

**THE EFFECTIVENESS OF INTERNAL CONTROL AND INTERNAL AUDIT  
IN FRAUD DETECTION AND PREVENTION: A CASE STUDY OF  
MINISTRY OF FINANCE-NAMIBIA**

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## **ABSTRACT**

The aim of this study was to investigate the effectiveness of internal audit in fraud detection and prevention in the Ministry of Finance. Specifically, the study was guided by the following objectives: (1) To determine whether internal control and internal audit control systems exist and their effectiveness. (2) To identify the extent to which internal audit standards are adhered to at the Ministry of Finance in terms of accountability, transparency, expertise and the effectiveness of fraud detection and prevention. (3) To recommend to the MoF the best strategy on prevention and fraud detection.

The study was carried out in Windhoek, at the MoF headquarters. To achieve these objectives, the researcher used a mixed method approach though more weight was put towards the qualitative approach which used non-structured questions to capture the opinions of the respondents. The data was analysed and interpreted using graphs, charts and statistics to enable the researcher to examine the relationships and trends with regards to the effectiveness of internal audit in fraud detection and prevention in the MoF. The findings revealed among other things that there is inadequate adherence to internal audit standards, lack of objectivity in the auditing exercise, lack of independence from employers, inadequate skills among internal auditors, and inadequate facilities at the internal audit division. The respondents also recommended strategies on how to enhance effectiveness on internal audit in fraud detection and prevention in the MoF.

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**LIST OF ABBREVIATIONS AND/OR ACRONYMS**

<b>COSO</b>	<b>Committee of sponsoring organisations – Tradeway Commission</b>
<b>GAAP</b>	<b>Generally Accepted Accounting Principles</b>
<b>IIA</b>	<b>Institute of Internal Auditors</b>
<b>MoF</b>	<b>Ministry of Finance</b>

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## **DEDICATION**

This research paper is dedicated to my Family and Friends who instilled in me the importance of education, discipline and hard work.

## **DECLARATION**

I Sarafina Kashona hereby declares that this study is a true reflection of my own research, and that this work, or part thereof has not been submitted for a degree in any other institution of higher education.

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Sarafina Kashona

Date

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 BACKGROUND OF THE STUDY**

This study seeks to investigate the effectiveness of internal control and internal audit in the detection of possible fraud, but also to highlight its importance in preventing fraud in the Ministry of Finance, Namibia. Moreover, the analysis intends to especially point out the advantages that an internal audit can offer to the management of the entity. According to the International Standards for the Practice of Internal Auditing (Standards) (IIA 2009a), the role the audit fills in improving the performance of the organisation, implicitly leads to more responsibilities for the internal auditors in identifying and finding fraud.

The financial and corporate strategy of a company is underpinned by effective internal systems in which the internal audit has an important role, raising the reliability of the internal control system, improving the process of risk management, and, above all, satisfying the needs of internal users. The internal audit also supports and enhances the system of responsibility that the executive directors and employees have towards the owners and other stakeholders. The Internal Audit Department provides a reliable, objective, and impartial service to the management, board of directors, and audit committee. In turn, stakeholders are interested in return on investment, sustainable growth, strong leadership, and reliable reporting on the financial performance and business practices of a company. Proper understanding of the role and importance of the internal audit is one of the preconditions for successful strategy implementation and achievement of company goals (Casarino & Van esch, 2007).

Dependable information is essential to the very existence of society. The investors deciding to buy or sell securities, the banker deciding whether to approve a loan, the government in obtaining revenue based on income tax returns, all are relying upon information provided by others. Therefore, there is a need for independent auditors of professional competence and integrity who can provide information to users which constitutes a fair picture of what is going on (Richard & Irwin, 2006). The profession of internal auditing, as with many others professions, has its roots in the industrial revolution of the nineteenth century (Cascarino & Van esch, 2007). Dating back to 3500 BC, extant records of various civilisations indicated by patterns of checks and ticks that verification of records took place (Cascarino & Van esch, 2007). Presumably, this was done by two officials working together, with one official reading from one of the record sheets and the other checking against the other sheet. The name, auditor, derives from the Latin 'auditus', meaning 'hearer' (Cascarino & Van Esch, 2007). Auditing in general involves an annual risk assessment and planning exercise to determine the overall audit coverage which is followed by individual audit planning. The preliminary review is used to obtain and record an understanding so that an audit area may be broadly evaluated. From this evaluation, the extent of compliance testing or substantive testing required may be determined (Cascarino, 2012).

There has been an emphasis that government ministries in Namibia should establish audit committees Beakes, Benedict & Kandandu (2015). The Public Accounts Committee (PAC) of Namibia in its recommended that the ministries and offices must establish audit committees. (Ihuhua, 2012). Currently in Namibia, the only document that governs audit

committees in the private sectors and State-owned Entities (SOEs) is the Corporate Governance Code for Namibia (NamCode). So far there is no documentation that regulates government ministries audit committees, but only the PAC recommendations (Ihuhua, 2012). Following the 1994 King Report on Corporate Governance for South Africa and its successors, King II and King III, Namibia established the NamCode based on King III report that provides guidance to all Namibian corporate entities with a list of best practice principles to assist and guide directors to make the right choice for their entities for good corporate governance (Deloitte, 2013). According to Deloitte (2013) the NamCode provides guidance to all Namibian corporate entities, as well as public entities, on various governance related aspects; including audit committees. Notwithstanding the provision of these codes, suitably qualified committee members with some levels of independence are essential to an efficient audit committee. Otherwise, there will be no assurance of effective internal controls, processes and system in place. Kauaria (2005) observes that there is an absence of an effective internal audit function in the government ministries in Namibia. Furthermore Masawi (2012) states that most Namibian companies do not have enough representation of qualified board members and audit committee members while public institutions are dominated by political appointees; a situation that compromises the efficiency within SOEs and government ministries, being the most affected institutions. It is against this background and problem that this paper presents the following objectives.

## **1.2 Statement of the Problem**

The plunder of public resources goes on in Government in spite of the internal control systems which are put in place and structured to deal with elements of fraud at detective

and preventative levels. An effective system of internal control can give managers the means to provide accountability for their programs as well as the means to obtain reasonable assurance that the programs they direct meet established goals and objectives.

It has been a common phenomenon that business organisations and the government face some difficulties in running day to day activities in their departments; some of the problems can be experienced due to the poor management in prevention and detection of fraud. The features of an effective prevention and detection of fraud can be derived from all organisational departments or sections of operations. Basically, the fraud prevention program is concerned with paying attention to the following: Internal controls, New-employee background checks, Regular fraud substantive audits, Established fraud policies and Willingness to punish. Many organisations have exercised severe punishment to some of the employed, but this is not the only fraud cutting avenue (IIA 2009a). According to the Institute for Internal Auditors, fraud will lead to the collapse of the entire organisation, causing major losses to investors. Publicised fraudulent behavior by key executives negatively impacts the reputation, brand, and image of many organisations in the world (Porter, 1997).

There have been incidences of fraud and embezzlement in the MoF in recent years. For instance, in the 2017 and 2018 financial years, due to ineffective internal control systems and corrupt MoF staff officials (Schlettwein & Shafuda, 2018). Therefore, internal control and internal audit is facing many challenges, some of the challenges identified by the Minister of finance, are lack of integrity and ethics by staff members, lack of expertise leading to trivial fraud before it happens. Therefore, this study will look at whether the

Inland Revenue Department-VAT Desk and Field Audit Divisions have policy, procedure, training and communication as well as competent staff members to prevent fraud.

### **1.3 Objectives of the study**

#### **Main objective**

- To investigate the effectiveness of internal control and internal audit in fraud detection and prevention in the Ministry of Finance

#### **Specific objectives**

- To determine whether internal audit control systems exist and how effective they are.
- To identify the extent to which internal audit standards are adhered to at the MoF in terms of accountability, transparency, proper expertise and the effectiveness of fraud detection and prevention.
- To recommend to the MoF the best strategy on prevention and fraud detection.

### **1.4 Significance of the study**

The major benefit of the study is to reveal to the MoF the effectiveness of internal control and internal audit in fraud detection as well as the extent to which they adhere to established standards. The findings from this study will help the MoF to put in place measures to improve the effectiveness of internal control and internal audit to safeguard the assets, prevent and detect fraud, errors and irregularities. The study will also provide a useful basis upon which further studies in the effectiveness of internal control and internal audit in fraud detection and prevention can be premised on. It will also add to the

body of knowledge in the finance discipline. It will improve the control measures and decisions at all levels of management in the MoF. It will also provide useful information to the stakeholders of government, for example, communities, donors and non-governmental organisations.

### **1.5 Limitation of the study**

The study focused on the effectiveness of internal audit in fraud detection and prevention in the MoF. There was lack of co-operation from respondents as some of them thought the information obtained might be used for other purposes. Here the researcher was forced to give more clarification and submitted an introduction letter from the University of Namibia that tried to convince respondents to understand that, the study was for academic purposes and their responses would be kept confidential. This helped give them confidence and thereafter, they were able to respond positively. It was also difficult to meet respondents at the management level for interviews due to their busy schedules. There was generally a lack of motivation from respondents in completing questionnaires and a lack of understanding of the importance of the study to some employees.

### **1.6 Delimitation of the study**

The scope of this study was limited to the MoF in the following departments: Inland Revenue, Internal audit and Expenditure and Financial Services in Windhoek, Namibia. The rationale for this delimitation was that the MoF is the administrator of government funds and plays a pivotal role in ensuring that state funds are being properly utilised. In addition, financial issues have not been decentralised, so the researcher chose MoF, Windhoek head office as a focus point.

## **1.7 Chapter Outline**

This research is organised into five chapters. Chapter one introduced the study by giving the background to the study, statement of the problem, the objectives of the study, significance of the study. Limitation of the study and the delimitations of the study have also been included in this Chapter. The remaining chapters of this study have been structured as follows: Chapter two discusses the literature review, while the methodology adopted and applied in the study is provided in chapter three. The findings on the objectives of this study have been given in chapter four, while the conclusions, recommendations arising from the findings and areas for further research are in chapter five.

## **1.8 Chapter Summary**

This chapter gave a background to the study and covered literature that brought out evidence of the effectiveness of internal control and internal audit in fraud detection and prevention. The objectives of the study were to investigate the effectiveness of internal control and internal audit in fraud detection and prevention, to determine whether internal control and internal audit control systems exist and their effectiveness. To identify the extent to which internal audit standards are adhered to at the MoF in terms of accountability, transparency, proper expertise and the effectiveness of fraud detection and prevention, to explore the impact of mal-administration on organisation and to recommend to the MoF the best strategy on prevention and fraud detection.

## **CHAPTER TWO**

### **2. LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews the literature related to the effectiveness of internal control and internal audit in fraud detection and prevention. It provides a deeper understanding of the research topic. The specific areas covered in this case study were effectiveness of internal control and internal audit in fraud detection and prevention in the Ministry of Finance.

#### **2. 2 Internal control**

The Internal control concept has existed as early as there has been substantive business relationships. Its origins can be documented and traced back to civilised communities that existed around 5000 B.C (Ofori, 2011). The governments of these empires imposed a number of taxes on individuals and business. For the proper accounting and collection of these taxes, an elaborate system of checks and counter checks was established. Such early internal control systems were designed primarily to minimise errors and safeguard state property from dishonest tax collectors (Ofori, 2011). Internal control is also traced back to the earliest times of the Babylonian and Egyptian eras (Mosher, 2009).

There are many definitions of internal control, Lakis and Giurinas (2008) defined internal control as different goals, values and achievements that will be implemented in the organisation. Hightower (2008) defined internal controls as a program of activities established to catch and monitor a potential exposure that could result in a significant error, omission, misstatement or a fraud. Chambers and Rand (2010) define internal control as an internal control system which encompasses the policies, processes, tasks,

behaviours and other aspects of a company. Internal control facilitates the achievement of the objectives of the organisation effectively and efficient operation by enabling it to respond appropriately to significant business, operational, financial, and compliance threats to achieving the company's objectives. This includes the safeguarding of assets from inappropriate use which may lead to loss and fraud and ensuring that liabilities are identified and managed (Chambers and Rand 2010). Hightower (2008) defined internal controls as a program of activities established to catch and monitor a potential exposure that could result in a significant error, omission, misstatement, or a fraud. Internal control involves all the policies and procedures adopted by the directors and management of an entity to help in achieving their objectives. These objectives may include: ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to internal policies, the safeguarding of assets, the prevention and detection of fraud and errors, the accuracy and completeness of accounting records and the timely preparation of reliable financial information (SAS, 300).

The purpose of internal control is to help an organisation to achieve its objectives and mission; internal control also helps an organisation to promote orderly, economical, efficient and effective operations, and produce quality products and services consistent with the organisation's mission and safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud. Promote adherence to laws, regulations, contracts and management directives and develop and maintain reliable financial and management data, and accurately present the data in timely reports (Hohler, 2005).

### **2. 3 Effectiveness of Internal Control**

The extent to which the company or organisation is operating effectively will serve as a base to judge whether the internal control is effective (Millichamp, 2010). Internal controls are of different types and are grouped into preventive, detective and corrective (Millichamp, 2010). These types of control systems include: safeguard of assets, separation of duties, supervision, verification, approval and authorisation, documentation and reporting. Preventive controls are measures put in place by management to deter and prevent noncompliance with directives, policies and procedures. These preventive controls are intended to prevent risk of error, fraud and irregularities from occurring in transactions and prevention of loss (Lacotelli, 2009). The prevention controls are in the form of segregation of duties, proper authorisation and approval, establishment of an organisational chart to allocate jobs to responsible officers, adequate documentation, physical control over assets and constant training of staff (Lacotelli, 2009). The detective control system is aimed at detecting and uncovering problems such as fraud, irregularities and errors after they have been committed.

