



**ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
MASTER OF SCIENCE (MSC) IN
ACCOUNTING AND AUDITING**

**THE ROLE OF INTERNAL AUDIT IN DETECTING FRAUD: THE CASE
OF ETHIOPIAN BUDGETARY PUBLIC SECTORS**

**A RESEARCH PAPER SUBMITTED TO THE POST GRADUATE OFFICE
FOR PARTIAL FULFILLMENT OF THE REQUIREMENT OF
ACCOUNTING AND AUDITING (MSC.)**

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**January, 2016
ADDIS ABABA, ETHIOPIA**

DECLARATION

I undersigned declare that this research report is my original work and has not been presented for a degree in any other university, and all the materials used for this study have been duly acknowledged.

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Abstract

Internal audit is important as an essential internal assurance mechanism in controlling fraud in budgetary Public sectors. In addition, it assists government organizations to achieve accountability and integrity, improve the implementation of government programs and develop confidence among citizens and stakeholders as well as to offer any risk of mismanagement of public fund. The scope of this study covers the role of internal audit in Federal Ministries and Government Universities to fight fraud. This study employs a cross sectional survey to investigate the role of internal audit and descriptive statistic was used to analyze the data from the survey. This study examined the Role of Internal Audit in Detection and Prevention of Fraud in Ethiopian budgetary Public sectors. The survey found out hat there is insufficient auditors' competence and independence problem toward the usefulness of internal audit work to detect and prevent fraud. It also determined the internal audit risk assessment that contributes in detection and prevention of Fraud. The study concluded that Internal Audit of budgetary Public sector slack sufficient competence and independence to prevent and detect fraud. Fraud risk assessment is not exercised which support internal audit to control fraud. As a result, the role of the internal audit in fraud prevention and detection is minor.

Keywords: Internal Audit, public budgetary sector, Fraud Detection and prevention.

Acknowledgement

First of all, I would like thanks my almighty God for his great support to accomplish this research work and for his infinite support in my entire life success. Secondly, I would like to express my genuine thanks to Dr. Degefa Duressa for his continues comment and supports to make this research project paper and for the information given that is very valuable for my study. And also I would like to thanks Addis Ababa University college of Business and Economics coordinating office for the chance given to and direct to make this research project paper based on the topics that I select.

Finally, I would like to thank all the people who support me by giving different materials and for their idea sharing to complete this study, particularly my best friends Solomon Oluma, Gayo Pastoral development initiative finance administration and coordinator; Yared Mirkana SOS, finance administration and coordinator and Yonas Atomsa, Awash International Bank manager

Alemayehu Etana

January,2016

Addis Ababa, Ethiopia

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List of acronyms and abbreviations

IPPF	International Professionals Practices Framework
IIA	Institute of Internal Auditors
ISA	International standard on Auditing
SAS	Statement of Audit Standards
AICPA	American Institute of certified Public Accountant
ACFE	Association of Fraud Examiners
MoFED	Ministry of Finance and Economic Development
APBG	Auditing Practices Board Auditing Guidelines
IA	Internal audit
ISPPIA	International Standards for Professional Practice of Internal Auditing
OFAG	Office of the Federal Auditor General
CIPFA	Chartered institute of public finance and accountancy
SIAS	Statement on Internal Auditing Standards
CIMA	Certified Institute of Management Accountant
PCAOB	Public Company Accounting Oversight board
SNA	National Standard on Audit
ACCA	Association of chartered certified accountant
CIA	Certified internal auditor
CMA	Certified Management Accountant
CPA	Certified Public Accountant
IIAM	Institute of Internal Auditors Malaysia
SPSS	Statistical Package for Social Sciences
ASB	Auditing Standards Board

CHAPTER ONE

1. Introduction

1.1 Background to the Study

The public budgetary sector offices are the key channel for a country economic development due to their commitment in a number of social and economic operations; such as in Health service, environmental safety service, Education service, Poverty reduction, water supply, irrigation and drainage development and power, transport and communication services, financial service, construction service, tourism industry service and the like. These sectors involved in collecting and spending hundreds of billions birr of public money through the various ministries and agencies to achieve growth and Transformation plan of government activities. This revenue and expenditure contributes a large share for economic growth of country and demand efficient and effective financial management procedure to functioning with accountability and practicing according to rules and regulation prepared by MoFED.

To bring efficiency and effectiveness in economic activity the performance of the public sector management have a duty to frequently measure and appraise to take remedial actions if problems, for example fraud, encountered. There are many irregularities leading to public objection and there is increasing fraud in government activities resulting from an insufficient control of public finance and implementation mostly in African content like Ethiopia. Public sectors fail in attaining their objectives thereby leading to fail of confidence in internal and external activities in the economy. According to Ghazali, Rahim, Ali, and Abidin (2014) one of the main factors that caused this is fraud which has serious adverse effect on public sectors and has damaging consequences for the individuals involved, and the entire community. Fraud against Government is a crime that directly or indirectly victimizes every Person. Frauds result in the failure of organizations in achieving goals, massive public investment losses, significant legal costs, losses of key individuals, and erosion of public confidence on government. Fraud, negatively, affects an economy as a whole, by causing huge financial losses, weakening social stability, threatening democratic structures, leading to a loss of trust in the economic system, or corrupting and compromising economic and social institutions (Nicolescu C., 2007). Similarly, the Statement of Audit Standards (SAS) defines fraud as ‘an intentional act that results in a

material misstatement in financial statements that are the subject of an audit' (AICPA, 2008, SAS No. 99). Finally, the Association of Certified Fraud Examiners (ACFE) conceptualized fraud as the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets (ACFE, 1996). In order to reduce the probability of fraud occurrence, public sectors use internal auditors, management and other means to Detect Fraud.

Fraud Detection is efforts taken to reduce opportunity for fraud to occur and persuading individual not to commit fraud because of the likelihood of detection and punishment. Public sectors develop mechanisms such as internal control, internal and external audit to detect fraud. To minimize the risk associated with fraud it is important for public sectors to have a strong fraud program that includes awareness, and detection programs. The current corporate scandals and the global financial crisis pushed the public and regulatory bodies to give unique position to internal audit in corporate governances for internal assurance services (Soh and Bennie, 2011). In recent years, the internal auditing functions have more stress in public and private organizations because fraud cost organizations millions of birrannually. Abbott, Parker and Peter (2012), Burnaby, P., Howe, M. & Muehlmann, B. W., 2009 and Richards (2002) have argued that internal auditing departments are critical for preventing fraud. Thus, they are the central force in disclose or limiting asset misappropriation and fraudulent financial statement. Thomas and Clements (2002) argued that in spite of the fact that internal auditors may not always oversee fraud prevention programs, it is logical for them to be involved in the identification of fraud risks and the design of monitoring programs to reduce these risks. According to Howard (2002), the major role and responsibility of internal auditors is prevention and detection of fraud. Internal auditors assist management by ensuring that adequate financial and management controls have been implemented and are operating effectively or by identifying the weakness in such system and making recommendations toward their improvement. It is indisputable that the existence of internal auditor in any organization is a means of controlling the incidence of errors, irregularities and frauds, but the question to be answered is the extent to which they exercise tasks to play their role. Further, the main objective of internal auditing is to provide assurance to management that the internal control system in the university is sound in design and effective in operation and it also helps to achieve value for money (Momoh, 2005). The one way management

of public bodies can discharge their duties towards and detection of fraud by establishing internal audit (MoFED, 2005).

The growth of any economy depends to a large extent on the system of control adopted by the management and the success and sustenance of the internal control lies on internal auditing.

The MoFED internal audit manual procedure point out that Internal auditors are responsible for assisting in the determination of fraud by examining and evaluating the adequacy and the effectiveness of the system of internal control, commensurate with the extent of the potential exposure/ risk in the various components/ segments of the organization's operations.

All the above observations underline the role of internal audit to detect Fraud in the public sectors. Even though many efforts to strengthen financial controls and institute good governance at the Federal level and state government levels, the number of fraud cases is still on the rise, in fact becoming more severe – a clear signal that some form of action need to be taken to control this increasing crisis.

To date, besides the OFAG's report (2015) and Federal ethics and anti-corruption commission report (2014), studies investigated the occurrence of fraud and its mitigating factors. Considering the huge damaging effect of fraud, a better understanding on the effectiveness of detection and discovery of fraud is urgently needed. Thus, the objective of this study is to provide the role of internal audit in fraud detection in Ethiopian budgetary public sectors. The study also aimed to seek the competence, Independence and fraud risk assessment of internal auditors to identify its effect on internal audit in fraud detection method that must be in place.

1.2 Statement of the Problem

The Federal Ministries, and other public sector offices formulate and implements government's policies, gathers and supplies data for policymakers ensures continuity of services for economic development. Regarding to finance, Ministry of Finance and Economic Development play an irreplaceable role in developing attractive internal control over financial and asset management to avert fraud, corruption and irregularities.

Muslimat and Hamid(2012) in their study on the Role of Internal Audit Unit in Fraud Prevention in Government Owned Hospitals in Nigerian found that Audit staffs of the governmental hospitals of Nigeria lack the basic rudiments of fraud prevention which is rendering the hospitals

more vulnerable to fraud perpetration and resources embezzlement and do not have adequate knowledge guiding their discipline. Further, Mihret and Yismaw (2007) in their case study on Ethiopian public Universities, argue that lack of competent personnel is challenges of internal auditors. Unegbu, and Kida (2011) realized that, IA can effectively carry out their duty in the public sector if there are enough IA personnel with required competencies. Appah E and Oyadonghan J. K (2011) argued that internal auditors in the public sector in Nigeria is not performing the audit responsibility with all level of professional and technical expertise as expected by the society and wind up this is why there is wide spread misappropriation of public sector funds and massive corruption in Nigeria.

Fraud Skills and fraud awareness addressing what auditors need to know to detect and handle fraud. This knowledge gap allows fraud to occur and go undetected. Petra cua D, and Tieanub.A (2014) state that internal auditors must have a superior level of theoretical knowledge and practical experience in order to successfully accomplish their role. They concluded that auditors must know the possible fraud schemes and scenarios that are specific to an organization's field of work and be able to recognize the signs of a possible fraud scheme.

According to Petrascu et.al (2014) argued the role of the internal audit include a varied set of responsibilities: supporting the management in establishing auditable anti-fraud mechanisms; facilitating the assessment of fraud and reputational risks at the level of an organization and its business process; assessing the connections between fraud risks and internal controls; auditing frauds; supporting the specialists in fraud investigation; supporting the efforts to rectify deficiencies; and reporting to the audit committee the problems regarding anti-fraud mechanisms, fraud and reputational risks assessment, or fraud cases and suspicions.

To providing valuable internal audit activities of fraud detecting, internal auditor independence play significant role to conduct audit activity without intervention by management on audit to be performed. Bou-Raad (2000) argued the strength of an IA department must be assessed with respect to the level of independence it enjoys from management and from operating responsibilities. Olorode (2004) testified that the independence of an auditor is a cornerstone for the quality of his performance; however, it is practically difficult for an internal auditor to

possess any reasonable degree of independence in mind and attitude because of the management influence on him in terms of reference and scope of work.

According to Ghazali, Rahim, Ali, and Abidin(2014) studies on fraud, internal audit department should be given the authority to handle their tasks and it is vital that they are independent of management in order to carry out their duties without ‘fear or favor’ in fraud fighting.

Fraud risk assessment is a tool that assists internal auditor in systematically identifying where and how fraud may occur and who may be in a position to commit fraud. According to the National Standard on Audit 240 ‘Fraud and Error’ (SNA 240), When planning the audit, the auditor must assess the risk related to the fact that fraud and error can lead to significant misrepresentations in the financial reports and he must request from the management information about any substantial fraud or error discovered.

