenue, management of ministry and the internal auditors.

- Internal audit function started mainly as protection against fraud and asset loss, in order to compute this role the internal auditors in Ministry Of Revenue must have unrestricted access to all records.
- Authority of internal audit and purpose of internal audit is in line with Standards for the Professional Practice formulated by the Institute of Internal Auditors must be certain and defined when the audit manual is prepared and make it easily traceable by the internal auditors.
- To create well establish internal control in the ministry, the eye of the entity which is the internal audit team must be well competent and trained regarding assessing and preventing fraud also internal auditors must have the capability of understanding the occurrence and the area of the fraud in the entity .in order to do that the ministry of revenue must prepare separate risk manual, modules and give constant training to the internal auditors.
- In order to assess compliance with established rules, regulations and internal controls of the ministry of revenue internal audit function must be independent.
- Ministry of Revenue management must use the reports of internal audit to monitor internal controls ,implement major recommendations of internal audit and give audit report feedback timely in order to create fraud conscious working environment ,

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Annex Questionaries'

**Addis Ababa University
College of business and economy
Department of accounting and finance**

This project is entitled the role of internal auditors in fraud detection: In the Ethiopian minster of revenue. The investigator is Mihret Sileshi who is currently an MSc (in Accounting and Finance) student at Addis Ababa University. The aim of this project is to examine the roles and responsibilities of internal auditors in fraud detection in Ethiopia ministry of Revenue and also to investigate the factors that activity that influence internal auditors' responsibility and expert performance in detecting fraud. To supplement the data obtained from different sources, the investigator seeks to gather relevant information from a sample of 40 participants from different department by means of self-administered question using semi structure questioner. Participation in this research is completely voluntary the findings of the study the questioner result were anonymously recorded and individual will not be defined by the investigator.

For further information please contact Miheret Sileshi by the following address.

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Part One

Demographic Data of the Respondent

(Please put any sign/mark on the number from alternatives that best describes your choice)

1. Gender: 1. Male 2. Female
2. Age:
 1. Less than 30 years 2. 30-40 years 3. 40-50 years 4. 50-60 years 5. Above 60 years
3. Educational Level: 1. Diploma 2. BSC/BA 3. MSC/MA/MBA
4. Any certification related to the profession:
 1. ACCA 2. CPA 3. CIA 4. No related certification
5. What is your current position in the organization?
 1. Manager/Supervisor 2. Team Leader/Assistant
 3. Senior Internal Auditor/Inspector 4. Internal Auditor/Inspector
6. Total years of audit experience including the current position:
 1. Less than 5 years 2. 5-10 years 3. 11-15 years
 4. 16-20 years 5. Above 20 years
7. Your internal audit unit/department staffing
 1. Adequately staffed 2. Moderately staffed 3. Poorly staffed

Part two

Scope of internal audit

| Sr.no | Questions | 5 | 4 | 3 | 2 | 1 |
|-------|--|---|---|---|---|---|
| 6. | There is a formal document (charter) including the scope, responsibilities, purpose of IA. | | | | | |
| 7. | The scope of IA include evaluating and reporting on internal controls applicable to identified high risk areas as identified by management. | | | | | |
| 8. | The scope of IA include the consideration of the following for each audited area: <ul style="list-style-type: none"> • Compliance with applicable laws and regulations; • Reliability of reported information; and • Efficiency, economy and effectiveness of operations. | | | | | |
| 9. | Thereis a written provision from the accounting officer providing IA unrestricted access to all records, assets etc. of the audited entity. | | | | | |

Competency of internal auditor

| Sr.no | Questions | 5 | 4 | 3 | 2 | 1 |
|-------|---|---|---|---|---|---|
| 1. | Internal auditors possess adequate experience in detecting fraud. | | | | | |
| 2. | Ongoing anti-fraud training are not provided to internal auditor ofyour organization | | | | | |
| 1. | The auditors in my organization are qualified to undertake auditfunction. | | | | | |
| 2. | Internal auditors are fully aware of provisions by government andlaws relating to fraud detection. | | | | | |
| 3. | The competence of internal auditor is approved by Office of auditorgeneral before recruitments is made. | | | | | |
| 4. | The minimum level of skill, knowledge and experience required byinternal auditor and the Head of Internal Audit is not fulfilled. | | | | | |
| 5. | Internal audit use redflags questions to detect fraud. | | | | | |