Although, detection is necessary, prevention is more desirable and these controls are in the form of post-audits, exception reports and validation. They provide evidence that a loss has occurred but do not prevent a loss from occurring through, reviews, analysis, variance analysis, reconciliation, physical inventories and audits. However, detective controls play a critical role in providing evidence that the preventive controls are functioning and, in the prevention, of losses (Wells, 2011). Corrective controls are put in place to address anything which is foreign and every problem that has occurred in the

system. These include: system re-design, follow-ups, post audits and application of punishment by management for wrong-doing (Simmons, 2010).

The affectedness of internal controls depends on the competency and dependability of the organisation's people. Limitations of internal control include faulty human judgement, misunderstanding of instructions, errors, management override of controls, and collusion (Loustea, 2012). The design of the internal control system is a function of the functions of the resources available, meaning there must be a cost-benefit analysis in the design of the system. The cost of internal control must not exceed the benefits to be obtained (Lannoye, 2009). Even though the relationship between cost and benefit is a basic criterion to be considered in designing an internal control system, the precise measurement of cost is generally not possible. The challenge is to find a balance between excessive, which is costly and counterproductive and too little control which exposes the organisation to increased and unnecessary risk. Management is responsible for maintaining effective internal control and has the final decision regarding the cost versus benefits in internal control (Lannoye, 2009)

#### **2.4 Environment control**

The control environment includes the overall control consciousness of an organisation effected by management through policies, procedures, ethical standards, and monitoring processes (Hevesi, 2005). The control environment includes management philosophy seen in its vision and mission for the organisation. The elements of the control environment also encompass the organisational structures which specify responsibility in the performance of the financial and non-financial duties, management operating style,

attitude, ethical values, the integrity, skills and competence of personnel (Hevesi, 2005). These activities are implemented by management to ensure accomplishment of organisational objectives and the mitigation of risks (Walker, 2007). Internal controls are classified mainly into control environment and procedures or activities, which includes control environment, risk assessment, control activities, monitoring and information and communication. These components could be viewed as both the fundamental principles and aid planning evaluating and updating controls in any organisation (Hohler, 2005).

## **2.5 Control procedures**

The control procedures are the policies and procedures that help ensure that management directives are carried correctly and in a timely fashion. These includes control activities such as performance reviews, information processing, physical controls (Lamoye, 2005). The control activities are the instructions, rules, methods and decisions established over various activities by management to prevent or reduce risks that affect the organisation in achieving its objectives. The control activities occur at all levels and functions of the entity, which includes a wide range of activities. These activities may include approvals, authorisations, verifications, reconciliation, performing reviews, maintenance of the security and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation (Walker, 2004).

Furthermore, the control activities would include, reviews by the management of the functional or activity level, management of human capital, controls over information processing, physical control over vulnerable assets, establishment and review of performance measures and indicators, segregation of duties, proper execution of

transactions and events, access restriction and accountability for resources and records and appropriate documentation of transactions.

## **2.6 Managing and control activities**

The detection of fraud in financial statement has been the subject of much empirical research. Nieschwitz, Schultz & Zimbelman (2010) provide a comprehensive review of empirical studies related to internal auditors' detection of fraudulent financial reporting. Albrecht & Dunn (2001) reviewed the fraud detection aspects of current auditing standards and the empirical research conducted on fraud detection. Holmes & Homes (2012) argues that occupational fraud risks increased with ineffectiveness in written policies. Kiragu (2015) also observed that through management controls are required to manage fraud.

Furthermore, it is important that the combination of diverse policies, regulations and procedures which make up those controls respond effectively to management directives and are clearly stipulated in organisations policies. Control activities occur throughout the organisation, at all levels and in all functions and include a range of activities such as approvals, authorization, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties (Asembo, 2007).

Control activities usually complement each other and different types of control activities exist, such as preventive controls, detective controls, manual controls, computer controls and management controls (Dittenhofer, 2011). When two or more individuals conspire to commit fraud against an organisation, it can have a harmful effect, particularly when the

combined efforts of the fraudsters enable them to circumvent or override management controls (ACFE, 2012).

The effectiveness of communication must occur in a broader sense and must flow down, across and up the organisation, all the personnel must receive a clear message from top management that control responsibilities must be taken seriously (COSO, 2013). The personnel must acquaint themselves and understand their own role in the internal control system, as well as how individuals' activities relate to the work of others. They should have a better means of communicating significant information upstream and to the external parties, such as clients, suppliers and regulators (Sterk & Bouckaert, 2014).

Most institutions put in place control systems such as internal auditing to promote efficiency in financial management and to effectively monitor the operational performance of individual department (Maletta, 2013). Senior management are normally offered rewards depending on performance agreed on in rewards-based plans which are formulated to provide an incentive to management to increase shareholders wealth and to attract and retain the most competent and qualified staff (Maletta, 2013).

## **2.7 Risk assessment and management**

Risk assessment involves the process or procedures the organisation goes through to identify and analyse the relevant risks which may affect the organisation's ability to achieve its major objectives. Risk assessment involves using professional judgement carefully in identifying and evaluating factors which can affect the organisation adversely and results in possible losses both financially and non-financial (Lamoye, 2005).

## 2.8 The Fraud Management Lifecycle

Mark, Richard & Dana (2005) postulated that the origin of risk management was developed by the innovative insurance professors such as, Robert and Bob in 1950s. In the 1960s, the first risk management text titled, risk management and the business enterprise was published. The objectives of risk management at that time was to maximise the productive efficiency of the enterprise. At that time, risk management was specifically focused on pure risks and speculative risks. In the 1970s, when Organisation of Petroleum Exporting Countries (OPEC) decided to reduce production in order to increase the price, financial risk management became an interesting issue highlighted by firms because the increment in oil has affected the instability in exchange rates and inflation rate (Crawford & Stein, 2004).

The fraud management lifecycle is a network lifecycle where each stage in the life cycle is an aggregated entity that is made up with of interrelated, interdependent and independence actions, functions and operations (Albrecht *et al.*, 2009). The effective management of the fraud starts with a common understanding of the stages in the lifecycle (Wilhelm, 2004). The fraud management lifecycle consists of eight stages; Deterrence stage involves stopping fraud before it happens by increasing the difficulty of committing the fraud as fraudsters tend to migrate towards the path of most anonymity and least resistance (Wilhelm, 2004).

Deterrence is achieved through creating fear of consequences activity from being attempted (Kimani, 2011). The policy must address the balance deterrent value, loss reduction, operational scalability, sales volume and cost effectiveness (Wright, 2007).

Policy development involves constantly reassembling the situations disassembled in the analysis stage, by taking advantage of the knowledge gained by analysis, combining it with internal, external and interactive environmental factors in order to craft policies that address the whole, while leveraging the knowledge of the parts (Wilhelm, 2004).

Organisations face risks and the risks depends on many factors, for example operational risks, strategic risks and financial risks. These risk management existed in planning, organising, leading and controlling organisations activities in order to minimize firms' major risks such as financial, strategic and operational risks (Li & Lui, 2006). For risk management to be effective it must be implemented by every person in the organisation. Therefore, internal auditors must ensure that risk management must become an integrated part of the organisations culture. Risk makers and risk takers must be risk managers. This is because we all manage risks consciously or unconsciously but rarely systematically (Wangai, 2006).

## **2.9 Agency theory and auditor independence**

The agency theory deals with the explanations on how firms can effectively relate to each other and stakeholders where agents determine the responsibility to be undertaken (Dess, Lumpkin & Eisner, 2009). The theory argues that under features of partial information flow and risks, which arise from the two parties (agencies) the challenges that need to be dealt with are adverse selection and moral hazard (Lin, Vargue & Bardhan, 2013). The separation of management from ownership in public institutions offers an ideal context for the operationalisation of agency theory. The shareholders are regarded as the principal with the interest of achieving maximum outcome interests from management. Agency

leads to the inability of the owners to monitor management actions and activities and results in the need to employ certain information systems and control measures to minimize agency costs (Krishnan & Visvanathan, 2013)

## **2.10 The institutional theory and auditors' working environment**

The institutional theory originates from the view that an organisation is structured and works to achieve social outcomes in the public (Schneider, 2014). The institution internal audit functions are hard and complex to realize and that the external picture of the organisation may be weakly associated with the organisation's internal operations (Sterk & Bouckaert, 2014). Institutional theory is of the view that the organisation has structured operations to ensure social accountability.

The real functioning of the organisation is complemented by an effective internal audit process (Millichap, 2012). The internal auditor roles focus on improving corporate governance in an institutionalized context which is the basis for the adoption of the institutional theory. These demands for greater scrutiny of the organisation's financial reporting to safeguard the interest of the stakeholders. Evaluation of the internal auditor's role cannot be avoided particularly where the function is a key feature of the organisational effectiveness (Dalila, 2013).

The internal auditors' roles are important tool of control within the organisation and a key to effective risk management. Internal auditors are involved in the organisation in the continuous internal audit process and external share with the boards their recommendations which are expected to contribute to the organisation's objectives (Jamal, 2011). Similarly, while performing their roles, all measures have to be taken to

maintain their independence, authority and objectively, as a result of being too involved in the organisation operations (Cattryse, 2014).

### **2.11 Internal auditor charter**

The best practice guidelines have been developed in order to measure the effectiveness of audit committees by various international parties, such as Cadbury Committee (2012), the Brue Ribbon Committee (2009) and the Australian National Audit Office (2013). According to a study carried out by Sandra & Henk (2011), it was revealed that audit committees in Groningen and Leeuwarden had not made any significant change in local and national government operations. They further argue that they did not find a direct effect of these audit committees but believed that performance auditing could influence the quality of democratic processes in a more indirect way. Peart (2008) indicated that the importance of strong governance and internal controls within public sector entities were affected by corruption, skills shortage and dominant shareholders.

### **2.12 Internal auditor's technical competence**

The skills and competency of internal auditors is important in promoting good governance and ensuring effective utilization of public resources. The internal audit function personnel both at the audit committee level and at actual internal auditors should be qualified, competent and knowledgeable to enable them perform their duties effectively. The internal auditor needed to be experienced and have the expertise (Morgan, 2009).

The uniqueness of internal auditor's competency is fostered by ensuring internal auditor's independence, expertise, integrity and diligence to perform their role effectively and in

the organisation with internal auditors with high competency levels, there is a positive correction with performance which results in overall more effective corporate governance (DeZoort, 2012).

### **2.13 Internal auditing**

The IIA Standard (2010), defines auditing as a systematic, structural evaluation of a business organisation, the operations therein and the products and processes of production within the business system. Additionally, Boynton *et al* (2005) and Oremade (1988) assert that auditing also involves an examination and, therefore, an investigation into the past history, records and data about a company in order to gauge and discover the legality of the business's operations, transactions, tax reporting and the overall handling of finances within the business.

While internal auditing is an independent appraisal function established within an organisation to examine and evaluate its activities as services to the organisation (Coetzee, Bruyn, Fourie & Plant, 2014). While (Cascarino, 2007) defined internal auditing as an independent, objectives assurance and consulting activities designed to add value and improve an organisation's operations. Internal audit helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process (Cascarino, 2007).

The objectives of the internal auditing are to assist members of the organisation, management and the board, on the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel and information concerning the activities reviewed. The audit objective includes promoting

effective control at reasonable cost (Coetzee, Bruyn, Fourie & Plant, 2014). The principle goal of the internal auditors is to investigate and appraise the effectiveness with which the various organisation units of the company are carrying out their assigned functions; much attention is given by internal auditors to the study and appraisal of internal control (Irwin, 2005).

Extensive studies have been conducted in many countries into the perception of financial report users of auditors' responsibilities in fraud prevention and detection. For example, Monroe and Woodcliff (1994) in Australia; Epstein & Geiger (1994) in the US; Humphrey *et al* (1993) in the UK; and Low (1980) in Singapore; Leung and Chau, (2001) in Hong Kong; Dixon *et al* (2006) in Egypt; Fadzly and Ahmad (2004) in Malaysia. These studies found that many financial report users believe that the detection of irregularities is a primary audit objective and that the auditors have a responsibility for detecting all irregularities. This is a misconception and shows the existence of an audit expectation gap between auditors and financial report users with respect to the actual duties of auditors.

The function of Internal Audit: SSAE 16 states that if the service organisation has an "internal audit function", it is the responsibility of the service provider to understand the role, responsibilities, and activities of the internal audit for determining its applicability and relevancy for an SSAE16 engagement. The objectives of internal audit/function are; to advise the management on whether the organisation's operations have sound systems of risk management and internal control; to analyse the key risks facing an organisation; to provide recommendations to the management on what is to be done to manage identified risks and to determine whether controls over financial and operating data provide managers with reasonable assurance that the financial and operating data is

accurate and reliable (i.e., that information gathering and reporting has been properly planned, organized and directed).

The relevance of internal auditing is anchored by three pillars. The first is governance which relates to how an organisation is managed its corporate and other structures, its culture, its policies and strategies and the way it deals with its various stakeholders. (ANAO, 2014). It includes activities that ensure credibility, establish equitable provision of service, and ensure appropriate behaviour of government officials whilst reducing the risks of public corruption (Institute of Internal Auditors, 2008). The second is the internal control which refers to all the policies and procedures put in place by the management for promoting accountability of resources (Monday *et al.*, 2014). The third pillar is risk management, risk management constitute an essential part of the strategic management process of any organisation involved in the implementation of the development strategies (Monday & Aladeraji, 2015).

IIA Standard (2010), Engagement Objectives, states that fraud is a deliberate act (or failure to act) with the intention of obtaining an unauthorized benefit, either for oneself or for the institution, by using deception or false suggestions or suppression of truth or other unethical means, which are believed and relied upon by others. Depriving another person or the institution of a benefit to which he/she/it is entitled by using any of the means described above also constitutes fraud. Employees are responsible for ensuring that departmental funds, property and equipment are safeguarded from loss. One important underlying concept which must be accepted is the reality that a fraud is possible in your organisation. If you do not believe fraud is possible, you will not identify it even if it is clearly evident. Very often fraud symptoms are viewed as administrative errors because

individuals cannot conceive of the existence of fraud particularly in organisations where there is a long-term affiliation with co-workers (Monday & Aladeraji, 2015).