Petrascu et al (2014) claimed that internal auditing is accountable for assisting in the organization’s fraud risk assessment and serving to decisive role to enable that the organization is running on the right truck of strategy. Based on risk assessment, the auditor must formulate some procedures of auditing that provide a reasonable guarantee that the significant misrepresentations, caused by fraud and error, in the financial reports as a whole, is discovered. 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-Twajjry, 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. The limited prior research in this area also suggests that the extent of internal audit effectiveness is possibly associated with country- and organization-level dynamics that prevail in an internal audit milieu (Al-Twajjry, Brierley & Gwilliam 2003; Arena, Arnaboldi & Azzone 2006; Mihret & Woldeyohannis 2008; Yee et al. 2008). Further Ruud (2003) called for research to examine national differences in the role of internal audit.

Here in Ethiopia, despite the existence of internal audit departments in public sectors, there are cases of errors and fraudulent activities in public sectors. For example, the Office of Auditor General 2015 report found a high incidence of inappropriate expenditure, improper purchases, payments and uncollected revenue (Addis Fortune June 7, 2015) and the Lideta Federal High Court criminal bench tried 17 criminal suspects, comprising three foreign companies, one Ethiopian company and their employees over a business tax fraud worth around one billion Birr even though internal audit service is practiced (Addis Fortune, March 30, 2015).

All these reviews have implied that, there is a lack of a wide internal audit research which investigates the internal audit role in fraud detection concerning to public sectors. In case of Ethiopia, reviewing the internal audit literature shows no direct research on the role of internal audit regarding to fighting fraud in budgetary public sectors. As the result, the above international findings may not be applicable in Ethiopia as research methods and results are influenced by and usually reflect economic, social or legal factors unique to those countries in which the studies took place. Thus, this has motivated the researcher to investigate into the role of the internal audit in detecting fraud on the subject of competence, independence and fraud risk assessment in detecting fraud in Ethiopian budgetary public sectors.

1.3 Objectives of the Study

The general objective of the study is to examine the Internal Audit role in Detection of Fraud in Ethiopian budgetary Public sectors, specific objectives include is to:

- Examine the contribution of competency of internal auditors in detecting fraud.
- Assess the independency of internal auditor as a role in detecting fraud.
- Examine fraud risk assessment by auditor as role in detecting fraud.

1.4 Research Questions

The study conducted for that purpose to answer the following research questions:

- Does internal auditor's competency enhances internal audit in fraud detection in budgetary Public sectors?

- Does independency of internal auditor affect internal audit in detecting fraud in Ethiopian Budgetary Public sectors?
- Does fraud risk assessment conduct by internal audit?
- Do fraud risk assessments influence internal audit in fraud detecting in Ethiopian Budgetary Public sectors?

1.5 Significance of the Study

The findings of this study help a wide range of people. It enables the governing body, especially the management, and the higher responsible body, and any other organizations in the public sector, to be aware of the important use of internal audit, and gives perception into how they use the internal audit service most efficiently in fraud detection. Another important significance of this study is that, it guides the internal auditors in their professional work. It emphasizes the need for internal auditors to approach their work with professionalism, integrity, confidentiality, good ethical behavior, and competencies in order to contribute meaningful realization of the objectives of the organization. It is useful for practitioners and academics. 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 in the Ethiopian budgetary public sector.

Furthermore, the importance of this study create an environment where management highly supports auditors and upgrade public understanding about huge indispensable 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 the internal audit in detecting fraud would more successful if it will conduct in all public sector offices. Because of time and financial boundaries it is difficult to select all public sectors, and due to this the Ministries and Universities are selected which are expected to represent all the rest untouched public sectors.

While this study provides knowledge in the study of fraud and internal auditing, it does suffer from a few deficiencies. The study assessed only auditor competence, fraud risk assessment, and auditor independence concerning the detection of fraud; it did not consider the role of management and the code of ethics for employees as vital components that may affect fraudulent activity.

1.7 Organization of the Study

In addition to the preliminary page, this research paper consists of three chapters. The first chapter with its sub topics was introductory parts incorporated the background, statement of the problem, research objectives, research questions, significant of conducting the study, and scope and limitation of the study. The second chapter describes the detail review of related literatures with regard to the internal audit in detecting fraud and the variables which affect the internal audit role in fraud detection. The third chapter forwards the methodologies used to conduct this study. Data presentation and analysis presented in Chapter 4 and Findings, conclusion and recommendation presented in chapter 5.

CHAPTER TWO

2 LITERATURE REVIEW

2.1 Introduction

The IIA's, 2011 Definition of Internal Auditing states, "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Internal audit 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." From this definition it can be concluded that internal auditors provide an effective examination or review of financial transactions in order to ensure that; all collection is acknowledged with receipt, expenditure of all funds and other resources of the organization are in conformity with the policies and procedures of the organization in order to detect fraud.

Fraud can occur at various levels in public sectors and it needs appropriate detection. Fraud detection focuses on activities and techniques that promptly recognize timely whether fraud has occurred or is occurring. The Internal Auditor identifies indicators of fraud sufficient to warrant recommending an investigation. These indicators may arise as a result of controls established by management, tests conducted by auditors and other sources both within and outside the public body (MoFED, 2005). Fraud detective controls enhance the effectiveness of a fraud risk management program by demonstrating that preventive controls are working as intended and by identifying fraud if it does occur.

2.2 Theoretical Review

2.2.1 Concept of Internal Audit

As defined by Akpata (2001). Auditing is an independent examination of accounting records with a view to ascertain their accuracy and their compliance with relevant rules and regulations and also with the organizational policies and procedures. Internal audit is been mentioned as one of the classification of audit. It's the aim of internal auditing to improve organizational efficiency and effectiveness (Cohen and Sayag, 2010).

CIPFA (2010) explained internal audit “as an assurance function which provides an independent and objective opinion to the organization on their control environment, evaluating its effectiveness toward organizational goals achievement. It clearly examines, evaluates and reports on adequacy of control environment as a contribution toward appropriate, economic, effective and efficient utilization of resources”. Also, Auditing Practices Board Auditing Guidelines (APBG) defined internal audit as “An independent appraisal function which is established by the management of an organization for the purpose of reviewing internal control system as a service to the organization. Moreover, According to Katz (2002) Internal audit independently reviews and evaluates the adequacy of the system of internal controls and makes recommendations to management to improve these controls.

Auditing is a management technique that is been recognized to provide management with a general situation regarding resources utilization and other services within the organization (Botha & Boon, 2003). Ethiopian public sectors maintained an internal auditing staff. Internal auditors are employed by individual public sectors to investigate and appraise the effectiveness of organization operations for management. Much of their attention is often given to the appraisal of internal controls, and auditing of financial statement, fixed assets and stocks.

It’s the aim of internal auditing to improve organizational efficiency and effectiveness (Cohen and Sayag, 2010). Internal audit help members of the organization in discharging their responsibilities in an effective manner, and furnishes management with, opinion, recommendations, and information concerning the activities reviewed with the objective of promoting effectiveness within the organization at affordable cost (Jansson, 2003). It supports the organization by reviewing the effectiveness and efficiency of the activities of an entity, ensuring compliance with established regulations, evaluation of risk management and internal controls system of the organization.

As stated by Katz (2002), internal audit independently reviews and evaluates the adequacy of the system of internal controls and makes recommendations to management to improve these controls. So that, an internal auditor must be independent of the office heads and other executives whose work he reviews in order perform his efficiently and effectively.

2.2.2 Fraud

The Statement of Audit Standards (SAS) defines fraud as ‘an intentional act that results in a material misstatement in financial statements that are the subject of an audit’ (AICPA, SAS No. 99). Fraud includes intentional financial misrepresentations (e.g., falsification of accounts) and misappropriations of assets (e.g., theft of inventory) (AICPA, 2002). Robertson (2000) defines fraud “all means that human ingenuity can devise and which are resorted to by an individual to get an advantage over another by false suggestions or suppressions of truth. Fraud involves recording of transactions without substances, suppression or omission of the effect of transaction from records or document, Intentional misapplication of accounting policies and willful misrepresentation of transaction of the entity’s state of affairs (Olatunji, 2009). As said by Pollick (2006), fraud can be regarded as a “deliberate misrepresentation, which causes one to suffer damages, usually monetary losses.

The relevant theories on fraud are reviewed below:

Social learning theory on fraud postulates that if deviant behaviors are reinforced and alternative behaviors are not reinforced as strongly, then an individual is likely to engage in fraudulent / deviant behaviors. The theory of work place deviance reiterates that employees steal primarily as a result of workplace conditions, and that a lowered rate of employee theft is a by-product of a management team that is responsive to employee’s plights.

The Potato Chips theory explains that fraud can be additive. If the perpetrator is not caught in the act, he gets bolder to commit more fraud and eventually makes a mistake that will expose him. Fraud has therefore been likened to a person that eats a potato chip, but may never be satisfied. The Rotten Apple theory opines that good and bad conducts within corporate organizations are infectious. Fraudulent actions by supervisors and top management can easily be emulated by their subordinates. Similarly, good conducts exemplified by top management will be emulated. This poses a challenge to management that whenever a ‘rotten and fraudulent apple’ is identified in the organization; it must be quickly plucked off to ensure it does not contaminate the other good fruits on the tree.

The fundamental observation of Donald Cressey (1919-1987), in the theory of fraud triangle was that fraud is likely to occur given a combination of three factors i.e. Pressure, (Motivation),

Opportunity and rationalization. While opportunities can open the doorways to fraud, incentive and rationalization will attract people to it, but such an individual must have the capability to recognize the open doorway as an opportunity and should be able to take an undue advantage of the identified loopholes. According to Wolfe and Hermerson (2004), in the theory of fraud diamond, an individual's capability, personality traits and abilities can play a major role in determining whether fraud may occur.

As stated by CIMA (2009), Certified Institute of Management Accountant, Fraud can mean many things and result from many varied relationships between offenders and victims. Examples of fraud include:

- Crimes by individuals against consumers, clients or other business people, e.g. misrepresentation of the quality of goods; pyramid trading schemes
- Employee fraud against employers, e.g. payroll fraud; falsifying expense claims; thefts of cash, assets or intellectual property (IP); false accounting
- Crimes by individuals or businesses against government, e.g. grant fraud; social security benefit claim frauds; tax evasion.

According to ASA 240, there are two types of intentional misstatements relevant to the auditor. First, there are misstatements that result from fraudulent financial reporting and second, there are misstatements that result from misappropriation of assets (ASA 240, para. 10). Fraudulent financial reporting is an intentional misstatement or omission of amounts or disclosures with the intent to deceive users. Most cases involve the intentional misstatement of amounts, rather than disclosures. Omissions of amounts are less common, but a company can overstate income by omitting accounts payable and other liabilities. While most cases of fraudulent financial reporting involve an attempt to overstate income either by overstatement of assets and income or by omission of liabilities and expenses, companies also deliberately understate income (Arens, A., Elder, R. and Beasley, M. 2012).

Misappropriation of assets is fraud that involves theft of an entity's assets. The theft of company assets is often a management concern, regardless of the materiality of the amounts involved, because small thefts can easily increase in size over time amounts (Elder et al, 2012). The term misappropriation of assets is normally used to refer to theft involving employees and others

internal to the organization. Misappropriation of assets is normally perpetrated at lower levels of the organization hierarchy. In some notable cases, however, top management is involved in the theft of company assets. Because of management's greater authority and control over organization assets, embezzlements involving top management can involve significant

An organization's assets can be misappropriated by employees, customers, or vendors. The organization must ensure that controls are in place to protect such assets. Considerations to be made in the fraud risk assessment process include gaining an understanding of what assets are subject to misappropriation, the locations where the assets are maintained, and which personnel have control over or access to assets (Elder et al, 2012). Common schemes include misappropriation by: Employees, Employees in collusion with vendors, customers, or third parties, and Vendors. Protecting against these risks requires not only physical safeguarding controls, but also periodic detective controls such as physical counts of inventory. Those conducting the risk assessment keep this in mind when deliberating misappropriation of asset schemes and their impact to the organization.