Organization setting

| Sr.no | Question | 5 | 4 | 3 | 2 | 1 |
|-------|---|---|---|---|---|---|
| 1. | The authority of internal audit is clearly defined. | | | | | |
| 2. | The internal audit department is large enough to successfully carry out its duties. | | | | | |
| 3. | Internal audit obtains a sufficient budget to successfully carry out its duties. | | | | | |
| 4. | Internal audit has policies for hiring internal audit staff. | | | | | |
| 5. | There is a complete internal audit manual to guide internal audit work. | | | | | |
| 6. | Organizational structure provides the framework within which the segregation of duties is determined. | | | | | |
| 7. | Information communicated effectively both up and down within your function and across to other function. | | | | | |
| 8. | The purpose of internal audit is clearly defined. | | | | | |
| 9. | The purpose of internal audit is in line with Standards for the Professional Practice formulated by the Institute of Internal Auditors. | | | | | |

Independency of internal auditor

| Sr.no | Question | 5 | 4 | 3 | 2 | 1 |
|-------|--|---|---|---|---|---|
| 1. | The internal audit unit is vested with the power of independent checks, in order to assess compliance with established rules and regulations of your organization. | | | | | |
| 2. | Internal audit activity is empowered to be independent by its appropriate reporting relationships to executive management. | | | | | |
| 3. | Internal auditors render impartial and unbiased judgment in the conduct of their engagement in order to detect fraud. | | | | | |
| 4. | Auditors are free to report any audit finding of fraud to senior management. | | | | | |
| 5. | Audit unit is independent and no interference by management in the role of fraud detection. | | | | | |
| 6. | Internal Auditors freely access necessary documents, information and data about the organization/sector for audit work. | | | | | |
| 7. | Auditors Provide an independent opinion on | | | | | |

| | | | | | | |
|----|--|--|--|--|--|--|
| | the effectiveness of detection processes to reduce the risk of fraud. | | | | | |
| 8. | Internal Auditors are independent of management in exercising auditing related decision. | | | | | |

Fraud risk assessment

| Sr.no | Question | 5 | 4 | 3 | 2 | 1 |
|-------|---|---|---|---|---|---|
| 1. | There are any risks assessment processes in the entity. | | | | | |
| 2. | There Has been identified any risks of material misstatement and / or is aware of any fraud, suspected fraud or fraud investigation currently being conducted. | | | | | |
| 3. | There are any areas of the financial statements which were identified as high risk areas as a result of fraud. | | | | | |
| 4. | Internal audit establish a fraud risk assessment process that considers Fraud risk factors and fraud schemes. | | | | | |
| 5. | Internal audit department's charter includes emphasis on conducting activities designed to detect fraud. | | | | | |
| 6. | The audit has a documented and approved risk management policy. | | | | | |
| 7. | Have formal risk assessments been performed on a regular basis (e.g. at least twice a year depending on the size and nature of the audited entity). | | | | | |
| 9. | Have the risk assessment identified and addressed at least the following areas: | | | | | |
| | (g) Asset management; | | | | | |
| | (h) Revenue management (completeness of revenue); | | | | | |
| | (i) Expenditure management; | | | | | |
| | (j) Personnel management; | | | | | |
| | (k) Fraud; and | | | | | |
| | (l) Service delivery (e.g. failures in delivering services)? | | | | | |
| 10. | Auditors have no integrated fraud detection system with fraud prevention system. | | | | | |
| 11. | Auditor evaluate whether fraud risk factors indicate incentives or pressures to perpetrate fraud, opportunities to carry out fraud, or attitudes or rationalizations used to justify a fraudulent action. | | | | | |

| | | | | | | |
|-----|--|--|--|--|--|--|
| 12. | Auditors design the procedures to be followed in attempting to identify the perpetrators, extent of the fraud, techniques used and cause of fraud. | | | | | |
| 13. | The internal audit activity evaluates the potential for the occurrence of fraud and how the organization manages fraud risk. | | | | | |
| 14. | The internal audit activity's plan of engagements is based on a risk assessment. | | | | | |

Measure taken by Management

| Sr.no | Questions | 5 | 4 | 3 | 2 | 1 |
|-------|--|---|---|---|---|---|
| 1. | Evaluate the evidence that management is assessing the internal controls and that adequate actions have been taken to address material weaknesses identified during the year. | | | | | |
| 2. | By enquiry with relevant officials / other parties document any concerns about the nature, extent and frequency of management's assessment of the internal control systems in place to prevent and detect fraud. | | | | | |
| 3. | Management uses the reports of internal audit to monitor controls. | | | | | |
| 4. | Major recommendations of internal audit, consultants been implemented timely. | | | | | |
| 5. | Management has been using these reports to monitor key aspects of operations. | | | | | |
| 6. | Management identified non-compliances and was there corresponding correction in the Operation of internal control practices. | | | | | |
| 7. | Management identified key aspects of operations and the information needed (e.g. exception reports) to monitor the operations of the entity. | | | | | |