When the results of risk assessment indicate the likelihood of financial statement fraud, auditors should ensure that the internal control system is adequate and effective in preventing, detecting and correcting such fraud. When the internal control risk is considered to be high, indicating the failure of internal controls to prevent and detect risk, auditors should rely on their own test procedures to detect financial statement fraud.

The degree of internal control risk would determine the extent, timing, and nature of audit procedures performed to discover financial statement fraud. Management is responsible for establishing, maintaining, monitoring the internal control structure, and reporting on the effectiveness. Internal auditors are well positioned to make recommendations to management regarding the design, implementation and maintenance of effective internal controls. At last, internal audit conducts timely investigations of allegations and suspicions of fraud acts, including those associated with collusive behavior and management override.

#### **2.14 The nature and composition of Internal audit**

The efficient of internal audit is influenced by their structures and members and the governance characteristics such as the independence, financial knowledge, and knowledge about the industry the company operate on, holding of meetings on the regularly basis, size of the internal audit department and the presence of an internal audit charter (Ng, 2013). The vital features of establishing an internal audit is the independence of internal audit

## **2.15 Corporate Governance**

Corporate governance refers to the manner in which the power of a corporation is exercised in the stewardship of the corporation's total portfolio of assets and resources with the objectives of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission (Private Sector Initiative for Corporate Governance, 2009). Corporate governance is the set of processes, customs, policies and laws and institutions affecting the way a corporation is directed, administered or controlled (Stiglitz, 2000). Corporate governance includes the relationships among different stakeholders and the goals for which the corporation is being governed. The principal players are the shareholders, management and the Board of Directors. Other stakeholders include employees, suppliers, customers, financial institutions, regulators, the environment and the community at large (Monks, 2002).

Corporate governance is concerned with issues of accountability and fiduciary duty, essentially advocating the implementation of guidelines and mechanisms to ensure good behaviour and protection of shareholders' welfare. The corporate governance structure spells out the rules and procedures for making decisions on corporate affairs. Corporate governance also provides the structure through which the company objectives are set (Macey, 2001).

## **2.16 Internal audit and Risk assessment**

Risk assessment is the procedure the organisation goes through to identify and analyse the relevant risks which may affect the organisation's ability to achieve its major objectives.

Risk assessment involves using professional judgment carefully in identifying and

evaluating factors which can affect the organisation adversely and result in possible losses both financially and non-financially.

### **2.17 The Fraud Management Lifecycle**

Mark, Richard & Dana (2005) postulated that the origin of risk management was developed by the innovative insurance professors such as, Robert and Bob in 1950s. In the 1960s, the first risk management text titled, risk management and the business enterprise was published. The objectives of risk management at that time was to maximise the productive efficiency of the enterprise. At that time, risk management was specifically focused on pure risks and speculative risks. In the 1970s, when the Organisation of Petroleum Exporting Countries (OPEC) decided to reduce production in order to increase the price, financial risk management became an interesting issue highlighted by firms because the increment in oil has affected the instability in exchange rates and inflation rate (Crawford & Stein, 2004).

The fraud management lifecycle is a network lifecycle where each stage in the life cycle is an aggregated entity that is made up with of interrelated, interdependent and independence actions, functions and operations (Albrecht *et al.*, 2009). The effective management of the fraud starts with a common understanding of the stages in the lifecycle (Wilhelm, 2004).

The fraud management lifecycle consists of eight stages: Deterrence stage involves stopping fraud before it happens by increasing the difficulty of committing the fraud as fraudsters tend to migrate towards the path of most anonymity and least resistance (Wilhelm, 2004). Deterrence is achieved through creating fear of consequences,

preventing an attempt on an activity (Kimani, 2011). The policy must address the balance deterrent value, loss reduction, operational scalability, sales volume and cost effectiveness (Wright, 2007). Policy development involves constantly reassembling the situations disassembled in the analysis stage, by taking advantage of the knowledge gained by analysis, combining it with internal, external and interactive environmental factors in order to craft policies that address the whole, while leveraging the knowledge of the parts (Wilhelm, 2004).

Organisations face risks and the risks depends on many factors, for example operational risks, strategic risks and financial risks. These risk management existed in planning, organising, leading and controlling organisations activities in order to minimize firms' major risks such as financial, strategic and operational risks (Li & Lui, 2006). For risk management to be effective it must be implemented by every person in the organisation. Therefore, internal auditors must ensure that risk management must become an integrated part of the organisations culture. Risk makers and risk takers must be risk managers. This is because we all manage risks consciously or unconsciously but rarely systematically Wangai (2006)

During auditing it is very important to determine the types of risks which might exist in the organisation this will enable the management to put in place control which will comprises of all the elements of an organisation including its resources, systems, processes, culture and tasks that, taken together to support people in the achievement of the organisation's objectives (Cascarino & Esch, 2007). The audit risk is the risk that audit coverage will not address significant business exposures. Pro forma audit programs can be developed to in order to reduce audit risks. Theses provide guidance as to which key

controls should exist to address the risk and the recommended compliance and substantive test steps that should be performed. These programs should be used with care and modified to reflect the current business risk profile (Cascarino & Esch, 2007). The risk management to be effective it must be implemented by every person in the organisation and risk management must become an integrated part of the organisations culture (Wangai, 2006).

### **2.18 Competency and Integrity of Internal Auditors**

The competency and integrity of internal is important in promoting good governance and ensuring effective utilization of the public resources. The internal audit function personnel both at the audit committee level and at actual internal auditors should be qualified, competent and knowledgeable to enable them perform their duties effectively (Morgan, 2009). The performance of internal auditor is fostered by ensuring by ensuring internal auditor's independence, expertise, integrity and diligence to perform their role effectively. However, lack of experience expertise, knowledge and qualification on auditing practices hinders performance of internal auditors. The strongest means to monitor ethics and governance in government institutions bodies can be through the audit function (Gansberghe, 2005).

### **2.19 Empirical Review**

The empirical literature review is aimed at obtaining the building stone for the study. The reviewed studies have in nutshell pointed out the effectiveness of internal control and internal audit in fraud detection and prevention. Despite rare studies on the effectiveness of internal control and internal audit in fraud detection and prevention in Namibia Public

sector, several investigations were made in world to evaluate the effectiveness of internal control and internal audit in fraud detection and prevention in both of businesses and governmental institutions. For example, Ronald (2011) evaluated internal Control Weaknesses in Local Government Towns and Villages account for more than 1,400 municipal government entities in New York State constituted in the study. The study focused on the internal control issues identified in an extensive, ongoing series of audits of towns and villages undertaken by the New York State Comptroller's Office. All towns and villages audit reports issued by the office were examined. These general internal control audits were used to identify towns and villages with internal control weaknesses. A review of the findings from the study indicated that audits conducted for four years showed that only a handful of these public entities exhibited numerous governance and control deficiencies. The results also showed that there is much room for improvement. In addition, the study revealed that Small towns and villages have several inherent control limitations; small size limits the number and quality of personnel, and the extent and quality of oversight which are the components of internal control. The limitations were found evident in several of the weaknesses discovered.

Tekalign (2011) investigated if the existing internal control in public enterprises in Ethiopia contributing to accounting fraud. The survey instruments on 11 major public enterprises in Addis Ababa were conducted using self-administered questionnaires to auditors and accountants. Frauds were represented as any violation of principles, manipulation of sales, expenses or inventories. The result indicated that the respondents believe the existed internal controls were sufficient to keep possibility of accounting fraud to reasonably low level. Even though the internal control would detect accounting fraud,

respondents require codes of conduct and employees training as additional tool to detect fraud events.

Mahdi, Mahmoud, Shiri and Fatemeh (2011) investigated the effectiveness of internal control in the Iranian banking sector with special reference to Bank Mellat. The study used questions that needed to be answered in the study are: (1) Does an internal control system in Bank Mellat has proper power in preventing fraud and error? (2) Is there a significant relationship between the weakness of internal control system components (control environment, risk assessment, information and communication, control activities and monitoring) and the occurrence of error and fraud? To test the validity of the questions, hypotheses are postulated relating frequency of fraud reported as failure of internal control with the questionnaire answered on the relationship between the fraud and components of internal control. The paper evaluated the effect of control environment, control activities, risk assessment, information and communication and continuous monitoring on failure of internal control quantified as reported errors and fraud. The empirical evaluation found out that all the elements of the internal control have significant effect on occurrence of errors and fraud, though the magnitudes are different. Accordingly, Weakness of control environment, control activities, risk assessment, information and communication and monitoring as a component of internal control system in an incident of error and fraud is effective. Therefore, the more the increase in the weakness of a control environment, control activities, risk assessment, information and communication and monitoring in Bank Mellat, the more is the incident of error and fraud. However, statistically control environment is found to have the highest effect for the failure of internal control.

A study by Roth and Espersen (2003) on the situation of internal control in companies introduced the components of an internal control, control environment, evaluating risks, control activities, information and communication and supervising as an advocator for a company to achieve its goals as well as its own progressive procedures. The results suggest (a) Recognizing an internal control system and the role of corporate relationship; (b) Propagating self-control systems, (c) Identifying risk factors; and (d) Preventing incidents of fraud and financial mistakes.

Abu-Musa (2004) examined the existence and adequacy of implemented security controls in the Egyptian Banking Sector (EBS). The results revealed that the computer departments paid relatively more attention to technical security controls, while internal audit departments emphasized more on the behavioral and organizational security controls. The study also provided valuable empirical results regarding inadequacies of implemented Accounting Information Systems (AIS) security controls, and introduced some suggestions to strengthen and improve the security controls in the EBS.

Alaudin et al. (2006) focused on management control systems, justice and trust in the Malaysian Islamic banks with the help of a questionnaire and interview and examined the documents relating to the concepts of justice and trust. Due to the inherently complex nature of the internal control process, a study by O'Leary et al. (2006) spread itself across a broad range of auditing, accounting and general business areas, and stated that an adequate system of internal control is considered critical for good corporate governance.

Moses (2011) examined the effectiveness of Internal Control Systems in achieving Value for Money in school projects in Local Governments of Uganda. The purpose of the study

was to identify the impact of internal control in achieving value for money. The study used a cross sectional survey design implementing self-administered structured questionnaire to gather data. The respondents were drawn from the elected and appointed staff, staff from the Office of the Auditor General, members of the District Public Accounts Committee and the School; were requested to respond to existence of standards of internal control. In addition the respondents were requested to respond if existing internal control in the school project is efficient, effective and economical. The findings revealed that Internal Control Systems have a significant positive effect in achieving Value for Money. The study further reveals that there a significant positive relationship between the Control Environment, Control Activities, Risk Assessment, Information and Communication and Monitoring and Value for Money in Local Governments. The findings revealed that Internal Control Systems have a significant positive effect in achieving Value for Money. All the constructs of Internal Control Systems (Control Environment, Control Activities, Risk Assessment, Information and Communication and Monitoring) had a significant positive relationship with Value for Money.

Sartini and Wardiwiyo (2012) conducted an exploratory study on Internal control system for Islamic micro financing this paper was aimed to evaluating the implementation of internal control system for Islamic micro financing. It also aims to investigate the implementation of an internal control system for financing activities practiced by Baitul Maal wat Tamwil (BMT), a special micro finance organization; in Indonesia system for Islamic financing is formulated.

Primary data that relate to the implementation of an internal control system for financing activities were obtained through a direct survey using questionnaires.

The data are then analyzed using descriptive statistic and qualitative analysis to find the implementations of the internal control system. BMTs in Indonesia have implemented an internal control system for their financing activities. The rank of the implementation is: information and communication; monitoring; control environment; risk assessment; and control activities. This study also indicates that the implementation of authorization and consultation to the Shariah Supervisory Board was low.

Palfi and Muresan (2009) examined the importance of a well-organized system of internal control in the banking sector. The analysis of the survey revealed that continuous collaboration based on periodical meetings, between all structures of bank, characterizes an effective internal audit department. Joseph and Victoria (2012) examined the effectiveness of internal control systems of listed firms in Ghana. The study used annual reports of a sample of 33 firms listed on the Ghana Stock Exchange. In measuring the level of internal control effectiveness, 23 items relating to internal control categorized under control environment, information and communication, risk assessment, control activities and monitoring were operated and the effectiveness score was determined based on the items. Overall internal control system showed an average level of effectiveness in this study, which implied an overall low level of effectiveness. Of the five categories assessed under internal control system, control environment showed a higher level of effectiveness.

## **2.20 Chapter Summary**

Several researchers have emphasised that the Internal control and Internal audit system plays an important role in terms of safeguarding of assets, separation of duties,

supervision, verification and preventive controls measures to avoid noncompliance with directives, policies and procedures. These preventive controls are intended to prevent risk of error, fraud and irregularities from occurring in transactions and prevention of loss. The prevention controls are in the form of segregation of duties, proper authorisation and approval, establishment of an organisational chart to allocate jobs to responsible officers, adequate documentation, physical control over assets and constant training of staff. While the degree of internal control risk would determine the extent, timing, and nature of audit procedures performed to discover financial statement fraud. Management is responsible for establishing, maintaining, monitoring the internal control structure, and reporting on the effectiveness. Internal auditors are well positioned to make recommendations to management regarding the design, implementation and maintenance of effective internal controls. At last, internal audit conducts timely investigations of allegations and suspicions of fraud acts, including those associated with collusive behavior and management override.

## **CHAPTER THREE**

### **RESEARCH METHODS**

#### **3.1 Introduction**

This chapter outlines the methodology which was used in gathering the data, analysing the data and reporting the results. It begins with the description of the research design, population, sample and research instruments, procedures and data analysis. The aim of the study was to investigate the effectiveness of internal audit in fraud detection and prevention in the MoF. It was also to determine whether internal audit control systems exist and their effectiveness. To identify the extent to which internal audit standards are adhered to at the MoF in terms of accountability, transparency, proper expertise and the effectiveness of fraud detection and prevention. To explore the impact of mal-administration on the organisation and to recommend to the MoF the best strategies to adopt in prevention and fraud detection. The researcher used a mixed method approach though more weight was put towards the qualitative approach which used non-structured questions to capture the opinions of the respondents. The quantitative approach was used to analyse the findings from the respondents by using graphs, charts and statistics to enable the researcher to examine the relationships and trends within the data with regards to the effectiveness of internal audit in fraud detection and prevention in the MoF.