Three conditions for fraud arising from fraudulent financial reporting and misappropriations of assets are described in SAS 99 (AU 316). These three conditions are referred to as the fraud triangle.

Incentives/Pressures: Management or other employees have incentives or pressures to commit fraud. A common incentive for companies to manipulate financial statements is a decline in the company's financial prospects. In some cases, management may manipulate earnings just to preserve their reputation.

Opportunities: Circumstances provide opportunities for management or employees to commit fraud. Although the financial statements of all companies are potentially subject to manipulation, the risk is greater for companies in industries where significant judgments and estimates are involved. A turnover in accounting personnel or other weaknesses in accounting and information processes can create an opportunity for misstatement.

Attitudes/Rationalization: An attitude, character, or set of ethical values exists that allows management or employees to commit a dishonest act, or they are in an environment that imposes sufficient pressure that causes them to rationalize committing a dishonest act.

The attitude of top management toward financial reporting is a critical risk factor in assessing the likelihood of fraudulent financial statements. If the top managers display a significant disregard for the financial reporting process, such as consistently issuing overly optimistic forecasts, or they are overly concerned about meeting analysts' earnings forecasts, fraudulent financial reporting is more likely. Management's character or set of ethical values also may make it easier for them to rationalize a fraudulent act.

Corporate failures in recent years have turned significant public and regulatory interest on corporate fraud. Fraud can take a variety of forms, such as embezzlement, insider trading, self-dealing, lying, failure to disclose facts, corruption, accounts manipulation, kickbacks, phantom vendors, and many more (Ziegenfuss, 1996). Fraud involves complicated financial transactions conducted by white collar criminals, business professionals with specialized knowledge and criminal intent (Pollick, 2006). Clearly, fraud is a pervasive corporate problem, affecting organizations across industries and sectors without regard to size (Adegoke¹, Samson, and Abayomi Sunday, 2013). The penalties for such fraud have significantly increased in response to society's view on this type of behavior. For example, Bernard Ebbers the former chairman of WorldCom was jailed for 25 years for orchestrating a \$US11 billion financial statement fraud (Belson, 2005). Fraud can be said to be the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets. Public sectors are specifically likely to be target of fraud, even the owner of resources are public and controlled by public.

2.3 Empirical review

2.3.1 Internal Auditors competence

Competence is defined by Jessup (1991) as "the ability to perform to recognized standards". Competency is skill that is essential to perform a certain task. Competency can be relate to the ability of an individual to perform a job or task properly base on the educational level, professional experience and the effort of the staffs for continuing professional development.

A broad range of skills and expertise, and ongoing professional development are crucial to the formation and maintenance of an effective internal audit activity in fighting fraud. Some of the more important competences needed by internal auditors are in-depth knowledge of the organization's industry and internal audit Standards, and technical understanding, knowledge of implementing and improving processes in both financial and operational areas and professional certification, e.g. CIA, and ACCA. According to Harrington (2004), an expanded set of competencies is needed by internal auditors to cope with the massive change and complexity in both private and public sector operations.

Auditors' competency determines the effective auditing in the organization. It contributes to the ability of the auditors to perform the systematic and discipline audit approach to improve the effectiveness of IA. Mihret & Yismaw (2007) concluded in their study that IA office constantly face the problem of low technical staff proficiency and high staff turnover, which would limit its capacity to provide effective service to management. Likewise, Kida et al (2011) found in their study that, IA can effectively carry out their duty in the public sector if there are enough IA personnel with required competencies. Competency of auditors determines the quality of the audit work performed in an organization. Internal auditors have to own the knowledge, skills and other competencies demanded to achieve their role in fighting fraud in governmental and non-governmental organization. As stated by IIA (2009), knowledge, skills and other competencies is a collective term that refers to the profession proficiency required of internal auditors to effectively carry out their professional responsibilities. The knowledge, skills and other competencies would enable internal auditors to plan their audit work properly, perform and communicate on timely basis the findings and recommendations to the right people (Abudu Dawuda, 2010).

The IIA (1210.A2, p. 6) requires internal auditors to have sufficient knowledge to evaluate not only the risk of fraud but also the manner in which the organization manages that risk. Internal auditors are expected to have sufficient knowledge to evaluate the risk of fraud in their organizations, and are required to report to the board any fraud risks found during their investigations. Further (ISA 2005) indicate that the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to

fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.

With regards to professional competence, (International Standards for Professional Practice of Internal Auditing) ISPPPIA encourages internal auditors to obtain and update prior information about internal auditing, so as to be able to carry out assigned duties effectively. Alzeban and Sawan (2013) have mentioned that internal auditors should be adequately qualified and in possession of all requisite skills and knowledge to carry out responsibilities related to audit duties. Abu-Azza (2012), Haimon (1998), and Obeid (2007) found that competence of internal auditors positively related to perceived IA effectiveness that has irreplaceable contribution in fighting fraud. This study seems to corroborate Fadzil, Haron & Jantan (2005) suggestion that due to the perceived difficulty in ensuring internal auditors have the necessary knowledge; it is difficult to confirm key control areas of business processes within the organization's control.

So therefore, the role of the internal auditors depends on their professional training and practical abilities and experience to fight against asset misappropriation and financial statement fraud in public offices. Petra cua et al (2014) argued that in their activities, internal auditors of public sectors 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 the possibility of fraud occurrence. Further, an audit requires a professional staff that collectively has the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate (Al-Twajry, A. A. M., Brierley, J. A. & Gwilliam, D. R. ,2004)). This shows that sufficiently large number of skilled professionals enables the IA to do its duties. One aim of this research is to study the impact of competencies in enhancing auditing to clash against fraud in the context of Ethiopia within the global environment.

2.3.2 Independence of Internal auditors

A substantial body of research examines the independence of internal auditors. Stewart and Subramaniam (2010) provide a thorough review of this literature, and they begin by noting the

IIA definitions of independence. Independence refers to the “freedom from conditions that threaten objectivity or the appearance of objectivity”. Similarly; Christopher, Sarens, and Leung (2009) found evidence of various threats to independence, including reporting structures in which the internal auditor does not report to the audit committee. Among other things, Leung, Cooper, and Robertson (2004) find wide variability in reporting procedures, with some internal audit functions reporting solely to management and others to the audit committee.

James (2003) study found that internal audit functions that report to senior management are perceived as being less able to prevent fraudulent reporting compared to those departments that report solely to the audit committee. Van Peurse's (2005) found that internal auditors' close relationship with management can place their independence at risk.

Internal auditors are independent when they render impartial and unbiased judgment in the conduct of their engagement (Baharud-din, Shokiyah, and Ibrahim, 2014). In providing the valuable internal audit unit activities, organizational independence play significant role to conduct audit activity without intervention by management on audit to be performed. This implies that auditors have the right to access to any record relating to the audit work without any challenges from management. Independence of auditors would not be considered to be impaired if the auditors do not appear to act in a capacity equivalent to a member of client management or as an employee (D. Caplan and M. Kirschenheiter, 1999). In certain extent there is a confusion of the role of IA as internal auditors are part of the management team and at the same time to independently evaluate management's effectiveness and efficiency. However, in more recent years, there has been heightened interest in issues associated with the independence of internal audit. This could affect the effectiveness of internal auditing as even though internal auditor are charged with upholding the best interests of their employer, they may be reluctant to counter management, regardless of consequences(G. Saren and I. De Beelde, 2006). This argument was in line with the assertion of Zeleke (2007), who argued that organizational independence allows the audit unit to conduct work without interference by the entity under audit.

With the purpose of fraud detection, the internal audit activity independence in performing their work is the great issue. Independence of internal audit department and the level of authority to which the internal audit staff report are the important criteria influencing the objectivity of its

work, and added that organizational independence is more crucial to the effectiveness of the internal auditors, as it protects the auditor from pressure or intimidation, and increases the objectivity of the auditing work (Van Peursem, 2005). Accordingly, the internal audit independence plays a role of evaluating the extent to which results are consistent with established objectives so as to determine whether operations and programs are being implemented properly by detecting of fraud.

Van Peursem (2005) based on interviews with Australian internal auditors, and concluded that independence from management is a dominant feature of successful auditing programs. Similarly, Clark, Gibbs and Shroeder (1981) found that the independence of the internal audit department and the level of authority to which the internal audit staff report are the two most important criteria influencing the objectivity of their work.

Moreover, Bou-Raad (2000) argued that the strength of an IA department must be assessed with respect to the level of independence it enjoys from management and from operating responsibilities. The IIA, the American Institute of Certified Public Accountants (AICPA) and others have likewise identified organizational independence as crucial to the viability of the internal audit function (Brown 1983). Organizational independence contributes to the accuracy of the auditor's work and gives employers confidence that they can rely on the results and the reports (Cohen & Sayag, 2010). However, Hellman N. (2011) suggested that CFOs seek to influence audit planning, particularly with regard to internal controls and the selection and scope of entities subject to audit; and this in return impairs the independence of internal auditors.

2.3.3 Fraud risk Assessment

Fraud risk assessment is a tool that assists management and internal auditor in systematically identifying where and how fraud may occur and who may be in a position to commit fraud (IPPF, 2009). Fraud risk assessment concentrates on the fraud scheme and scenarios to determine the presence of internal controls and whether or not the control can be evaded. One of the tools that the internal auditor could use in his fraud examination is the fraud risk assessment interview (MoFED, 2005). Auditor could prepare the questions, with adequate review and approval of the

Head of the Public Body, in order to compile necessary information on possible fraud to help him in his audit and investigation of the Public Body's operations.

Petra cua et al (2014) stated that when planning the audit the auditor must assess the risk related to the fact that fraud and error can lead to significant misrepresentations in the financial reports and he must request from the management information about any substantial fraud or error discovered. Moreover, IIA standard 2121.A2 indicates that the internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk. Internal auditors evaluate risks faced by their organizations based on audit plans with appropriate testing and need to be alert to the signs and possibilities of fraud within the organization. Based on risk assessment, the auditor must formulate some procedures of auditing that provide a reasonable guarantee that the significant misrepresentations, caused by fraud and error, in the financial reports as a whole, will be discovered (Petra cua et al, 2014). Accordingly, the auditor search for adequate verification in conducting audit that fraud has been committed or not.

Further, Thomas and Clements (2002) argued that despite the fact that internal auditors may not always oversee fraud prevention programs, it is logical for them to be involved in the identification of fraud risks and the design of monitoring programs to reduce these risks. Similarly, Church, McMillan and Schneider (2001) claimed that auditors are able to identify certain risk factors for fraudulent financial reporting when reported income is higher than expected, when they identify questionable bonus plans, or when restrictive debt covenants increase.

IIA standard 2120 point out that internal audit activity must evaluate potential for occurrence of fraud and how organization manages fraud risk. If fraud risks assessment is not conducted, internal auditor is unable to identify fraud committed and who may be in a position to commit it.

With the aim of identifying risk, risk identification process must be exercised by auditors to dig out frauds. An effective fraud risk identification process includes an assessment of the incentives, pressures, and opportunities to commit fraud (Petra cua et al, 2014). Employee incentive programs and the metrics on which they are based can provide a map to where fraud is most likely to occur. Fraud risk assessment must focus on the potential overrule of controls by

management with areas where controls are weak or there is a lack of separation of obligation and other factors. As a result, any fraud risk evaluation has to reflect access and disregard of internal controls along with internal and external threats to public sector resources (IPPF, 2009).

Perry and Bryan (1997), Carpenter and Mahoney (2001) and Omar and Abu Bakar (2012) studies indicated that internal auditors who understand the various types of fraud and their relative rates of occurrence are better equipped to recognize fraud-risk indicators and confront them. IPPF also expects the internal audit activity to evaluate the potential for the occurrence of fraud and how the organization manages its fraud risk. The expectation is that internal auditing provides objective assurance to the board and management that fraud controls are sufficient for identified fraud risks and ensure that the controls are functioning effectively.

According to IPPF (2009), a structured fraud risk assessment, tailored to the organization's size, complexity, industry, and goals, should be performed and updated periodically. The assessment may be integrated with an overall organizational risk assessment or performed as a stand-alone exercise, but should, at a minimum, include risk identification, risk likelihood and significance assessment, and risk response

In conducting risk assessment, it is important to evaluate on continuous base in order to prevent fraud. Continuous risk assessment is a bundle of audit activities mainly focusing on risk. The nature of the assessment refers to audit activities that identify and evaluate company-wide risk levels by examining trends and comparisons within a single system. These conducted processes are compared to past performance and other business systems to have significant results (Coderre, 2007).

2.3.4 Internal audit role in detection fraud

The role of external auditors is prescribed by the PCAOB. However, the role of internal auditors is not determined by legislation or regulatory bodies. Role guidance for internal auditors is limited to authoritative guidance from the IIA (Deloitte, 2013). While each internal audit function differs in its prescribed role within the organization, Deloitte (2013) provides a summary of the major roles and responsibilities of internal auditors. These responsibilities include evaluating control, risk management, and governance systems; reporting risk and control

deficiencies; recommending ways to improve operating efficiency and effectiveness; evaluating information security, regulatory compliance, and preparedness for business interruptions, and providing anti-fraud support to the Organizations. Similarly, Prawitt, Smith, and Wood (2009) note wide variation across organizations with regard to internal auditor duties, which include “among other tasks, financial, operational, fraud, control, compliance, or systems audits as well as internal consulting projects for management”

In order to fight against fraud many techniques, such as using internal audit, are implemented by organization. Coram (2008) stressed on the importance of effective internal audit function as part of the framework of internal control to fight fraud. His study suggested that organizations with an internal audit function are more likely to detect and self-report fraud through misappropriation of assets. Maria and Krambia-Kapardis(2010) argued that fraud that results from materially misstated financial reports are of particular interest to auditors; they are legally responsible for detecting and reporting this type of fraud. Internal audit objectively examines, evaluates and reports on the adequacy of internal control as a contribution toward appropriate, economic, effective, and efficient utilization of resources” (Davies, 2001).

According to the Institute of Internal Auditors definition of Internal Auditing is “an independent, objective assurance and consulting activity designed to add value and improve an organization’s 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”. Nevertheless, as a result of the increase in accounting scandals in recent years, the internal audit function has received impressive attention as an important contributor to effective corporate governance and financial reporting because a high quality internal audit function focused on improving financial reporting through ensuring standard compliance (Prawitt,2008). The internal auditor is the eyes of the management and ensures that the policy of the organization is strictly adhered to, to ascertain that there is proper authority for the acquisition or disposal of asset, to analyze and improve the system of internal check and also to ensure that there is compliance with the system of internal control in the organization (Olatunji, Dada and Bankole, 2000)

The role of the internal audit function in fraud detection varies widely among companies. A 2012 IIA survey and related 2013 roundtable discussion finds that some “audit committee

representatives had no expectation that internal or external auditors would detect fraud, while others defined their roles in fraud detection as essential” (IIA 2013b, 7). Nonetheless, 31 percent of IIA survey respondents indicated that internal audit has the primary role in detecting financial reporting fraud. According to the Association of Certified Fraud Examiners (ACFE) 2012 Report to the Nations, internal audit was the third most common method of fraud detection, with 14.4 percent of frauds in the study being initially detected by the internal audit function.

The supportive role of internal auditors for management specifically senior management are always asserted in areas such as identifying business improvements, risk management and matters of fraud and corruption (Goodwin-Stewart & Kent, 2006; IIAM, 2009; Thomson Reuters, 2012). Having the support of the senior management especially the chief executive officers is important as well, such as for unrestricted access to staff, information and documentation (Sarens& De Beelde, 2006).

In the definition given by IIA as mentioned above, on internal audit, provided that it helps an organization accomplish its objectives by bringing a systematic, disciplined approach to examine and increase the effectiveness of risk management, control, and governance processes as it's contained in the Standards, the internal auditor can also performed the following functions : review the company's systems of internal control; report finding and recommendations to management for improvement in detecting and preventing fraud; support management in its responsibility of safeguarding the company's assets; coordinating the company's relations with external auditors; review compliance with government regulations and company policies; ensure fiscal integrity in the reporting system; provide the company with a pool of professional talent (Mace, 1977).

The importance an organization attaches to its internal audit function is an indication of the organization's commitment to effective internal control. The internal audit charter, which is approved by the public sector head, includes internal auditing roles and responsibilities related to fraud. Specific internal audit 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 (IPPF, 2009). If assigned such duties, internal auditing has a responsibility to obtain sufficient skills and competencies, such as knowledge of fraud schemes, investigation

techniques, and laws. Effective internal audit functions are adequately trained, with appropriate specialized skills given the nature, size, and complexity of the organization and its operating environment. Internal auditing have a duty to be independent (have independent authority and reporting relationships), have adequate communication with the management, and adhere to professional standards (IPPF, 2009).

(Jansson 2003) argued that internal audit help members of the organization in discharging their responsibilities in an effective manner, and furnishes management with, opinion, recommendations, and information concerning the activities reviewed with the objective of promoting effectiveness within the organization at affordable cost. Therefore, internal auditors are required to provide objective feedback to management and continue to show that they can add value to their organization. Hence, the internal audit unit is been consider as the key governmental department with the expertise for assessing the effectiveness of resources utilization, also by identifying waste, inefficiencies and fraud in budget items (Aikins, 2011).

In the meantime, it is agreed that the purposes of establishing internal audit was not only to prevent or detection of fraud, promotion of clerical accuracy, protection of assets, policies and procedures compliance but also to; have clear definition of duties and responsibilities; account for the accuracy of information and coordination of all controls (Haun, 1955,Pizzinia, Lin,Vargus&Ziegenfus, 2011). In this study, the roles to be performed by the internal auditor within public sectors need to be taking into consideration in order to assist organization in their objective achievement by fighting against fraud.The recent concept of internal auditing was that of an arm of management, because the internal auditors serve as an integral part in the management process and are mainly concerned with the proper utilization of resources, inefficiency and fraud.

Internal audit objectives are to improve the effectiveness of risk management, control, and governance (IIA,2011) and it is considered an important governance tool to protect organization from internal criminal behavior (Nestor 2004). Further, the professional literature suggests that internal audit is a vital tool in fraud detection when assets are misappropriated by employees or outsiders (Luehlfing et al, 2003; Marden and Edwards, 2005; Belloli, 2006).

The modern organization's audit function is a key participant in antifraud activities, supporting management's approach to detect and responding to fraud. Auditors have a significant role to

play in the detection and prevention of fraud because they are not only agents of shareholders but their access to internal and external information makes them efficient monitor (Dyck, Morse and Zingales, 2008). Lorsase (2004) notes that when fraud occurs in work place, the question asked is “where were accountants and auditors? That an auditor has the responsibility for the prevention, detection, and reporting of fraud, and other illegal acts and errors is one of the most controversial issues in auditing, and has been one of the most frequently debated areas amongst auditors, politicians, media, regulators and the public(Gay, 2002). However, there seems to be misconception that auditor duties are largely the preventing, detecting and reporting of fraud (Idris, 2009).Moreover, Okoya (2002) argued that internal audit unit is vested with the power of independent checks, in order to assess compliance with established rules and regulations of the university

Abbott, Parker and Peter (2012), Burnaby et al (2009), Richards (2002) have argued that internal auditing departments are critical for preventing and detecting fraud. Thus, they are the central force in uncovering or limiting asset misappropriation and corruption schemes. Auditors are primarily concerned about fraud as it relates to misstatement in the financial statement (Bells &Carcello, 2000). So, auditing has a greater impact in the control of fraud and financial irregularities in public sectors that make effective use of their auditing system. Moreover, according to the Institute of Internal Auditors (1991), the internal audit unit is expected to review the means of safeguarding assets and where appropriate, verify the existence of such assets.

From these reviews, it is clear that Internal Auditor examines and evaluates the adequacy and effectiveness of actions taken by management of the public body to detect fraud, be able to identify indicators that fraud might have been committed, investigate fraud and issue a written report. With the intention of accomplishing this role, richness in competence, fraud risk assessment and independence is vital, unquestionable and needs to be examined. All these are reviewed in the following sections.

2.3.5 Gaps in the literature

Limited studies have been conducted in many countries on internal audit role relating to fraud detection [For example, Hamid et al(2012) in Nigeria; Coram,Ferguson&Moroney (2006) in Australia; Petra cua et al (2014) in Romania; and Ghazali, Rahim, Ali, Abidin(2014) in

Malaysia]. Most of these studies were performed in developed world, and different countries. They were also carried out with different variables, and research methods. These studies motivate researcher to analyze these facts in one geographical or regulatory context for a large public sectors. To get an in-depth understanding of these topics, alternative research methods in addition to archival or survey data was requested and used for specific circumstances and countries.

Generally, Reviewing of the internal audit literature shows limited research on role of internal audit in influence fraud detection. It has also maintained that internal audit role could contribute in fighting fraud. The review suggests the following gaps in the literature:

- Limited prior research has examined concerning the role of internal audit in detecting fraud in wide public sectors in one geography;
- Limited prior research has examined concerning the role of internal audit in detecting fraud in budgetary public sectors;
- The limited literature to date largely focused on public sectors in developed economies. As a result, understanding of the global configuration of the role of IA profession in detecting fraud appears incomplete.
- Different government agencies were not used. This might be useful in order to gain evidences that are more conclusive.
- Calling for more research, which has some relation with my study, on internal audit effectiveness on the subject matter particularly in the public sectors since most of the previous studies give more concerned in the private sectors (Badara, and Saidin, 2013).

Thus, this study aim to examine internal audit role in budgetary public sectors against struggling fraud become necessary to add important contribution to global conclusion.

CHAPTER THREE

3 RESEARCH DESIGN AND METHODOLOGY

3.1. Introduction

The important part of the research activity is to acquire successful research design which shows the logical link between the data collected, the analysis and conclusions to be drawn. It involved a blueprint for the collection, measurement and analysis of data. In this chapter the research design, sampling type, research instrument, the dependent and independent variables applied throughout the research, data analysis method, and finally questions to be sent to respondents are included.

3.2. Research Design

The study expected to investigate the role of internal audit in fraud detection in the selected budgetary public sector offices. The data used to conduct this study used the primary data through questionnaires. Questionnaires were distributed to the internal audit directors, auditors, Finance directors, and accountants. The study areas were selected using purposive sampling method from the federal public sector offices in which internal audit has crucial role in fighting fraud. Secondary data was obtained from internal audit report and audit working paper, and Office of auditor general audit report that concerns internal audit activity. The audit report of both external audit and internal audit from year 2013 up to 2014 were used to analyze the variables.