#### **3.2 Research Design**

A research design constitutes decisions regarding what, when, how much, and by what means a research study will be carried out (Howell, 2013). The research design is a

framework specifying the study’s variables and it starts with a plan for selecting the sources and types of information used to answer the research question (Saunders, Lewis & Thornhill, 2012). This design is valuable for detailed analysis and the case study often provides focused and valuable insight to phenomena that may be vaguely known and less understood (Mawathe, 2008). The study undertook an in-depth understanding of the effectiveness of internal audit in the fraud detection and prevention in the MoF using a mixed method therefore a descriptive and exploratory research design approach was used.

### **3.3 Population**

The aggregate of individuals sharing similar objectives describes the target population (Kothari, 2004). The target population further refers to the population to which the study findings are generalised. It also refers to the entire group of people, events or things of interest that the researcher wishes to investigate. This study targeted a total population of 40 people from different departments of the MoF. Table 3.1 below shows the population for different departments.

***Table 3.1: Population***

<b>Categories</b>	<b>Population</b>	<b>Percentage</b>
<b>Management</b>	<b>8</b>	<b>20</b>
<b>Inland revenue Desk and field audit</b>	<b>12</b>	<b>30</b>
<b>Expenditure and financial services</b>	<b>10</b>	<b>25</b>
<b>Internal Audit</b>	<b>10</b>	<b>25</b>
	<b>40</b>	<b>100</b>

### 3.4 Sampling

A sample is a finite part of a statistical population whose properties are studied to gain information about the whole. In the context of this study, it can be defined as a set of respondents (people) selected from a large population for the purpose of a survey (Ridley, 2008). A sample in this study referred to one element, which means that the researcher targeted Accountants, Internal auditors, Auditors in the VAT department in the MoF. Sampling is the act, process, or technique the researcher uses to select a suitable representative part of the whole population (Ridley, 2008). Slovin's formula was adopted to bring out a total sample of 36 respondents from the MoF. Stratified purposive sampling was used to select the participants. This type of sample is based entirely on the judgment of the researcher, in that a sample is of elements that contain the most characteristics, representative or typical attributes of the population that serve the purpose of the study (De Vos, 2011).

*Table 3.2: Sample from Different departments of the MoF*

<b>Categories</b>	<b>Sample size</b>	<b>Percentage</b>
<b>Management</b>	<b>7</b>	<b>19.4</b>
<b>Inland revenue Desk and field audit</b>	<b>11</b>	<b>30.6</b>
<b>Expenditure and financial services</b>	<b>9</b>	<b>25</b>
<b>Internal Audit</b>	<b>9</b>	<b>25</b>
	<b>36</b>	<b>100</b>

The sample size was calculated using Slovin's formula as quoted by Mungenda & Mungenda (2003) who stated that a simplified formula for calculating sample size of a population that is less than 10, 000 is given by:

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

Where: N=Population

n= Sample size

$$e = (0.05)^2$$

$$N = \frac{40}{1 + 40(0.05)^2} = 36$$

The study used a stratified purposive sampling technique to select the sample. The study grouped the population into strata. From each stratum the study used simple random sampling to select the respondents. The sampling design was used because the population of was not homogenous and was sub-divided into sub-units. Kothari (2004) recommends stratified random sampling, because it is accurate, easily accessible, and divisible into relevant strata and it enhances better comparison, hence representation across strata and its ability to ensure inclusion of the sub-groups, which would otherwise be omitted entirely by other sampling methods because of their small number in the population. In this study the researcher also used judgmental sampling in order to get a sample of respondents from the management level to be interviewed.

### **3.5 Research Instruments**

The study used both questionnaires and an interview guide, as the main data collection instruments. Questionnaires were distributed among the target group employees as the main data collection instrument. The questionnaire comprised of various parts focused on

the personal background information with structured questions. Sub-titles were provided to ensure that there was no confusion. The researcher used non-structured and structured questions, because they conveniently covered a large number of respondents.

A qualitative approach is described as a systematic subjective approach used to describe life experiences and situations to come up with meaning, with the aim of explaining how and why people behave in a certain way, thus examining beliefs, perceptions, motivations, attitudes and opinions (Burns & Grove, 2003). The researcher administered a drop and pick method for respondents in various departments of the MoF and the non-structured questions were administered through the questionnaires. In total, 36 questionnaires were distributed to the respondents. Questions were articulated in such a way that they contained 28 non-structured questions for the operational level and 2 structured questions for the management level. The questionnaires were distributed to the MoF staff in different departments.

### **3.6 Procedure**

The questionnaires designed by the researcher based on the research questions were pre-tested to ascertain the suitability of the tool before the actual administration. Cooper & Schindle (2010), the reason for conducting pilot testing is to detect weaknesses in design and instrumentation and to provide proxy data for selection of a probability sample. Pre-testing was done by administering the questionnaire to 7 respondents who were not included in the actual study. This enabled the researcher to improve the questionnaire for objectivity and efficiency of the process and to better restructure questions to ensure clarity on each question. The study used both primary and secondary data. Primary data

was collected using a self-administered drop and pick process. The questionnaires were distributed to employees involved in the finance administration, internal auditing and VAT auditing department. This enabled the researcher to get adequate information from the employees. The researcher used structured questions as the main data collection method. The questionnaires had both non-structured and structured questions. The structured questions provided more structured responses and non-structured questions provided more information not covered in the structured questions. Data was also collected using a semi-structured interview guide and 9 respondents from the MoF who were at the management level were interviewed. De Vos (2011: p351) stated that “researchers use semi-structured interviews in order to gain a detailed picture of a participant’s beliefs about, or perceptions or accounts of, a particular topic”. The secondary data sources were also used to supplement the data received from the questionnaires. The secondary data were obtained using a questionnaire which was completed by the staff members of the Ministry of Finance and from the review of the literature.

### **3.7 Data analysis**

The data collected from the questionnaires was edited for accuracy, consistency and completeness. It was then coded to enable the researcher to group it in various categories. Content analysis was used to analyse the respondents’ views regarding the effectiveness of internal audit in fraud detection and prevention in the MoF, whereas descriptive analysis was used mainly to summarise the data collected. Analysis of data for this study involved a comprehensive interpretation, summary of the results of the study, listing the

main conclusions from the research with emphasis on how the MoF could improve on the effectiveness of internal audit in fraud detection and prevention. Data obtained was analysed after grouping the data in particular analytical categories, for example, level of education, age and much more data was analysed. The statistical package for social science (SPSS) was used to analyse the quantitative data and qualitative data was analysed using content analysis. The appropriate tables and other graphical presentations were used to present the data collected for ease of understanding.

### **3.8 Research Ethics**

According to De Vos *et al.*, (2011: p113) “research should be based on mutual trust, acceptance, cooperation, promises and well-accepted conventions and expectations between all parties involved in a research project. In line with this notion, the researcher ensured that all ethical considerations were adhered to. This included requesting for permission for conducting the research from the MoF.

After approval from the authorities, the respondents were informed of the research and its purpose and their consent to participate in the study was requested. The appointments were made prior to the visit, mostly through telephone calls. The information collected will be kept confidential and no individual names will be used in the process. Moreover, any literature which was used in this study was correctly referenced.

The data is being kept for 5 years in a secure and locked cabinet only accessible to the researcher and after that, it will be destroyed by shredding and burning. The study was carried out with integrity, honesty, objectivity, care, openness, confidentiality, anonymity

and with a sense of respecting intellectual property in promoting the aims of the study. In all cases informed consent was sought from the participants.

### **3.9 Chapter Summary**

In this chapter the methodology and research design used for the study were discussed. The study undertook an in-depth understanding of effectiveness of internal audit in the fraud detection and prevention in the MoF. The researcher used a mixed method approach with descriptive statistics and content analysis being used to enable the researcher to examine relationships and trends within the data. The study targeted a total population of 40 and a sample of 36 respondents from the MoF. The sampling technique used in the selecting respondents for this study was stratified purposive sampling. The stratified sampling technique was used because the population of the study was not homogenous and sub-divided into sub-units. Kothari (2004) recommended stratified sampling, because it is accurate, easily accessible and divisible into relevant strata and it enhances better comparison, hence representation across strata and its ability to ensure inclusion of sub-groups, which would otherwise be omitted entirely by other sampling methods because of their small number in the population. The reason for choosing the research designs were given and the importance of exploration was outlined. The means and methods of data collection, including the development of the tools used were thoroughly discussed. The following chapter, which is chapter four, covered the results and findings which were based on information gathered after the data was collected and analysed.

## **CHAPTER 4**

### **RESULTS AND DISCUSSION**

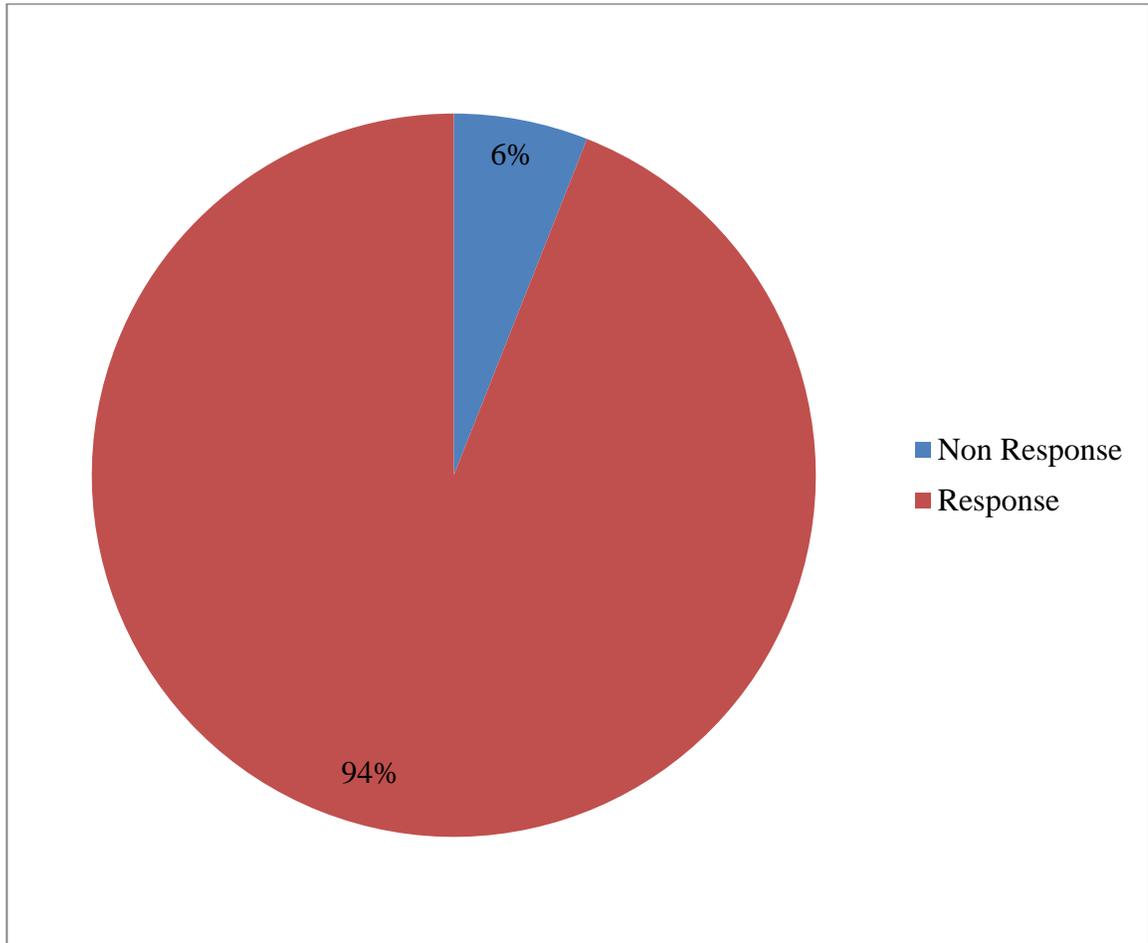
#### **4.1 Introduction**

This chapter presents the results and findings of data analysis of the study. The data was gathered using a questionnaire and an interview guide as the research instruments. The questionnaires were designed in line with the objectives of the study.

The main objective of the study was to investigate the effectiveness of internal audit in fraud detection and prevention in the Ministry of Finance. The specific objectives of the study were: To determine whether internal audit control systems exist and how effective; to identify the extent to which internal audit standards are adhered to at the MoF in terms of accountability, transparency, proper expertise and the effectiveness of fraud detection and prevention; to explore the impact of mal-administration on the organisation and to recommend to the MoF the best strategy on prevention and fraud detection.

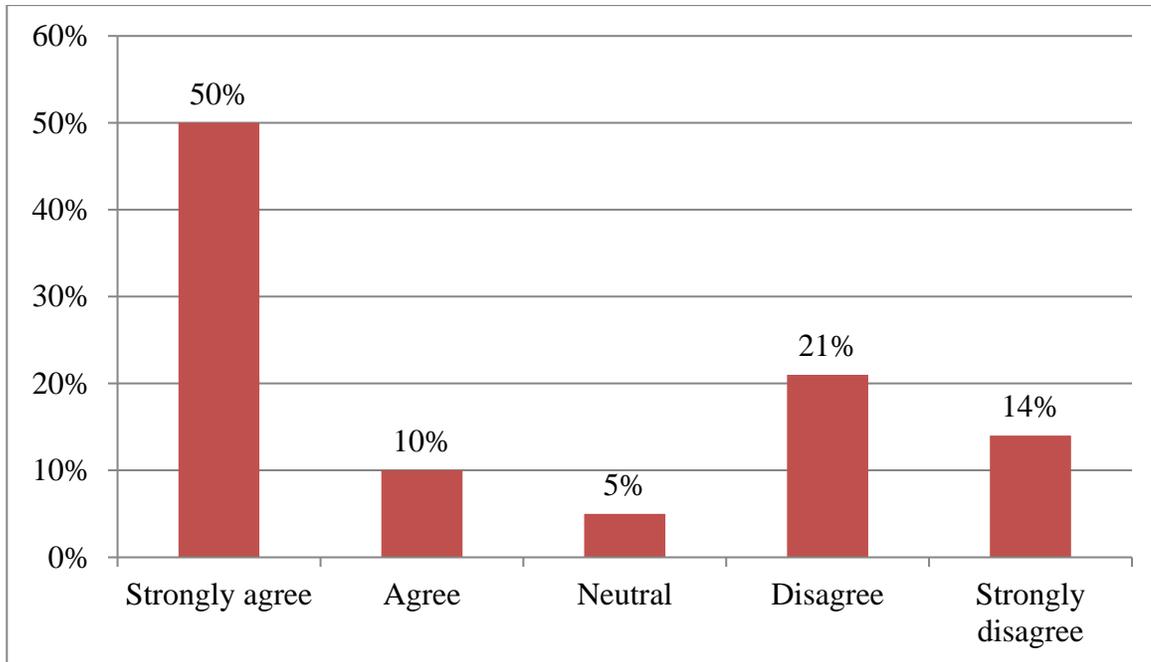
The data was gathered exclusively from the questionnaires as the research instrument. The questionnaire was designed in line with the research questions of the study.

## PRESENTATION OF FINDINGS AND INTERPRETATION



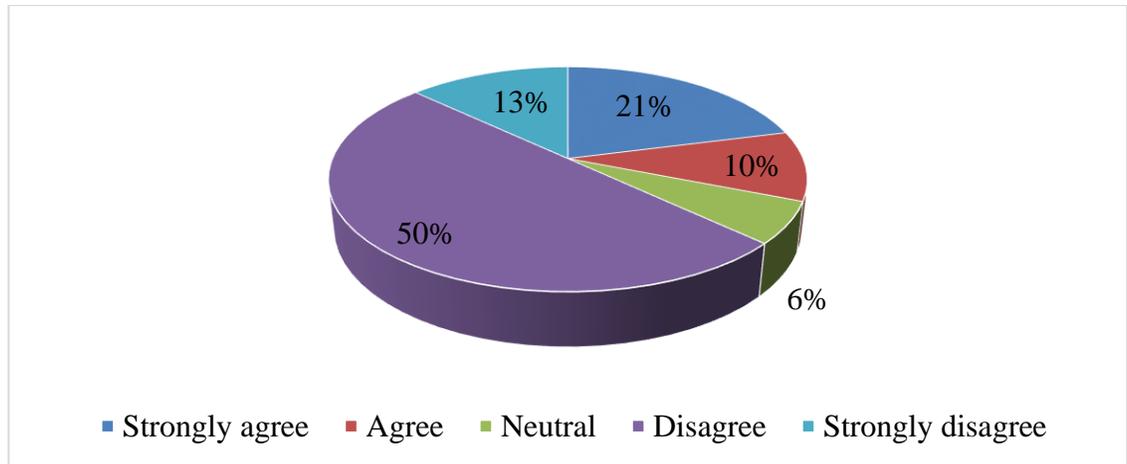
***Figure 4.1: Response rate***

Response rate, which also refers to questionnaires return rate, is described as the number of questionnaires that were returned to the researcher having been correctly filled. In the context of this study, a total of 36 questionnaires were administered to the sampled respondents drawn from finance, internal auditing, VAT auditing and management staff working with selected departments. A total of 34 questionnaires were returned giving a response rate of 94% and they did not have any missing values and were as such deemed suitable for use in the analysis, as such this response was considerable and representative of the population. This response was good enough and representative of the population and conforms to Mugenda and Mugenda (2003)'s stipulation that a response rate of 70% and above is excellent. The response return rate, is outlined above.



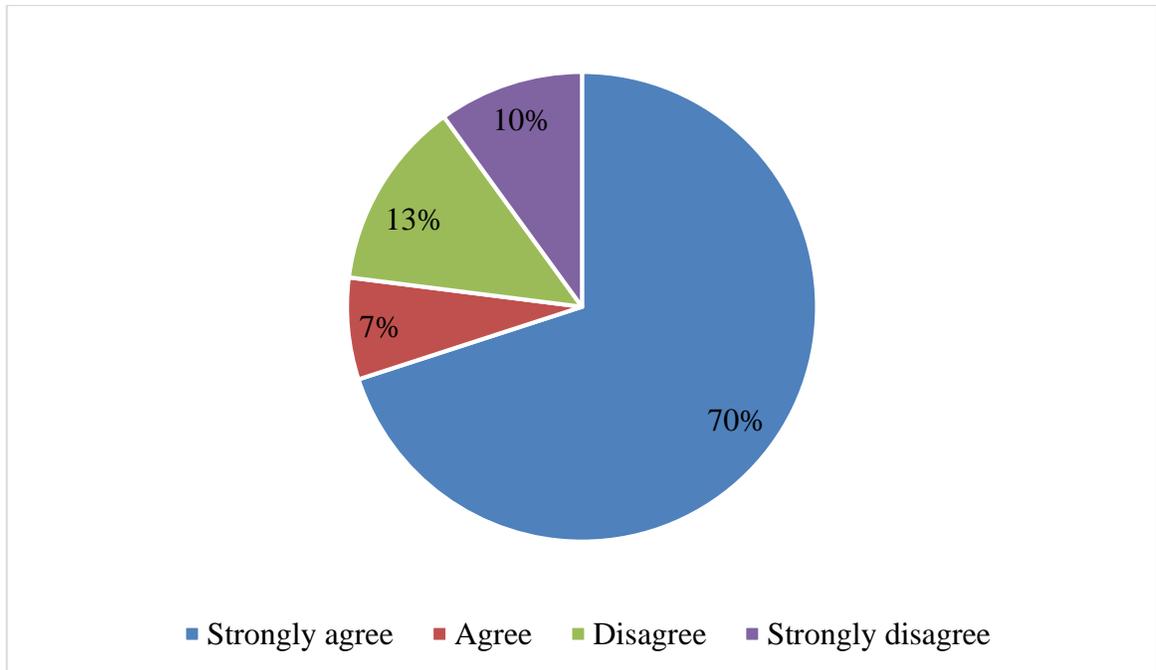
**Figure 4.2: Code of conduct of the Ministry of Finance**

The study also aimed at establishing the extent to which the respondents agree with the statement that the employees of the Ministry of Finance understand the code of conduct of the Ministry of Finance. The study revealed that 50% of the respondents strongly agreed that Ministry of Finance and clearly defined to employees, while 10% did agree which brings the total of 60% agreeing. According to the respondents the MoF provide job inductions and training to its new employees through the training department. While 5% were neutral, 21% disagree and 14% strongly disagree.



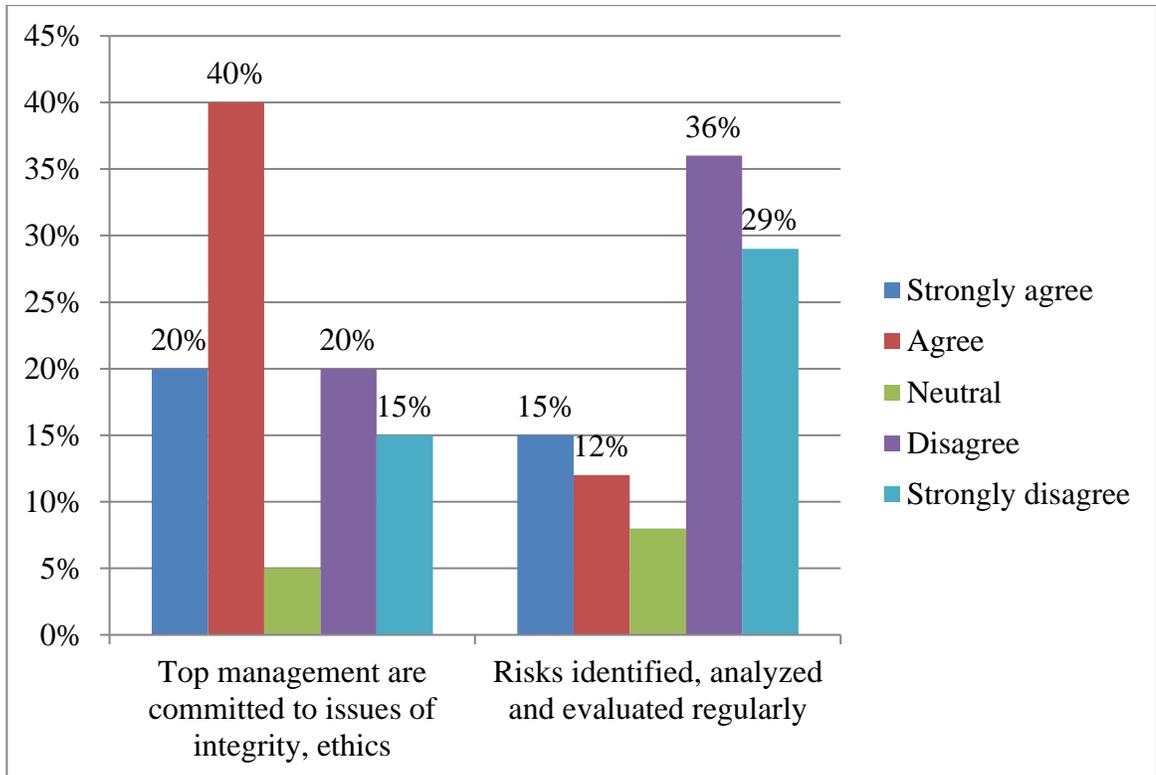
***Figure 4.3: Ethics policies exist in the MoF***

The study sought to establish the extent to which the respondents agree with the statement that codes of conduct or ethics policies exist in the MoF. 21% of the respondents strongly agree that codes of conduct or ethics policies exist in the MoF, 10% agree, which brings the total of 31% agreeing, 15% were neutral, 50% disagree and 21% strongly disagreed that codes of conduct or ethics policies exist in the MoF meaning that at least 71% of the respondents do not agree that codes of conduct or ethics policies exist in the MoF.



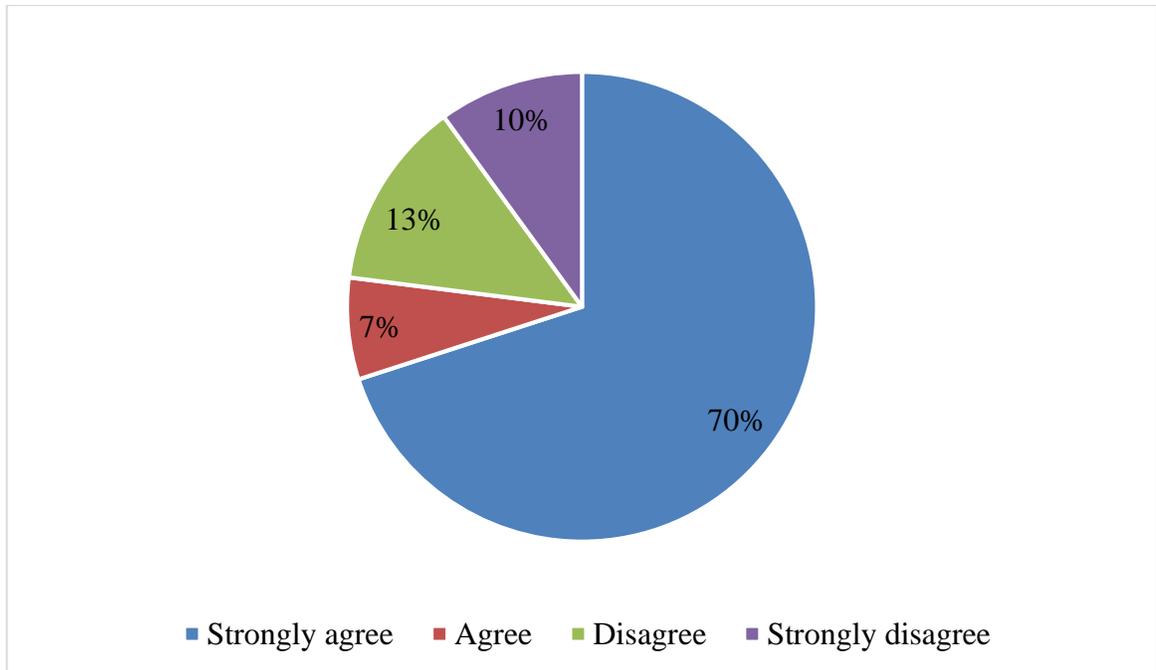
**Figure 4.4: Internal audit mechanism**

The study sought to establish the extent to which the respondents agree with the statement that internal audit mechanism exists to periodically test for compliance with codes of conduct or policies. The study revealed that 70% of the respondents strongly agreed with the statement that internal audit mechanism exists to periodically test for compliance with codes of conduct or policies and 7% agreed which represents the total number of 77% of the respondents agreeing with the statement. On contrary 13% disagree and 10% strongly disagreed, which gives a total of 23% disagreeing with the statement that internal audit mechanism in the MoF exists to periodically test for compliance with codes of conduct or policies.