3.3. Sampling Techniques

The target populations for this research are the Federal Ministry offices and Universities. The total population number is 54 which include 32 Universities and 22 Ministries. Due to the difficulty of covering the entire total existing budgetary public sector, the researcher obliged to minimize its study area by focusing only on 20 (15 Ministries and 5 Universities) purposively selected public sector offices that are expected to be used as a representative of other sectors. The researcher focused on these public sectors which have sufficient internal audit staffs, financed by big budget, homogenous, very popular in nature and have greater impact to influence the country's overall social, political and economic issues. From these sectors audit directors,

auditors, finance directors and accountants were also purposively selected as they know more about internal audit and detecting fraud than any other staffs.

The use of purposive sampling enables generating meaningful insights that help to gain a deeper understanding of the research phenomena by selecting the most informative participants (Carver 1978; Cohen 1990; Neuman 2006; Patton 1990).

3.4. Sample size

Based on the scope identified, the researcher study has the population of 54 of public sector offices which are classified into two (Ministries and Universities) based on their services rendered to the public and the researcher focused on twenty public sector offices purposively. Population in terms of respondents is 216 (four person from each 54 sectors) persons. The questionnaires were distributed for these selected public sector offices to get appropriate responses. To obtain the adequate responses through questionnaire the researcher believes that distributing the questionnaire for one audit director, one auditor, one accountants, one finance director, and in total four respondents from each selected ministry and university, thus a sample population is 80 respondents. Even if the use of proportional sampling is appropriate in order to obtain a representative sample from each sector; because of the samples selected from the population have not equally selected /not equally important/ the use of purposive sampling is more essential to obtain a typical and representative of the whole universe (Kothari, 2004).

The purposively selected Federal Ministries and Public Universities from the population are:

1. Ministry of Industry
2. Ministry of water, Irrigation and Electricity
3. Ministry of Health
4. Ministry of forestry and environment
5. Ministry of Justice
6. Ministry of Federal affairs
7. Ministry of construction
8. Ministry of sport and youth
9. Ministry of Finance and Economic development
10. Ministry of social and labor

11. Ministry of Trade
12. Ministry of rural development and houses
13. Ministry of culture and tourism
14. Ministry of Education
15. Ministry of Civil service
16. Addis Ababa University
17. Ethiopian Civil service university
18. Kottobe University College
19. WollegaUniversity
20. JimmaUniversity

3.5 Data Collection Procedures

These were the steps/process used by the researcher while collecting data using the collection instrument. Questionnaires were distributed to the respondents. These questionnaires were delivered by hand to the respondents at their duty stations during working hours personally. They were issued and collected after two week to give respondents enough time to answer the questions.

Upon collection, the questionnaires were coded. They were then fed into Statistical Package for Social Sciences (SPSS) version 17.00. Case summaries were then generated to check for any errors in data entry. Exploratory data analysis was conducted to determine the effect of any outliers and missing entries. Frequencies, percentage and mean were generated for each variable namely: independence, Competence, and fraud risk assessment against fraud.

3.6. Data Collection Instrument

The primary data were employed to accomplish the study, and to collect the data from the respondents to be included in the sample questionnaires. The questionnaires were distributed to the Finance director, accountants, audit director and auditors of the public sector office. The type of questions that were distributed to accounting section and audit section are same. The questionnaires are about the competence of IA, independence of internal audit and fraud risk assessment by IA.

The instrument included closed and open-ended questions in order to provide both, the possibility to express opinions freely as well as useful framework for answers. The instrument consisted of 3 open and 9 closed questions for the variables. All interviewees had the chance to explain their answers to close questions as well.

In addition questionnaires are in the form of Likert-Scale type that shows respondents agreement or disagreement by constructing into five point scale where the lowest scale represent strongly disagree and the highest scale represent strongly agree (Likert, 1932). The questionnaires were adopted and modified from the prior author and literature review (Hamid et al, 2012, Mihret and Yismaw, 2007; Baharud-din et al, 2014). The questionnaires distributed to the respondents were organized in to two parts; the first part comprises the demographic question regarding the respondents, and the second part contains items relating to the competence of IA, independence of internal audit and fraud risk assessment by IA. Secondary data obtained from internal audit report and audit working paper, and Office of Auditor General Audit Report that concerns internal audit activity.

CHAPTER FOUR

4. DATA PRESENTATION, INTERPRETATIONS AND ANALYSIS

4.1 Introduction

As indicated in the previous chapter, the main attempt of this study is to investigate the role of internal audit in detecting fraud in budgetary public sectors. Therefore, this chapter presents the analysis and discussions for research findings obtained from the questionnaires. It reports the investigation results obtained from accountants and internal auditors of the public sector offices covered in the questionnaire. The discussion begins with the questionnaires' response rate followed by the descriptive statistics of the respondents related questions; like the gender, age, profession, and level of education. Wherever applicable, tables, charts and figures are provided to illustrate and support the findings. In the analysis of the data the research questions raised, frequency and percentage tables based on the likert type of scale responses of respondents were constructed. The analysis was done based on the research questions.

Data were analyzed using Statistical Package for Social Sciences (SPSS Version 17.0) program through a descriptive statistics to provide details concerning question and factors that affect the IA in fraud detecting regarding public sectors. Data from questionnaires was summarized, edited, coded, tabulated and analyzed.

Qualitative and Quantitative analysis was used as data analysis technique. Primarily the data was collected through the questionnaires and analyzed by using descriptive statistics for responses to be obtained by using likert scale method, open-ended and closed questions and then tabulated, coded and analyzed to present the research findings. Analysis of the data was based on the auditors' competence, independence, fraud risk assessment and their impact on audit in fraud detection.

The study targeted a sample size of 80 respondents from which 69 filled in and returned the questionnaires making a response rate of 86.25%. This response rate was satisfactory to make conclusions for the study. Weisberg, Krosnick & Bowen (1996) recommended a response rate of 70%.

4.2 Characteristics of the Respondents

4.2.1 Response Rate

The questionnaires were distributed to the finance directors, accountants, audit directors and auditors of 20 purposively selected Federal Government Ministries and Universities. Four questionnaires (a total of 80 questions) were delivered to each public sector. From distribution of 80 questionnaires, 69 questionnaires were collected (15 responses from finance directors, 6 accountants, 14 audit directors and 34 auditors) giving the response rate of 86.25%. This shows good response rate for all respondents.

4.2.2 Demographic characteristics

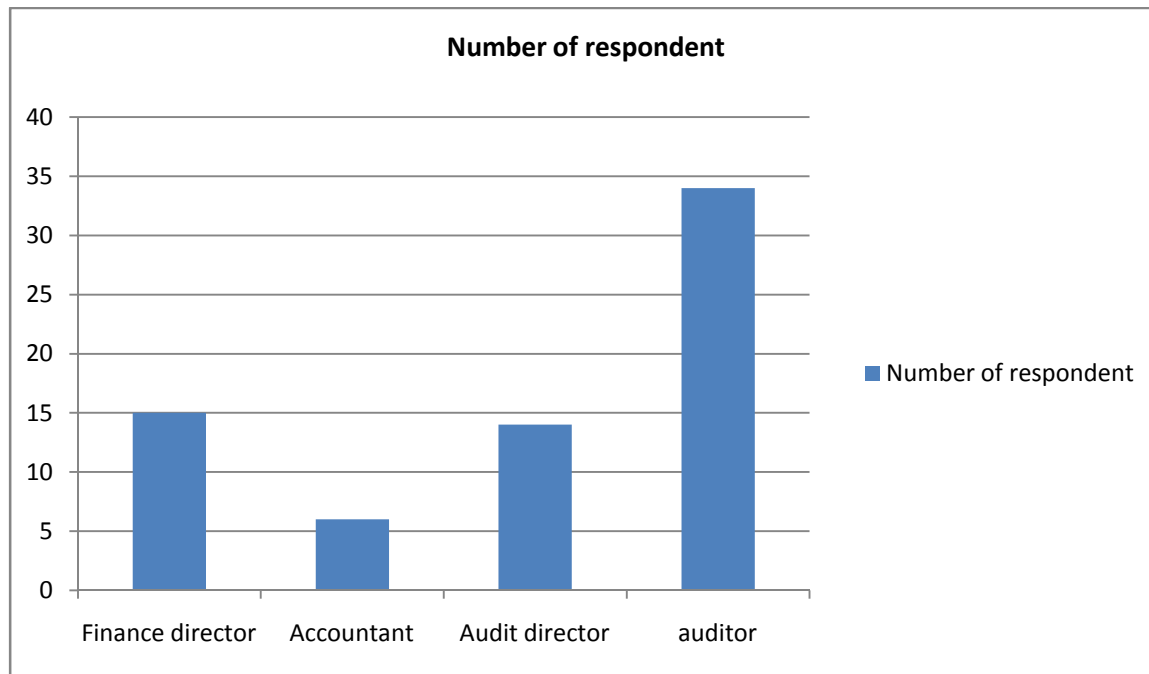
As shown in Table 1, the major characteristics of the questionnaire respondents are presented in terms of gender. In term of gender, the study respondents can be classified into 66.67 % as male and 33.33% as female which suggests that high status jobs in public sectors are male-dominated and this is an indication that both genders were involved in this study.

Table 1 Respondents gender Profile

Demographic Questions		Response									
		Finance directors		accountants		Audit directors		auditors		Total	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Gender	Male	10	66.67	5	83	7	50	24	70.58	49	71
	Female	5	33.33	1	17	7	50	10	29.42	20	29
	Total	15	100	6	100	14	100	34	100	69	100

4.2.3 Socio-economic status of respondents

The following chart shows that 34 of the total respondents were auditors and 14 were audit directors while 15 and 6 were finance director and accountant respectively. This shows that



As shown below in Table 2, the study requested the respondents to indicate their highest level of academic education. From the findings it was established that 94.20% of the respondent indicated their highest level as degree, and 5.80% of the respondent indicated their highest level as post graduate. This is an indication that most of the respondents focused in this study had university degrees as their highest level of education. These shows the majorities of the respondents were educated and can contribute more for the effectiveness of their intended work. It is also believed to provide more trustworthy information for this study.

degree which enables them to provide more reliable information for this study and enable the respondents to have idea of the internal audit and detection of fraud.

Whereas, most Finance directors and accountants have bachelor's degree (11, 73.33%) and (6, 100%) respectively followed by master's degree (4, 26.67%) for Finance directors and there was no accountants who have master's degree. There was no master's degree, other level of educations and diploma from both categories. As that of auditors, the majorities of the respondents have bachelor degree which enables them to provide more reliable information for this study and enable the respondents to have idea of the internal audit and detection of fraud.

Table 2 Educational background

Questions		Response									
		Finance directors		accountants		Audit directors		auditors		Total	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Educational level	Diploma										
	Bachelor's Degree	11	73	6	100	14	100	34	100	65	94.20
	Master's Degree	4	27	-	-	-	-	-	-	4	2
	Total	15	100	6	100	14	100	34	100	69	100

The study requested respondents to indicate the number of years they had served for. From the findings the study established that 22. % of the respondents had worked for a period of more than 10 years, 36 % of the respondent indicated that they had worked for a period raging between 6 to 10 years. 40.60% of the respondents had served for a period raging between 3 to 5 years, and finally 1.40 % of the respondents indicated that they had worked for a period of less than 2 years.

Table 3 Experience of respondents

Years of	Response				
	Finance directors	accountants	Audit directors	auditors	Total

experience	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
1-2	-	-	-	-	-	-	1	3	1	1.4
3-5	-	-	3	50	3	21	22	65	28	40.6
6-10	4	26.67	2	33	8	58	11	32	25	36
More than 10 years	11	73.33	1	17	3	21	-	-	15	22
Total	15	100	6	100	14	100	34	100	69	100

As shown in the figure above, the distribution of years of experience that the respondents had with working in the auditing profession was not fairly spread out among the categories. Out of 48 respondents of auditors and audit directors, 25 respondents (52.08% of total respondents) represent a group that covers 3 to 5 years of experience. This shows that the auditors are not sufficiently experienced. 39.58% of the respondents are found under the range of 6-10 years of experience in auditing. On the other hand, the group that is least represented is greater than 10 years of experience which involves 3 respondents under each range with a 6.25% of the total respondents. The remaining 2.09% of the respondent has experience of less than 2 years experiences.

As it is indicated above, almost half of the auditors have less than 6 years of experience working in the auditing profession. This shows that the audit respondents are not well experienced working as an auditor which may make less effective in fighting fraud.

In case of professional certification, one finance director (6.67%) has ACCA Professional certification and the remaining (14, 93.33%) has no professional certification. All 48 respondents from internal auditors have no any professional certification. These can imply that there is a lack of broad range of skills and expertise, and ongoing professional development which are crucial to the formation and maintenance of an effective internal audit activity in fighting fraud. Due to lack of this professional certification, auditors may not play significant role in detecting fraud.

Table 4 respondents’ professional certification

	Response
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Professional certification	Finance directors		accountants		Audit directors		auditors		Total	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
CIA										
CPA			-	-	-	-	-	-	-	-
CMA			-	-	-	-	-	-	-	-
ACCA	1	6.67	-	-	-	-	-	-	1	1.44
No professional certification	14	93.33	6	100	14	100	34	100	68	98.56
Other	-	-	-	-	-	-	-	-	-	-
Total	15	100	6	100	14	100	34	100	69	100

4.3 Competence of internal audit in detecting fraud

The study sought to establish the level at which respondents agreed or disagreed with the following statements relating to competence of internal audit in detecting fraud in Ethiopian budgetary public sectors. Fraud is difficult to detect for the reason that auditors have relatively infrequent experience of fraud in their career due to the low base-rate of fraud detection (Loebbecke, Eining, & Willingham, 1989), which results in the lack of opportunity for auditors to develop fraud detection expertise (Johnson, Grazioli & Jamal, 1993). This is true in Ethiopian budgetary public sectors where the survey result indicated that there is lack of adequate experience in fraud detection. The result shows that, 55.10% and 7.20% of the respondents disagreed and strongly disagreed respectively on the statement that internal auditors possess adequate experience in detecting fraud as shown by a mean of 3.50. While, 24.60% of respondents agreed and 7.20% strongly agreed with this statement. 5.80% of the respondents agree somewhat.

Table 5 Competence of internal audit response

No	Code	Statement	frequency					Mean
			Strongly agree	agree	Somewhat agree	disagree	Strongly disagree	
		Competence						
1	C1	Internal auditors possess adequate experience in detecting fraud.	3	14	-	47	5	3.5

2	C2	Ongoing anti-fraud training are not provided to internal auditor of your organization	9	43	4	13		2.3
3	C3	The auditors in my organization are qualified to undertake audit function	-	19	2	41	7	3.5
4	C4	Internal auditors fully aware of provisions by government and laws relating to fraud detection	2	21	2	35	9	3.4
5	C5	The competence of internal auditor is approved by Office of auditor general before recruitments is made	-	3	2	45	19	4.1
6	C6	The minimum level of skill, knowledge and experience required by internal auditor and the Head of Internal Audit isn't fulfilled.	16	44	5	4	-	1.9
7	C7	Internal audit use red flags questions to detect fraud	4	7	2	45	11	3.7

The above table 5 of item 2 point out that ongoing anti-fraud training is not provided to internal auditors of various Ministries and universities as shown by mean of 2.30. The result indicates that many responders believe that ongoing anti-fraud training is not provided to internal auditors (62.30% agreed and 13 % strongly agreed) while small number of responders did not think that (18.80% disagreed) and 5.8% of them somewhat agree. Having sufficient training on fraud (such as characteristics of fraud, technique used to commit fraud) is used to identify red flags indicating fraud may have been committed. This result is supported by the 2008 survey of internal audit practice in Malaysia where 20% of the respondents reported that none of their internal auditors had been trained for fraud prevention (IIAM, 2009). From this analysis it can be concluded that auditors who don't take anti-fraud training regularly are challenged to detect fraud. This is in line with Bayou & Reinstein (2001), Dycus (2002); Grazioli, Jamal, & Johnson (2006) argument that it is difficult for internal auditors to detect Fraud due to lack of adequate training in fraud nature and investigative methodologies, and hence they have reduced capability in fraud detection. So Training is vital in maintaining the effectiveness of the strategy for the detection of fraud and its general credibility.

In case of qualification (table 5 item number 3), most respondents (49.30%) disagreed as indicated by 3.5 mean that the auditors in the organization are qualified to undertake audit

function and 10.10% of the respondents strongly disagree with the case. The remaining respondents: 29% agreed, 8.70 % strongly agreed and 2.9% somewhat agreed with this statement. Inadequate qualification leads auditors not to dig out fraud its causes and difficult to serve management. The results of this finding is similar with Mihret&Yismaw (2007) that concluded in their study that IA office constantly face the problem of low technical staff proficiency which would limit it capacity to provide effective service to management.

Evidence from the study showed that internal auditors are not fully aware of provisions by government and laws relating to fraud detection. 50.7% of the respondents disagreed that internal auditors are fully aware of provisions by government and laws relating to fraud detection, and 13% strongly disagree. 30.40% and 2.9% agree and strongly agree with the issue respectively. This implied that internal auditor has no adequate awareness of fraud detection laws. From this response, it is not difficult to understand that Lack of full awareness of fraud make impossible to fighting fraud.

As can be seen from the Table 5 of item 5, almost all of the respondents strongly disagreed that the competence of internal auditor is approved by Office of auditor general before recruitments are made as shown by mean of 4.1. Accordingly, 27.50% of the respondents strongly disagree and 65.20% of the respondents agreed with the case while 4.3% agrees and 2.9% agree somewhat. Office of the Federal Auditor General Establishment Proclamation No 669/2010, has given mandate to certify internal auditors of any federal government office and organization before appointment after ascertaining that the auditor has the required professional competency. Professional competency is unquestionable important for internal auditors to do their activities in efficient manner, for example to detect public resources from fraud.

Concerning skill, knowledge and experience required by internal audit, Over half (23.2% strongly agree and 63.80% agree) of respondents reported that minimum level of skill, knowledge and experience required by internal auditor and the Head of Internal audit isn't fulfilled as indicated by mean of 1.90. 7.20% and 5.80% of the respondents disagree and somewhat agree respectively with this matter. The result shows that the government sector is punctuated with shortages of qualified personnel and staff with deficiencies in professional knowledge and skills. The results of this finding is similar with the 2008 survey result of internal

audit practice in Malaysia indicated the team expertise lack of fraud detection highlighted by Institute of Internal Auditors Malaysia IIAM (2009) suggest that the internal auditors need to enhance their expertise in fraud detection. Similarly, Alzeban et al (2013) have mentioned that internal auditors should be adequately qualified and in possession of all requisite skills and knowledge to carry out responsibilities related to audit duties.

Moreover, the results of this finding is similar with Petrascu et al (2014) view that in their activities, internal auditors of public sectors 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 the possibility of fraud occurrence.

In the last part of table 5 questionnaire, respondents' opinions were asked whether internal auditors in the Ministries and universities use red flags questions to detect fraud. According to the results of the survey, the usage of red flags in auditing activities is insufficient as shown by mean of 3.7. Much larger percentage of respondents (65.2 % disagreed and 17.4% strongly disagreed) stated auditors have never used red flags to detect fraud and manipulations. 5.8 % and 10.10% of respondents have agreed and strongly agreed in turn that auditors used red flags to detect fraudulent financial reporting asset misappropriation. These percentages and the mean of the responses showed that the usages of red flags for detecting fraud and manipulations have not become prevalent yet in our country. This result shares the same idea with Pincus (1989)who examined the efficacy use of red flags among auditors. In her study, Pincus found that only half of the respondents indicated they used red flag questionnaires to assist in their fraud assessment, since they considered red flags an important tool in the audit process.

As a conclusion, the results indicated auditors' ability to detect fraud is under the problem due to lack adequate competence. The evidence indicated that auditing activity is exercised with insufficient skill and experience, little professional certification, and with no training on fraud in the selected budgetary public sectors. With all these fact, it can be underlined that internal auditors could not play significant role in fraud detection.

4.4 Independence of internal audit in detecting fraud

Independence can be described as ‘operational independence’, assists in ensuring that internal audit acts in an objective, impartial manner free from any conflict of interest, inherent bias or undue external influence.

As per the response result in table 6 of item 1 below, it is noted that internal audit unit is not vested with the power of independent checks, in order to assess compliance with established rules and regulations of the organization as shown by mean of 3.8. Most respondents agreed (65.2% disagreed and 15.9% strongly disagreed) with the statement that internal audit unit is vested with the power of independent checks, in order to assess compliance with established rules and regulations of the organization, whereas 7.2% agree and 2.9% strongly agree on this issue. 8.7% of the respondents somewhat agreed on this statement.

Table 6 Independence of internal audit response

No	Code	Statements	frequency					Mean
			Strongly agree	agree	Somewhat agree	disagree	Strongly disagree	
II		Independence						
1	I1	The internal audit unit is vested with the power of independent checks, in order to assess compliance with established rules and regulations of the of your organization	2	5	6	45	11	3.8
2	I2	Internal audit activity is empowered to be independent by its appropriate reporting relationships to executive management which help them in fighting fraud	3	8	2	47	9	3.7

3	I3	Internal auditors render impartial and unbiased judgment in the conduct of their engagement	3	7	5	40	14	3.7
4	I4	Auditors are free to report any audit finding of fraud to senior management	3	6	3	53	4	3.7
5	I5	There is independence and no interference by management in fraud detection	5	9	-	54	1	3.54
6	I6	Internal Auditors freely access necessary documents, information and data about the organization/sector for audit work.	18	49	1	1	-	1.7
7	I7	Auditors Provide an independent opinion on the effectiveness of detection processes to reduce the risk of fraud.	12	-	10	47	-	3.5
8	I8	Internal Auditors are independent of management in exercising auditing related decision.	3	9	-	56	1	3.6

In principle, audit activity should have sufficient independence from those it is required to audit so that it can both conduct its work without interference and be seen to be able to do so. The data collected as per above table of item 2 showed that internal audit activity is not empowered to be independent by its appropriate reporting relationships to executive management which help them in fighting fraud. High percentage of the respondents i.e. 68.1% and 13% choose disagree and strongly disagree respectively. The rest 11.6% and 4.30% of the respondents choose agree and strongly agree. 2.9% of the respondents agree somewhat. This signified that being audit is dependent on management it is a challenge for internal audit to both detect fraud.

Concerning the question of render impartial and unbiased judgment in the conduct of audit, respondents opposed that internal auditors render impartial and unbiased judgment in the conduct of their engagement in order to detect fraud as point out by mean of 3.7. 58% of them disagree and 20.3% strongly disagree. In contrast 4.3% and 10.10% agree and strongly agree that internal auditors render impartial and unbiased judgment in the conduct of their engagement respectively. This result is in line with Baharud-din et al (2014) that internal auditors are independent when they render impartial and unbiased judgment in the conduct of their engagement. This implied

that fraud detection in public sectors is the great challenge for auditors who are not an impartial, and unbiased.