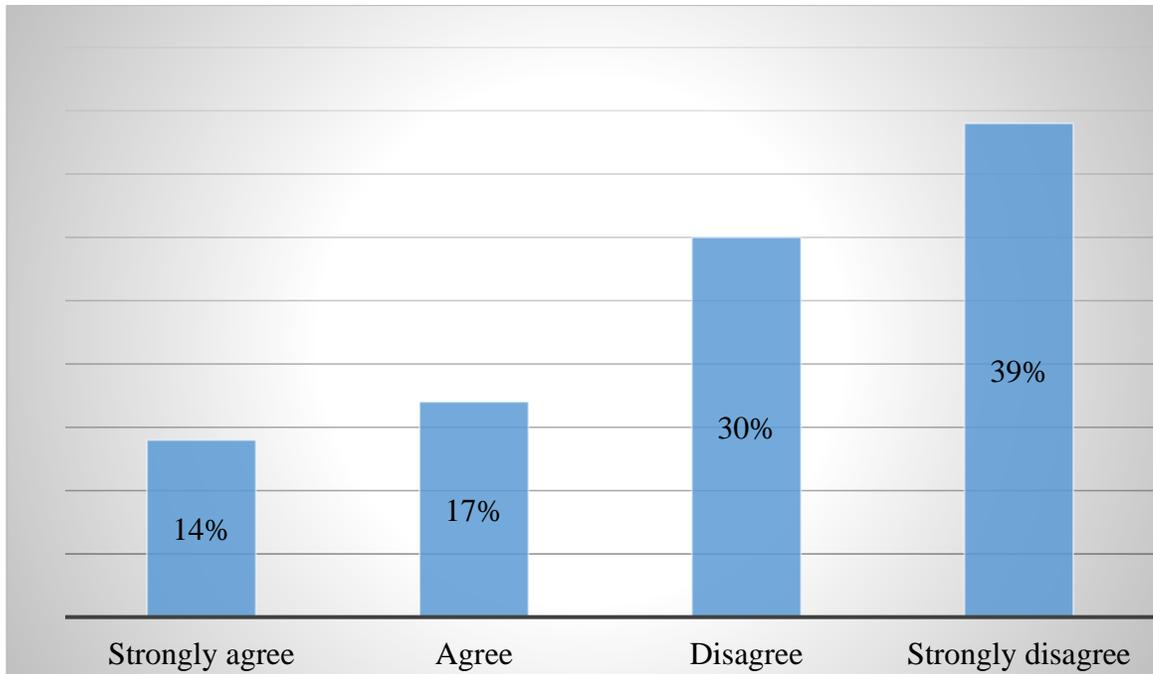
**Figure 4.5: Internal control system**

The study sought to establish the extent to which the respondents agree with regards to internal control systems. The key informants were asked whether top management were committed to issues of integrity and ethics. The respondents' answers are summarised as follows: 40% of the respondents strongly agree that top management are committed to integrity and ethics, 20% agree, which brings the total of 60% agreeing. 15% were neutral, 20% disagree and 15% strongly disagreed that top management is committed to integrity and ethics. The respondents were asked to indicate whether risks are being identified, analysed and evaluated regularly in the MoF 15% strongly agree, 12% agree. On contrary 8% were neutral, 36% disagree and 29% strongly disagree.



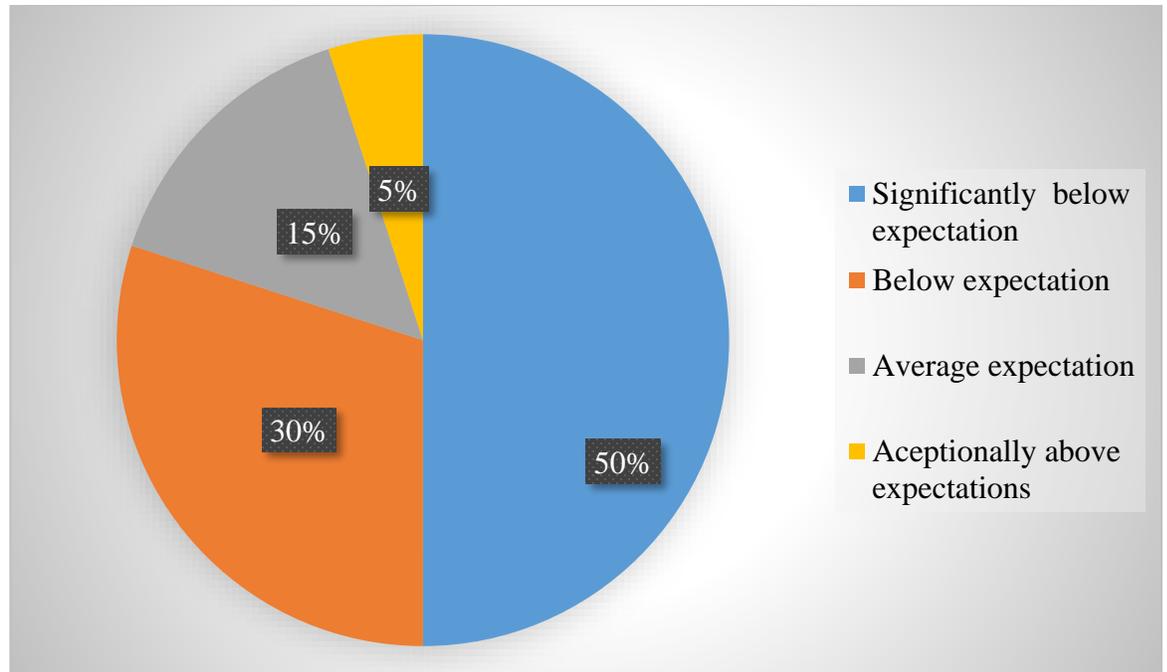
**Figure 4.6: Internal audit mechanism**

The study sought to establish the extent to which the respondents agree with the statement that internal audit mechanism exists to periodically test for compliance with codes of conduct or policies. The study revealed that 70% of the respondents strongly agreed with the statement that internal audit mechanism exists to periodically test for compliance with codes of conduct or policies and 7% agreed which represents the total number of 77% of the respondents agreeing with the statement. On contrary 13% disagree and 10% strongly disagreed, which gives a total of 23% disagreeing with the statement that internal audit mechanism in the MoF exists to periodically test for compliance with codes of conduct or policies.



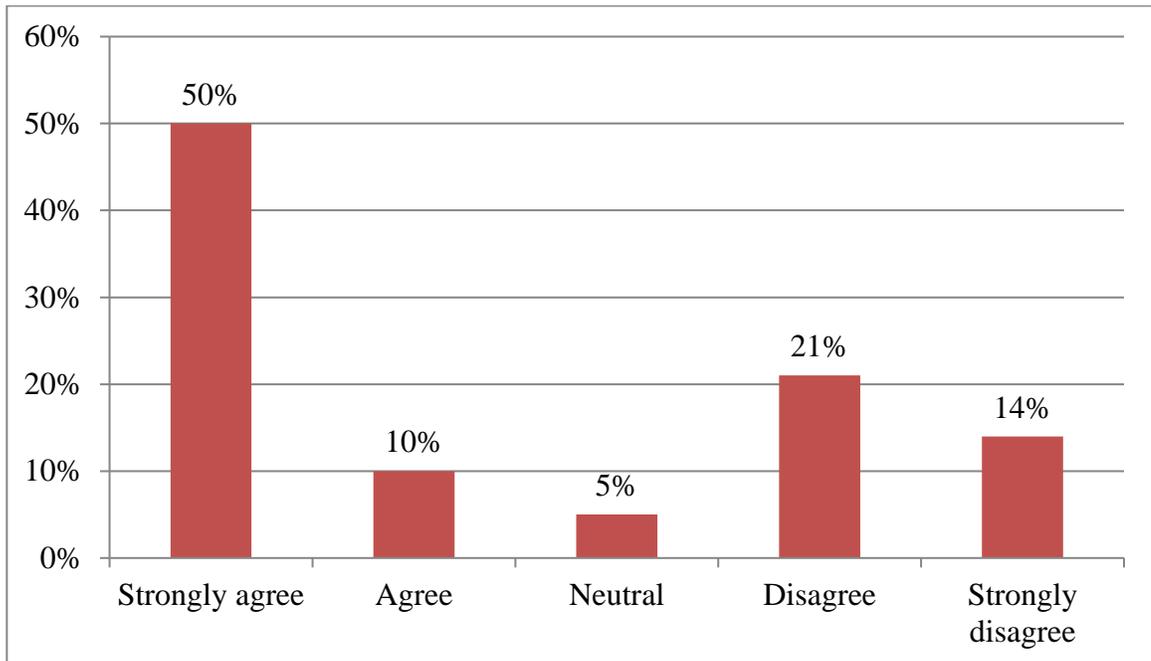
***Figure 4.7: Competent in risk control assessment***

The study sought to establish the extent to which the respondents agreed with the statement that the internal auditors are competent in risk control assessment. The study established that 14% of the respondents strongly agreed that internal auditors are competent in risk control assessment analysis, 17% of the respondents agree resulting to the total no of 31% agreeing, 30% of the respondents disagreed and 39% strongly disagreed resulting to the total no of 39% disagreeing that internal auditors are competent in risk control assessment analysis.



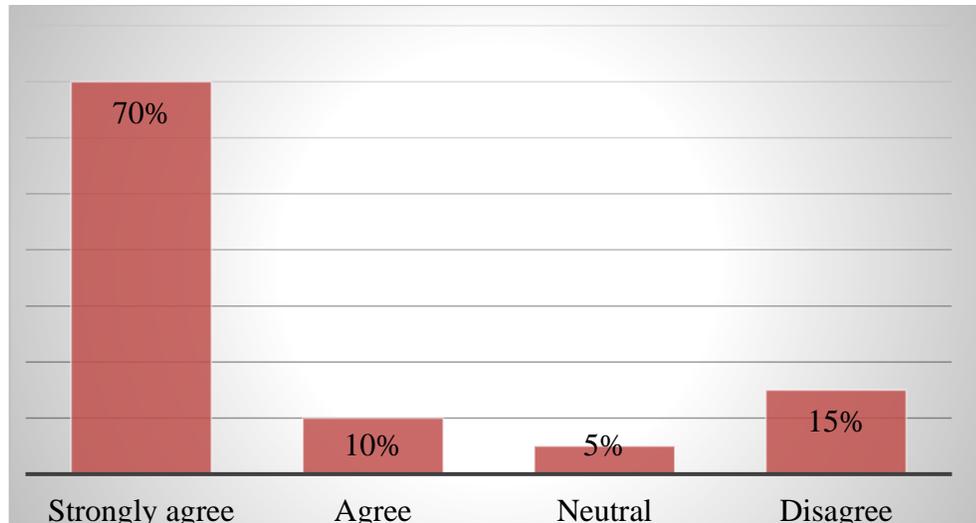
***Figure 4.8: Competences in forensic skills***

The study sought to establish out the extent to which the respondents agreed with the statement that the internal auditors are competent in forensic skills. A five point Likert-type scale was provided ranging from: significant below expectation, below expectation, average expectation, above average expectation and exceptionally above expectation. The study revealed that 50% of the respondents indicated that they are significantly below expectation, 30% of the respondent indicated that they are below expectation, while 15% indicated that they are average expectation and 5% indicated that they are exceptionally above expectation



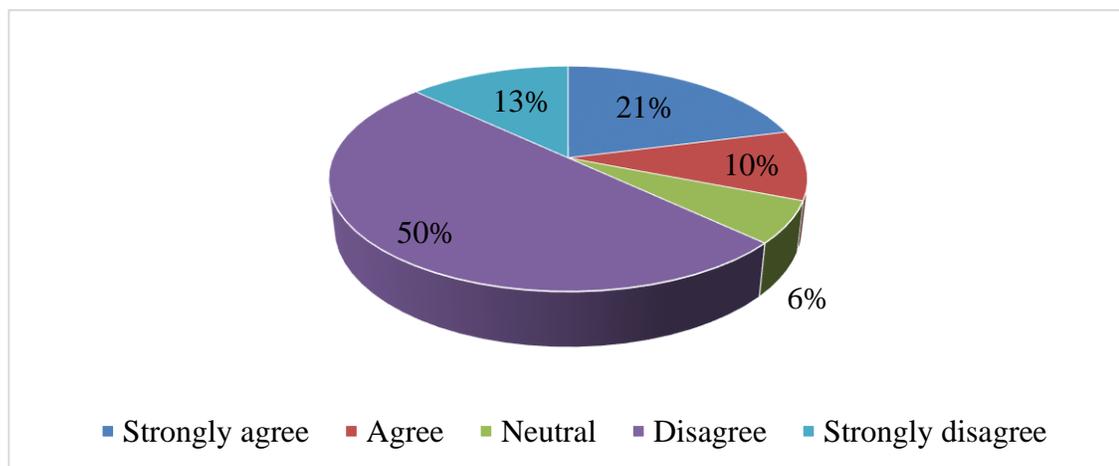
***Figure 4.9: Job description, segregation of duties, authority, coordination and accountability***

The study also aimed at establishing the extent to which the respondents agree with the statement that the job description, segregation of duties, authority, coordination and accountability are properly being administered to employees and clearly defined. The study revealed that 50% of the respondents strongly agreed that the job description, segregation of duties, authority, coordination and accountability are properly being administered and clearly defined to employees, while 10% did agree which brings the total of 60% agreeing. According to the respondents the MoF provide job inductions and training to its new employees through the training department. All the issue related to job specifications are outlined in more details before. While 5% were neutral, 21% disagree and 14% strongly disagree.