For the item number 6, respondents disagreed that auditors are free to report any audit finding of fraud to senior management as pointed out by mean of 3.7. 73.9% disagree and 8.7%strongly disagree with this issue that auditors are free to report any audit finding of fraud to senior management. In comparison only 7.2% agreed and 5.8% strongly agreed with this statement, while 5.8% agree somewhat. The result denoted that internal audit fear management to report fraud cases which make difficult fighting fraud. This is in line with James (2003) study found that internal audit functions that report to senior management are perceived as being less able to prevent fraudulent reporting compared to those departments that report solely to the audit committee due to independence.

On table 6 of item 2 above, Statistical evidence reveals that 78.3 per cent and 1.4 per cent of the respondents respectively disagreed and strongly disagreed that there is independence and no interference by management in detection. A few numbers of the respondents i.e. 13% and 7.2% choose agree and strongly respectively. The result indicated that internal audit function in Ethiopian public sectors does not add value as expected because they are not independent. It is inconsistent with the previous studies conducted by (Cohen, &Sayag, 2010; Van Peurse, 2005) that, the more organizational independence to the internal auditors plays the vital role in assurance of internal audit effectiveness by freely access of necessary documents, information and data about the organization for audit work, and can provide audit finding /report/ freely and directly to the responsible body, and this all supports the IA fraud detection.

As indicated in the above table, the majority of the respondents think that Internal Auditors are freely access necessary documents, information and data about the organization/sector for audit work.71% of the respondents agreed that Internal Auditors freely access necessary documents, information and data about the organization/sector for audit work. The remaining 26.10%, 1.4 %, and 1.4 % of the respondents choose strongly agree, somewhat agree, and disagree in turn. The result indicated that internal auditors have unrestricted access to all records, information and data of the organization. This implies that auditors have the right to access to any record relating to the audit work without any challenges from management and fraud is detect easily.

Most respondents (68.10%) disagreed with the matter that auditors provide an independent opinion on the effectiveness of detection processes to reduce the risk of fraud while 17.4% agree on this statement. On the other hand, 14.5% of the respondents agree somewhat. From this evidence, it can be concluded that being providing dependent opinion, it is difficult to control fraud. This is consistent with Rafiu and Oyedokun (2007) noted that some public sector management adduces the argument that internal auditors, being employees in public sector do not have the liberty to exercise the unbiased and independent attitude so necessary to an auditor.

Based on the data collected from respondents, Table 5 of the last sentence indicated that internal Auditors are not independent of management in exercising auditing related decision. 81.20% of the respondents disagreed that Internal Auditors are independent of management in exercising auditing related decision while 1.4% of them strongly disagree on concern. Alternatively, 13% and 4.3% agreed and strongly agreed on the question. The result emphasized that, it is testing to defend fraud for those auditors who are dependent on management.

Generally, the results from the empirical findings relating to independence reveal an impact to control fraud. This shows that the auditors are not independent of management which discourages auditors in protecting and detecting fraud. Respondents explained that it is difficult for internal auditors in the Ethiopian public sector to achieve independence as they are employees of the organization they audit. It was confirmed by respondents that whilst internal auditors have their own separate departments in the organizational structure, these departments, nonetheless, operate under the administrative leadership of top management. This implied that Independence of Internal Audit adversely affect internal audit in detecting fraud in budgetary public sectors.

4.5 Fraud risk assessment

Table 7 shows how participants responded to questions relating to fraud risk assessment by internal audit. Responses to table 4 of question 1 indicated general agreement with the statement that internal auditor do not use fraud risk assessment during audit as shown by mean of 2. Results signified that respondents (44.9%) were agreed that fraud risk assessment is not conducted by

internal audit. 29% of the respondents strongly agreed on the subject matter, while 17.4% of them disagree with this matter and 7.2% agree somewhat with the matter. Indubitably, fraud risk assessment is the means to detect fraud. As per evidence from respondents without assessment of fraud risk it is difficult reduce fraud. MoFED(2005) support this idea in that, internal auditor could use in his fraud examination is the fraud risk assessment interview.

Strive was also made to know if establishment of fraud risk assessment process considers fraud risk factors and fraud schemes, the survey result in Table 5 depicted that 62.3% of the respondent disagreed that internal audit establish a fraud risk assessment process that considers fraud risk factors and fraud schemes and 18.8% of the respondents strongly disagree with this question. 2.9% of the respondents agree somewhat but the remaining respondents generally agreed on the matter. All these pointed toward that fraud risk assessment process which considers risk factors and fraud schemes are not carried out by internal audit of budgetary public body. Based on this result it can be easily predicted that managing fraud is a problem for auditors.

The respondents were asked to give their opinion whether their office performs and updates its risk assessment regularly to understand evolving fraud risks and the specific vulnerabilities that may apply to the organization over time. The survey result which is presented below in Table 4 shows 58% of the respondents disagreed that budgetary public sectors perform and update its risk assessment regularly to understand evolving fraud risks and the specific vulnerabilities that may apply to the organization over time. 15.9%, 4.30%, 5% and 8.7% of the respondents agreed, strongly disagreed, and somewhat agree in turn. Complexity of technology and transaction make easy to commit fraud, if no periodical updating of fraud risk assessment. IPPF (2009) forward similar view that, a structured fraud risk assessment, tailored to the organization's size, complexity, industry, and goals, should be performed and updated periodically.

In principle, the audit charter should establish the audit role in frauds. The role of internal audit in relation to fraud control should be considered as part of the organization's overall fraud risk assessment and fraud policy and outlined in the internal audit charter. Internal audit can assist an entity to manage fraud control by, for example, providing advice on the risk of fraud and/or by advising on the design or adequacy of internal controls to minimize the risk of fraud occurring. It can also assist in detecting fraud by considering fraud risks as part of its audit planning and being

alert to indicators that fraud may have occurred. As referred from Table 5, about 71% of the respondents disagreed that internal audit department's charter includes emphasis on conducting activities designed to detect fraud and 10.1% of the respondents strongly disagreed. While small number (7.2% strongly agree and 11.6% agree) of respondents agreed on the issue. The result indicates that internal audit department's charter do not considers activities to detect fraud.

Regarding organizational risk re-assessment by auditors, respondents were asked to forward their opinion. 56.5% and 5.8% of the respondents disagreed and agreed that auditors periodically reassess organizational risk assessment criteria as organization grows and changes to make sure auditors are aware of all possible types of fraud that may occur. Whereas 13%, 21.7%, and 2.9% strongly agreed, agreed, and agreed somewhat respectively.

The results in table 7 of item 6 show that 69.6% of the respondents agreed and 20.3% of respondents strongly agreed that auditors have no integrated fraud detection system with fraud prevention system in public sectors. On the other hand, 7.2% of respondents have somewhat agreed, while there are 1.4% of respondents disagreed and 1.4% of respondents strongly disagreed with the statement. I see that the number of responders agree that auditors have no integrated fraud detection system with fraud prevention system in public sectors were more than the numbers of responders disagree. This indicates that in Ethiopian, auditors have no integrated fraud detection system with fraud prevention system in budgetary public sectors.

Most(60.9%) of the respondents disagreed that auditor evaluate whether fraud risk factors indicate pressures to perpetrate fraud, opportunities to carry out fraud, or rationalizations used to justify a fraudulent action and 13% of them strongly disagreed. however 8.7% and 11.6% strongly agreed and agreed on this issue. 5.8% of the respondents agreed somewhat.

The result indicated that fraud risk assessments is not conducted by auditors to identify potential fraudulent arrangements using management interviews, analytical procedures review of prior fraud. Further the result shows that internal audit do not use effective fraud risk identification process which includes an assessment of the incentives, pressures, and opportunities to commit fraud which make difficult the fraud control. In order to fight fraud, auditor evaluation of fraud risk factors indicate pressures to perpetrate fraud, opportunities to carry out fraud, or rationalizations used to justify a fraudulent is unquestionably important. Jacob Rose and Carolyn

strand Norman (2008) Support this finding that internal auditors tend to focus on the specific incentive and opportunities that make financial statement fraud possible and they design and monitor appropriate preventive and corrective controls. Similarly Petra cua et al (2014) forward the view that an effective fraud risk identification process includes an assessment of the incentives, pressures, and opportunities to commit fraud

Table 7: Response on Statements on fraud risk assessment

No	Code	Statements	frequency					Mean
		Fraud risk assessment	Strongly agree	Agree	Somewhat agree	disagree	Strongly disagree	
1	FR1	During audit, internal auditor do not use fraud risk assessment	20	31	5	12	-	2
2	FR2	Internal audit establish a fraud risk assessment process that considers fraud risk factors and fraud schemes.	4	7	2	43	13	3.7
3	FR3	Your organization performs and updates its risk assessment regularly to understand evolving fraud risks and the specific vulnerabilities that may apply to the organization over time.	4	9	2	45	9	3.6
4	FR4	Internal audit department's charter includes emphasis on conducting activities designed to detect fraud.	7	8	-	49	5	3.5
5	FR5	Auditors periodically reassess organizational risk assessment criteria as organization grows and changes to make sure Auditors are aware of all possible types of fraud that may occur.	5	10	2	47	5	3.5
6	FR6	Auditors have no integrated fraud detection system with fraud prevention system.	14	48	5	1	1	1.9
7	FR7	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	6	8	4	42	9	3.5
8	RF8	Auditors design the procedures to be followed in attempting to identify the perpetrators, extent of the fraud, techniques	3	10	-	45	11	3.7

		used and cause of fraud.						
9	RF9	The internal audit activity evaluates the potential for the occurrence of fraud and how the organization manages fraud risk.	2	7	1	49	9	3.8
10	RF10	The internal audit activity's plan of engagements is based on a risk assessment.	4	17	3	37	8	3.4

Table 7 above revealed that auditors do not design the procedures to be followed in attempting to identify the perpetrators, extent of the fraud, techniques used and cause of fraud. 65.2% of the respondents disagreed with the question, and 15.9% of them agreed. But, 4.3% and 14.5% of them strongly agree and agree respectively. This evidence shows that internal audit do not identify the perpetrators, the extent of the fraud, techniques used and cause of fraud. If such procedure is not designed by internal audit it is, completely difficult to identify fraud and the researcher share the examination of Petra cua et al (2014) that based on risk assessment, the auditor must formulate some procedures of auditing that provide a reasonable guarantee that the significant misrepresentations, caused by fraud and error, in the financial reports as a whole, will be discovered.

When I asked responders that internal audit activity evaluates the potential for the occurrence of fraud and how the organization manages fraud risk, the result is presented that 72.5% of responders disagreed and 13% strongly disagreed with this statement. Although, I received 10.1% of responders agreed and 2.9% of responders strongly disagreed with this question.

Of the responses received to the survey of the last question, there are 53.6 % of 69 respondents disagreed and 11.6% strongly disagreed that the internal audit activity's plan of engagements is based on a risk assessment, while 24.6 % or 20 and 5.8% or 4 respondents agreed and strongly agreed. 4.3% of them agree somewhat. Controlling fraud is difficult without risk assessment at planning engagement and public resources is at risk. This result is inconsistent with National Standard on Audit 240 'Fraud and Error' (SNA 240) that indicate that when planning the audit, the auditor must assess the risk related to the fact that fraud and error can lead to significant misrepresentations in the financial reports and he must request from the management information

about any substantial fraud or error discovered. It is also inconsistent with IIA (2010) that internal audit activity's plan of engagement must be based on a documented risk assessment, undertaken at least annually.

Generally Fraud, by definition, entails intentional misconduct, designed to evade detection.

Fraud risk assessment is a critical component of an organization's enterprise risk management program. Most respondents asserted that fraud risk assessment is not conducted by budgetary public sectors' internal audit. IA have no a mechanism for identifying which risks represent opportunities and which represent potential pitfalls. Their Audit plan do not consider fraud risk assessment and lack designing of the procedures to identify the wrongdoers, level of the fraud, method used and source of fraud.

CHAPTER FIVE

5. SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the findings of the study. The conclusions to the main issues of the study and recommendations are also provided.

The purpose of this study is to examine the role of the internal audit in fraud detection in Ethiopian budgetary public sector. In recent times, there has been an increased interest in the internal audit function in the public sector to fight fraud.

This study was carried out in the 5 government universities and 15 Ministries. The data were collected through the use of questionnaires and the research paper used descriptive survey. Three open end questions, 10 closed questions and 30 likes scale research questions were developed to guide the study. All questions were analyzed using percentages, frequency and means.

5.2 Finding

Based on the review conducted on related literature, analysis and interpretation of data made, the followings are the major findings of the research work:

- Public sectors' internal auditors lack proper independence in fighting fraud. This is due to the fact that auditors aren't free to report any audit finding of fraud to senior managers. There is no independence and interference by management in the role of fraud detection. Further, auditors are in a difficult situation to provide a neutral opinion on the effectiveness of detection processes to reduce the risk of fraud and to render impartial and unbiased judgment in the conduct of fraud related engagement. Beyond all these, internal audit unit is under pressure of independent checks, in order to assess compliance with established rules and regulations of the public budgetary sectors. Finally, internal audit activity is not empowered to be independent by its appropriate reporting relationships to executive management which comfort them in fighting fraud as per data obtained.

Regarding to competence:

- As a whole, internal auditors do not have adequate experience and they have no professional qualification in accounting and auditing field which help them to detect fraud. They also lack ongoing anti-fraud training, using red flags questions to detect

fraud, and lack full awareness of laws relating to fraud detection. Unapproved competence of internal auditor by independent body is another challenge which plays a significant role in exercising fraud detection.

- This study found that fraud risk assessment, which identify where and how fraud may occur and who may be in a position to commit fraud, is not used by auditors. Under the umbrella of lack of risk assessment:
 - ✓ Fraud risk assessment process that considers fraud risk factors and fraud schemes is not exercisable.
 - ✓ Internal audit department's charter doesn't include emphasis on activities designed to detect fraud.
 - ✓ Auditors do not reassess organizational risk assessment criteria as organization grows and changes to make sure auditors are aware of all possible types of fraud that may occur.
 - ✓ Auditors have no integrated fraud detection system with fraud prevention system.
 - ✓ Auditor do not 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.
 - ✓ Auditors don't design the procedures to be followed in attempting to identify the perpetrators, extent of the fraud, techniques used and cause of fraud.
 - ✓ The internal audit activity doesn't evaluate the potential for the occurrence of fraud and how the organization manages fraud risk and risk assessment is not done as part of audit planning.
- Internal audit play a minor role in detection of public assets and financial statement from misappropriation and fraudulent.
- Public sectors have insufficient policies or a fraud mechanism structures in place that can reasonably assure them that fraud will be detected.
- Audit Procedures adopted are not effective and efficient in detecting fraud.

5.3 Conclusion

This study deals with the perceived role of internal audit in fraud detection. Based on the summary of major findings of the study, the following conclusions are drawn. Internal audit require specific capabilities (i.e., the professional knowledge, professional skills and experience) to carry out their work as competent audit professionals. An internal audit activity need of organizational independence which can allow the audit activity to conduct work without interference by any party for the audit task. Further, assessment of risk of fraud is irreplaceable audit role in detecting fraud.

Audit staffs of the budgetary public sectors lack the necessary competence of fraud detection which leads the public sectors more exposed to fraud perpetration and resources embezzlement. The internal audit teams do not have satisfactory knowledge, skill and qualification fraud awareness, training on fraud and other competencies which can have a transformative effect in fraud detection. Moreover, almost all auditors have no professional certification which upgrades their knowledge of fraud detection mechanisms. From all these it can be concluded that if adequate competence is acquired, internal audit can fight fraud at the required level.

The study notes that the general belief that the public sector internal audits does not have the liberty to exercise the unbiased and independent attitude in clash with fraud. Auditors are not sufficiently independent from those they are required to audit and they conduct their work with interference. Internal audit work is affected by top management who are the political office holders, having no permanent interests and leading to non-commitment to internal audit reports. This dependence takes internal audit departments not to form key lines of defense in opposing Fraud.

On the whole, Fraud risk assessment which strengthens fraud detection is not made by public sectors' internal audit. As a result it is difficult to understand the risk that is unique to its public sectors, hard to identify gaps or weakness in control to mitigate those risks, and challenging to develop practical plan to reduce risk. Not using fraud risk assessment made unable to identify fraud committed and who may be in a position to commit it.

The survey result also indicated that internal audit examines, and evaluates the adequacy of internal control and inform management in case of discovering weaknesses of internal control with the deficiencies of independence, competence and fraud risk assessment.

Based on the findings of competence, independence and fraud risk assessment, it is concluded that internal audit is toothless in fraud detection operation.

5.4 Recommendations

On the basis of the findings, the following recommendations are proposed for the consideration of public budgetary sectors, management of the public sectors and the internal auditors.

- The study recommends that internal auditors should have training and sufficient knowledge on fraud to perform the chief role of fraud detection in governmental organization.
- National internal audit qualification program should be designed. This would help auditors to upgrade themselves in order to meet challenges of fraud.
- An experienced accountant of high integrity, preferably a professional Accountant, should lead the internal audit department.
- The competence of internal auditors should be approved by independent body before recruitment is made.
- As the research proved that competent internal audit staffs were the major determinants of IA role in detecting fraud in the public sector, the public sectors should recruit certified internal auditors or facilitating condition for certification of the staff.
- Every public sector should establish audit committees which are made up of experts from different field that are independent from the management of the public sectors. The existence of audit committee enhances the independences of the internal audit unit to report on frauds without fear. The current reporting relationship of internal auditors to top management does not make internal auditors to enjoy some level of independence. For the purpose of improving the independence of the internal auditors, they should rather report to audit committee.
- The internal auditors at all level should be adequately independent of members of various departments within the organization so that their usefulness in fraud detection can become evident and superior.

- Fraud risk assessment should be carried out to identify potential risk areas and events that public sectors needs to mitigate fraud.
- Auditors should design effective audit procedures to be followed in attempting to identify the perpetrators, extent of the fraud, techniques used and cause of fraud.
- There should be regular evaluation of control in order to determine their effectiveness in detecting fraud and identify weaknesses.
- Generally, to play significant role in controlling fraud, internal audit should be independent and competent, and should assess risk of fraud.

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Appendix: Questionnaires

ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE
MSc IN ACCOUNTING AND AUDITING

Title of the Research project: the role of Internal Audit in fraud Detection in Ethiopian Budgetary Public sectors

Dear Respondents,

A LETTER OF INTRODUCTION

I am conducting a research project under the title “the role of Internal Audit in fraud Detection in Ethiopian Budgetary Public sectors”. The data shall be used for academic purpose only and it will be treated with confidentiality it deserves. The respondents are highly encouraged and persuaded to respond to the statements in this questionnaire in the most truthful and objected way possible. Your participation in facilitating this study will be highly appreciated. Kindly tick in the space provided with the correct answer or supply the required information where, required, please specify and elaborate.

I guarantee that all information supplied will be treated with the strictest confidence and used, only for the academic purpose for which it is intended. Thank you for your cooperation and valuable contribution towards the success of this research work.

Yours faithfully,

Researcher’s Address:

Alemayehu Etana

Mobile: 0911968913

E-mail: dalexetana@yahoo.com/rawialemayehu@gmail.com

Addis Ababa

Ethiopia

I. Purpose of this research

The purpose of this survey is to collect data regarding Internal Audit Fraud Detection in case of Ethiopian Budgetary Public sectors. Your participation will help the researcher to better understand how and to what extent Internal Auditing Detect Fraud.

II. Extent of anonymity and confidentiality

No personally identifiable information is being collected from and all information you provide will be combined with other respondents' data, analyzed and reported in aggregate. Responses will be kept confidentially at all times, and used for academic purpose only.

III. The personal profiles:

General Instruction: Please indicate your choice by putting “ ” mark in the box or supply the required information where, required, please specify and elaborate.

1. Please indicate your gender M F
2. What is your level of position title in your organization? -----
3. What is your highest level of completed academic education?

- Diploma Bachelor's degree Masters' degree
 PHD Other specify it-----

4. What is your highest level of professional certification?

- CIACPA CMAACCA

- No professional certificationother specify it-----

5. How long have you worked in the organization?

- Less than 2 years3 - 5 years

- 6-10 years More than 10 years

IV General Question:

Internal audit in detection of fraud

6. Do you think fraud is a problem for any Public Body in general?

- Yes No

7. Do you feel Internal auditing is critical for detecting fraud?

- Yes No

8. Did internal auditors of your organization produced audit report on fraud?

- Yes No

If your answer is yes, mention the nature of frauds-----

Fraud risk assessment

9. Do you believe that fraud risk assessment is conducted by internal auditors of your entity?

- I believe I don't believe

10. Should the auditor assess employees' and management's style, to determine if the style might lead to fraudulent of assets and financial reporting?

- Yes No

11. Internal audit activity monitors and evaluates the effectiveness of the organization's risk management system.

- Yes No

Competence

12. Do you think that internal auditors of your organization are competent enough to detect fraud?

- Yes No

13. Does internal audit competence approve by independent body?

- Yes No

If your answer is yes, specify the authorized body

Independent

14. To what extent does Independence of Internal Audit affect fraud detection in Ethiopian budgetary public sectors?

- Very great extent
 Great extent
 Moderate extent
 Little extent
 No extent

15. Do internal audit independent from management of your organization in carrying out his/her duties?

- Yes No

16. If your answer is No On question No 16, specify challenge(s) facing the internal audit unit in your organization

Please provide your level of agreement or disagreement with the following statements (please mark “ ” for each line in the labeled columns) strongly disagree=5, disagree=4, agree somewhat 3, agree=2 and strongly agree=1						
No	Factors	1	2	3	4	5
I	Independence					
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.					
II	Competent					
1	Internal auditors possess adequate experience in detecting fraud.					
2	Ongoing anti-fraud training are not provided to internal auditor of your organization					
3	The auditors in my organization are qualified to undertake audit function					

4	Internal auditors are fully aware of provisions by government and laws relating to fraud detection					
5	The competence of internal auditor is approved by Office of auditor general before recruitments is made					
6	The minimum level of skill, knowledge and experience required by internal auditor and the Head of Internal Audit is not fulfilled.					
7	Internal audit use red flags questions to detect fraud					
III	Fraud risk assessment					
1	During audit, internal auditor use the fraud risk assessment					
2	Internal audit establish a fraud risk assessment process that considers fraud risk factors and fraud schemes.					
3	Your organization performs and updates its risk assessment regularly to understand evolving fraud risks and the specific vulnerabilities that may apply to the organization over time.					
4	Internal audit department's charter includes emphasis on conducting activities designed to detect fraud.					
5	Auditors periodically reassess organizational risk assessment criteria as organization grows and changes to make sure Auditors are aware of all possible types of fraud that may occur.					
6	Auditors have no integrated fraud detection system with fraud prevention system.					
7	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					
8	Auditors design the procedures to be followed in attempting to identify the perpetrators, extent of the fraud, techniques used and cause of fraud.					
9	The internal audit activity evaluates the potential for the occurrence of fraud and how the organization manages fraud risk.					
10	The internal audit activity's plan of engagements is based on a risk assessment.					