**Figure 4.10: Management decision**

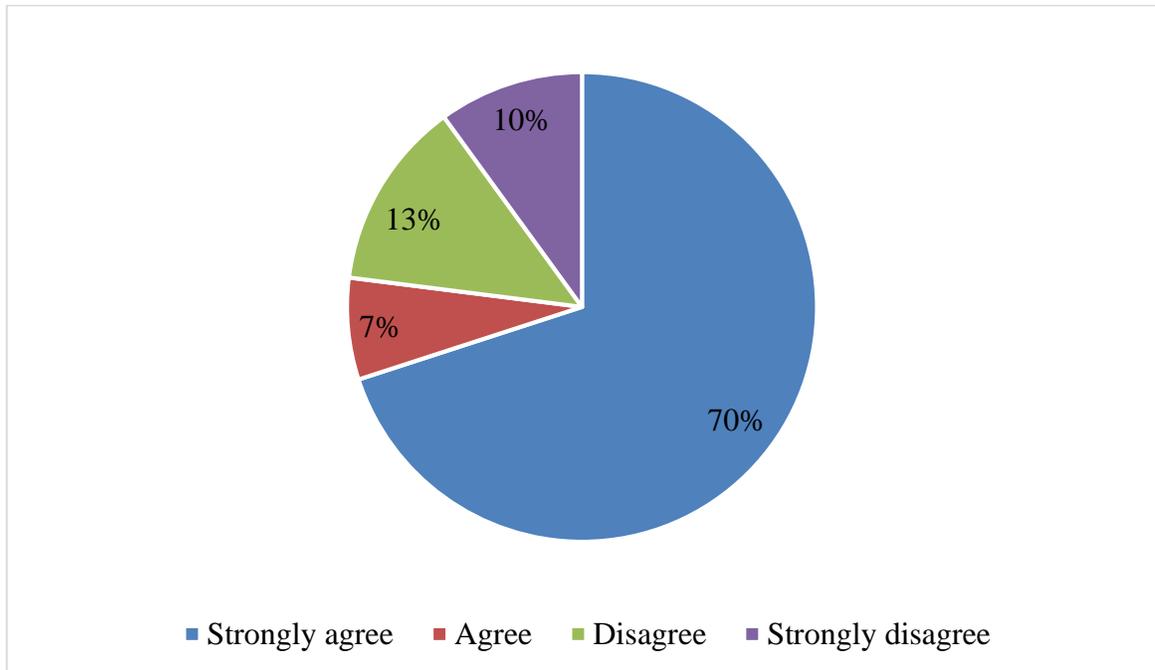
The study sought to establish the extent to which the respondents agree regarding management decisions: whether they are being made collectively and not being manipulated by one dominant person. This study used a 5-point Likert-type scale to collect and analyse data. As it is depicted below in figure 4.6, the key informants were asked about the internal control systems. The respondents’ answers are summarised as above.



**Figure 4.2: Codes of conduct or ethics policies exist in the MoF**

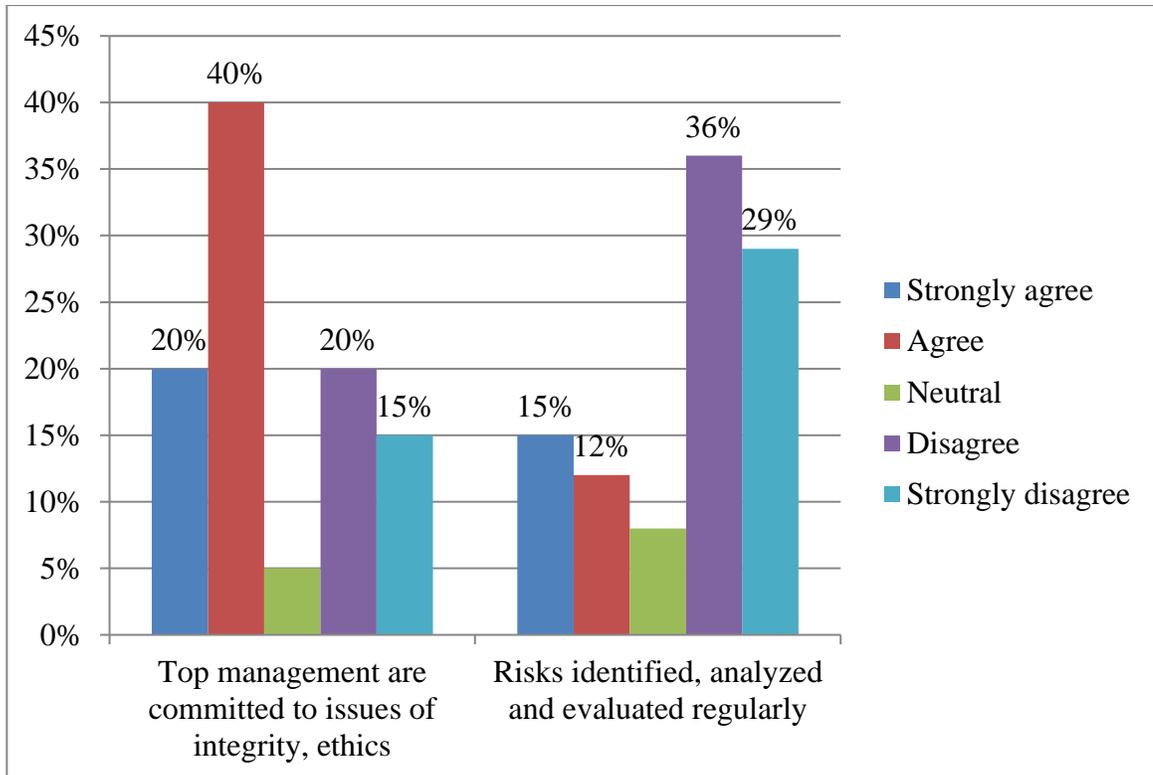
The study sought to establish the extent to which the respondents agree with the statement that codes of conduct or ethics policies exist in the MoF. 21% of the respondents strongly agree that codes of conduct or ethics policies exist in the MoF, 10% agree, which brings

the total of 31% agreeing, 15% were neutral, 50% disagree and 21% strongly disagreed that codes of conduct or ethics policies exist in the MoF meaning that at least 71% of the respondents do not agree that codes of conduct or ethics policies exist in the MoF.



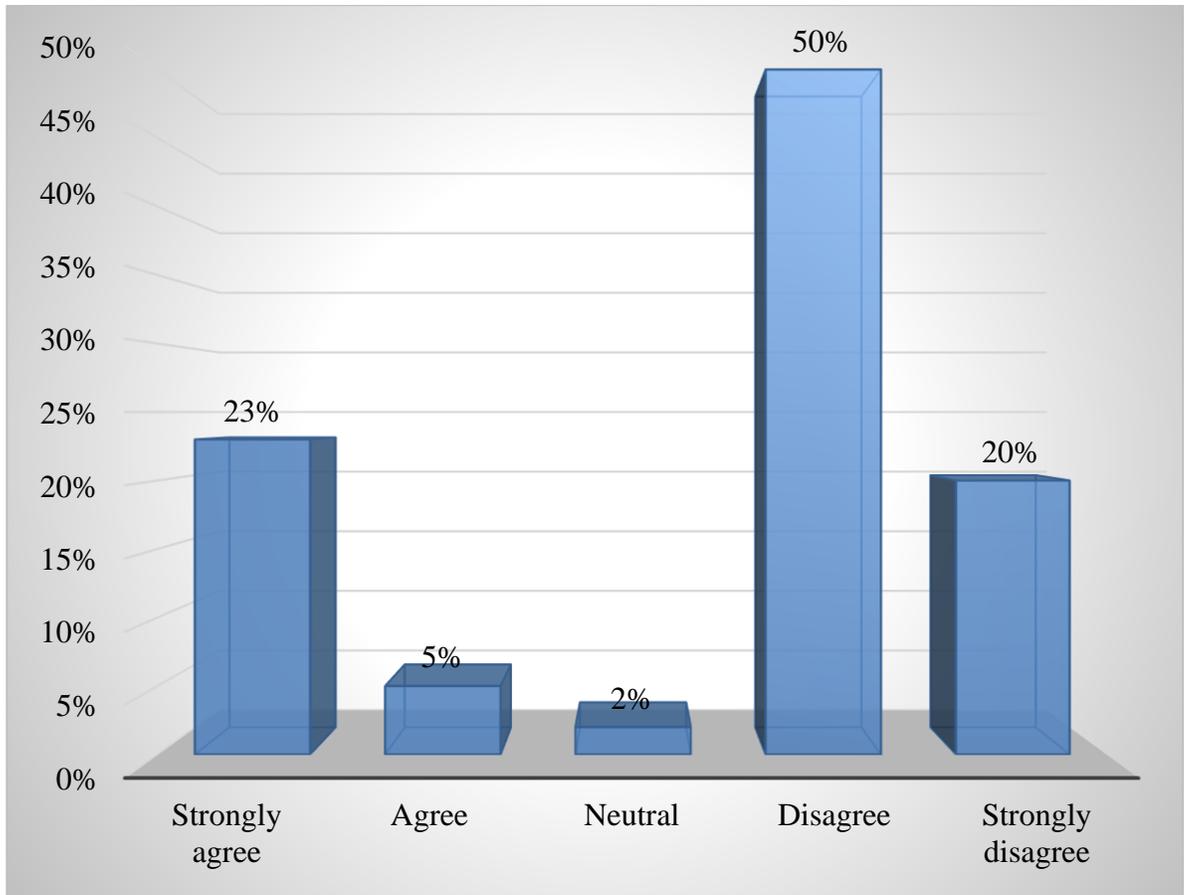
**Figure 4.3: Internal control and internal audit mechanism**

The study sought to establish the extent to which the respondents agree with the statement that internal control and internal audit mechanism exists to periodically test for compliance with codes of conduct or policies. The study revealed that 70% of the respondents strongly agreed with the statement that internal control and internal audit mechanism exists to periodically test for compliance with codes of conduct or policies and 7% agreed which represents the total number of 77% of the respondents agreeing with the statement. On contrary 13% disagree and 10% strongly disagreed, which gives a total of 23% disagreeing with the statement that internal control and internal audit mechanism in the MoF exists to periodically test for compliance with codes of conduct or policies.



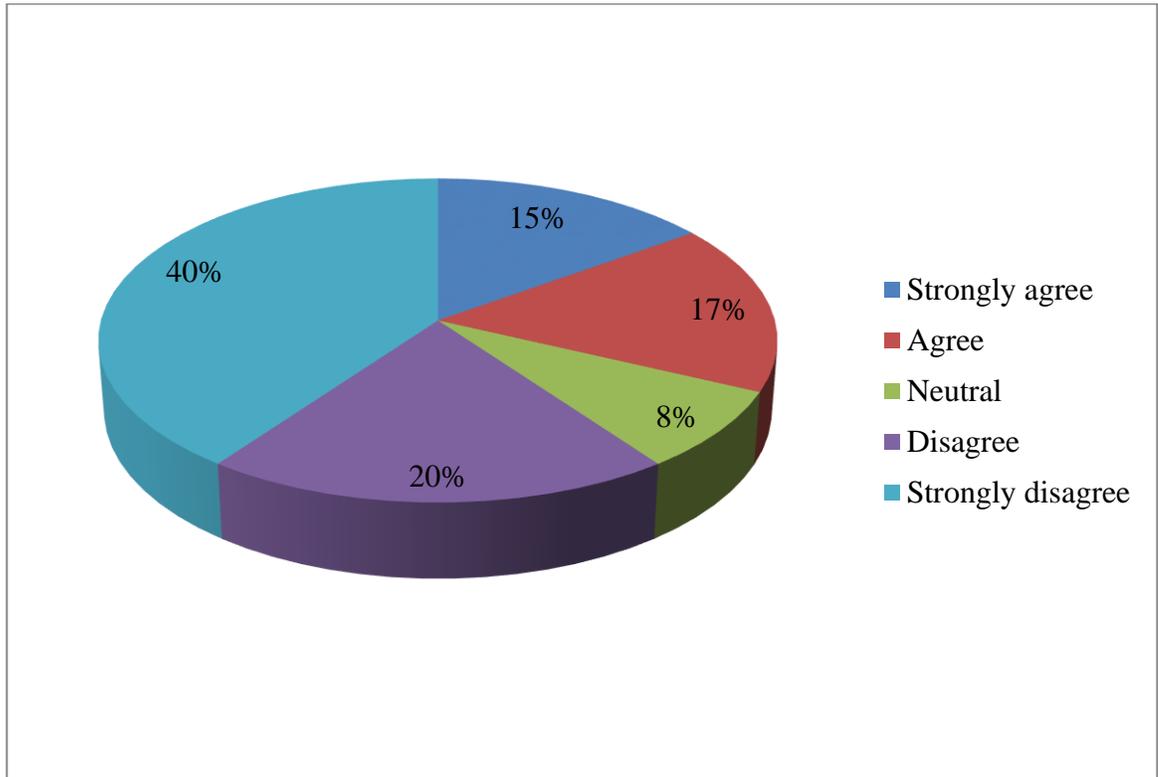
**Figure 4.4: Internal control system**

The study sought to establish the extent to which the respondents agree with regards to internal control systems. The key informants were asked whether top management were committed to issues of integrity and ethics. The respondents' answers are summarised as follows: 40% of the respondents strongly agree that top management are committed to integrity and ethics, 20% agree, which brings the total of 60% agreeing. 15% were neutral, 20% disagree and 15% strongly disagreed that top management is committed to integrity and ethics. The respondents were asked to indicate whether risks are being identified, analysed and evaluated regularly in the MoF 15% strongly agree, 12% agree. On contrary 8% were neutral, 36% disagree and 29% strongly disagree.



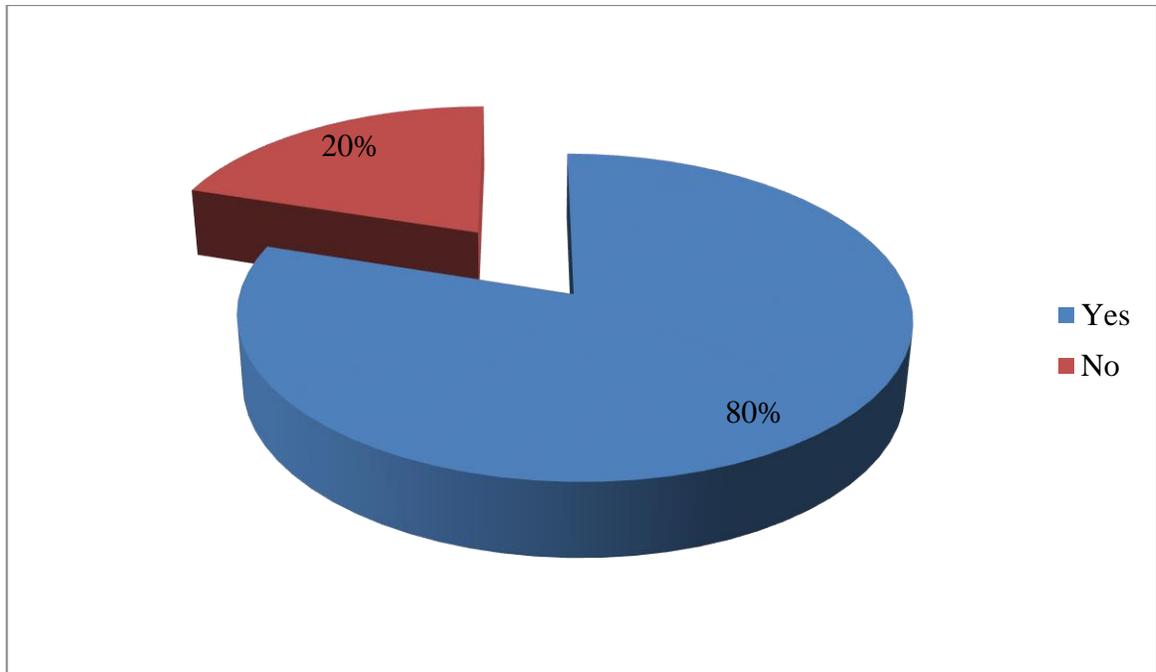
**Figure 4.5: Technology issues**

The study sought to establish the extent to which the respondents agree with the statement that technology issues are considered and appropriately addressed. The respondents' answers are summarized as follows: 23% strongly agreed that technology issues are considered and appropriately addressed and 5% agreed which represents a total number of 28% of the respondents agreeing that the technology issues are considered and appropriately addressed by the MoF. On the contrary 2% were neutral, 50% disagreed and 20% strongly disagreed, which gives a total of 70% disagreeing that the technology issues are considered and appropriately addressed by the MoF, the respondents indicated that the MoF.



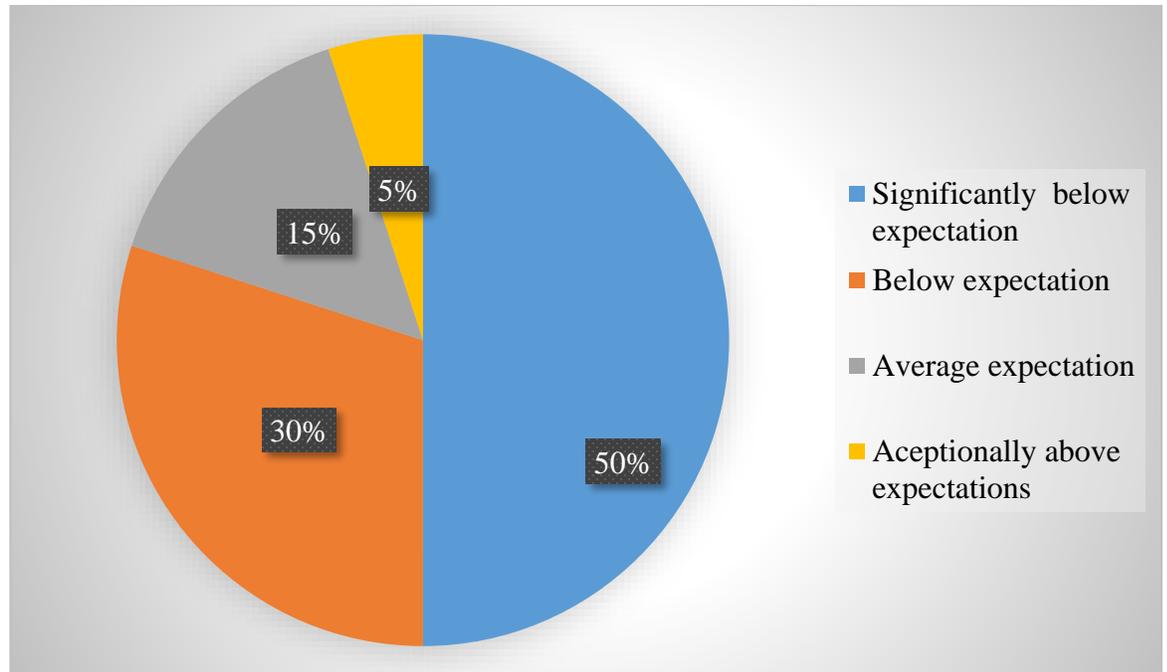
**Figure 4.6: Internal auditor’s skills development and supporting programmers**

The study sought to establish the extent to which the respondents agree with the statements that the MoF provided Internal auditors with formal audit training courses and opportunities to attend audit conferences, seminars and exchanges programs. As it is depicted on figure 4.7 below the key informants were asked about whether the internal auditors are provided with skills development and supporting programmers, 15% strongly agree, 17% agree. On contrary 8% were neutral, 20% disagree and 40% strongly disagree.



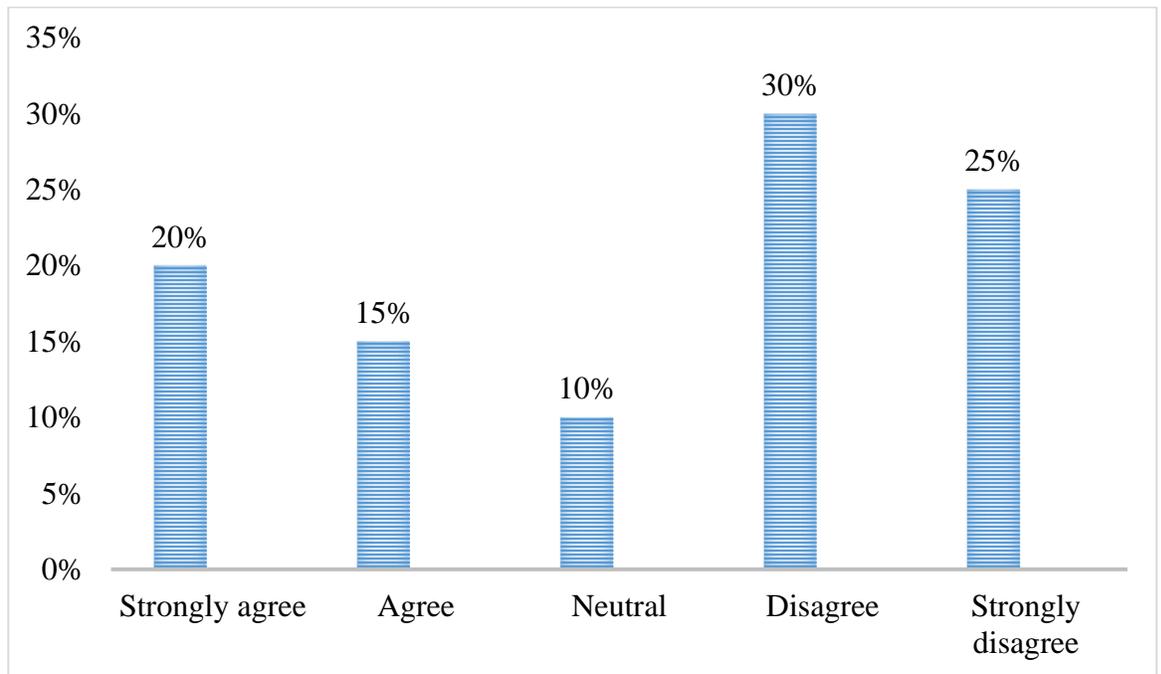
***Figure 4.7: The future training plans***

The study also sought to establish whether the MoF has future training planning for the internal auditors in order to upgrade their skills and expertise in the field of auditing. The respondents' answers are summarised as follows: 80% indicated that the MoF do not have any future training program for internal auditors, while 20% said there was a future training program in place to upgrade the internal auditors. The results were depicted on figure 4.8 below:



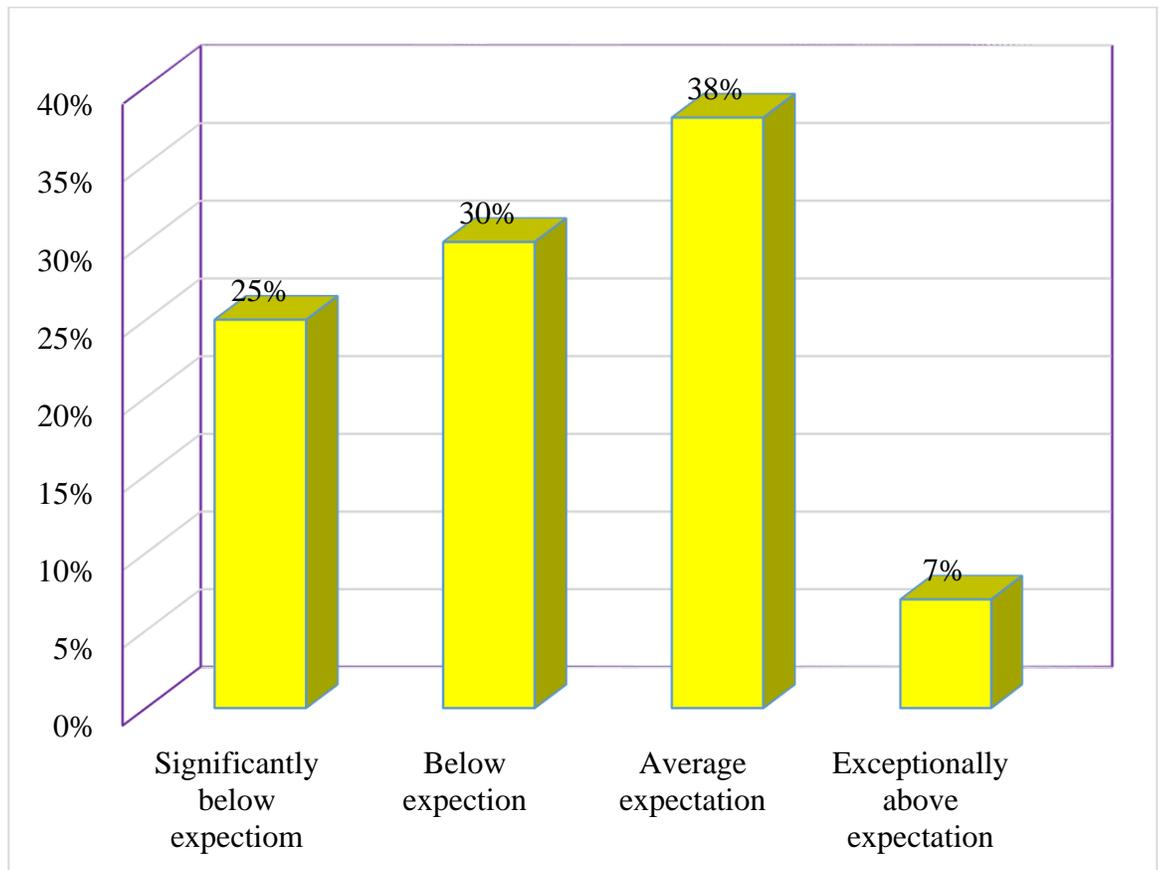
***Figure 4.8: Competences in forensic skills and fraud awareness***

The study sought to establish out the extent to which the respondents agreed with the statement that the internal auditors are competent in forensic skills and fraud awareness. A five point Likert-type scale was provided ranging from: significant below expectation, below expectation, average expectation, above average expectation and exceptionally above expectation. The study revealed that 50% of the respondents indicated that they are significantly below expectation, 30% of the respondent indicated that they are below expectation, while 15% indicated that they are average expectation and 5% indicated that they are exceptionally above expectation



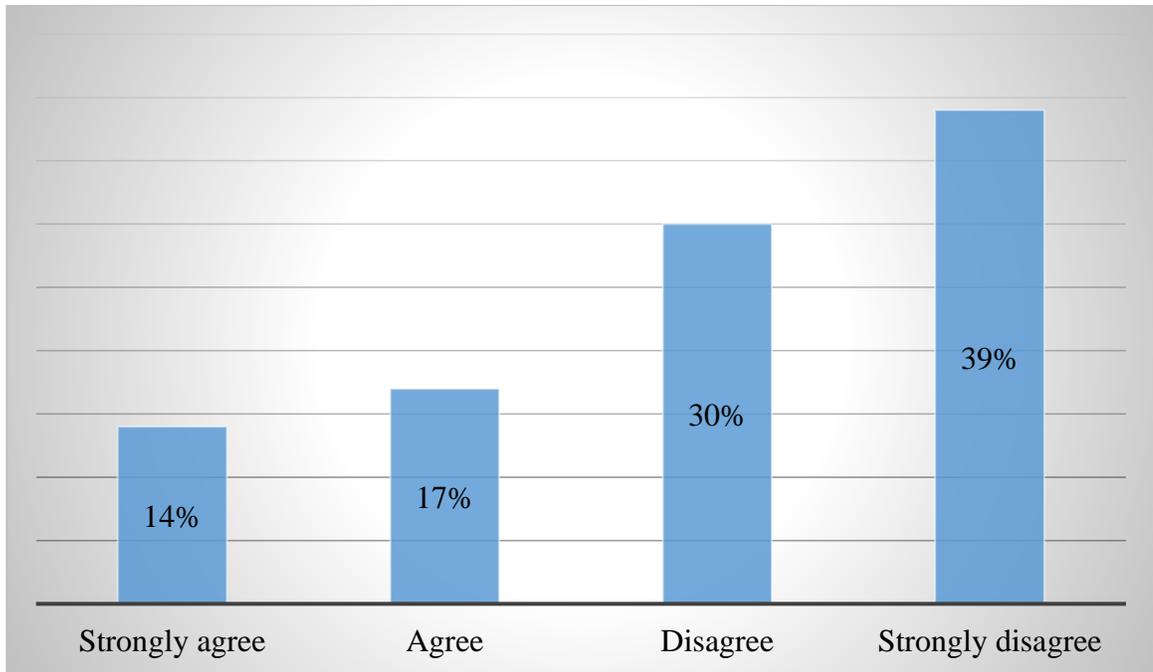
**Figure 4.9: Professional competency**

The study sought to establish the extent to which the respondents agreed with the statement that the internal auditors are proficient in problem solving techniques and use of tools. The study established that 20% of the respondents strongly agreed that internal auditors are proficient in problem solving techniques and use of tools, 15% of the respondents agree resulting to the total no of 15% agreeing. While 10% of the respondents were neutral, 30% of the respondents disagreed and 25% strongly disagreed resulting to the total no of 55% disagreeing that internal auditors are proficient in problem solving techniques and use of tools.



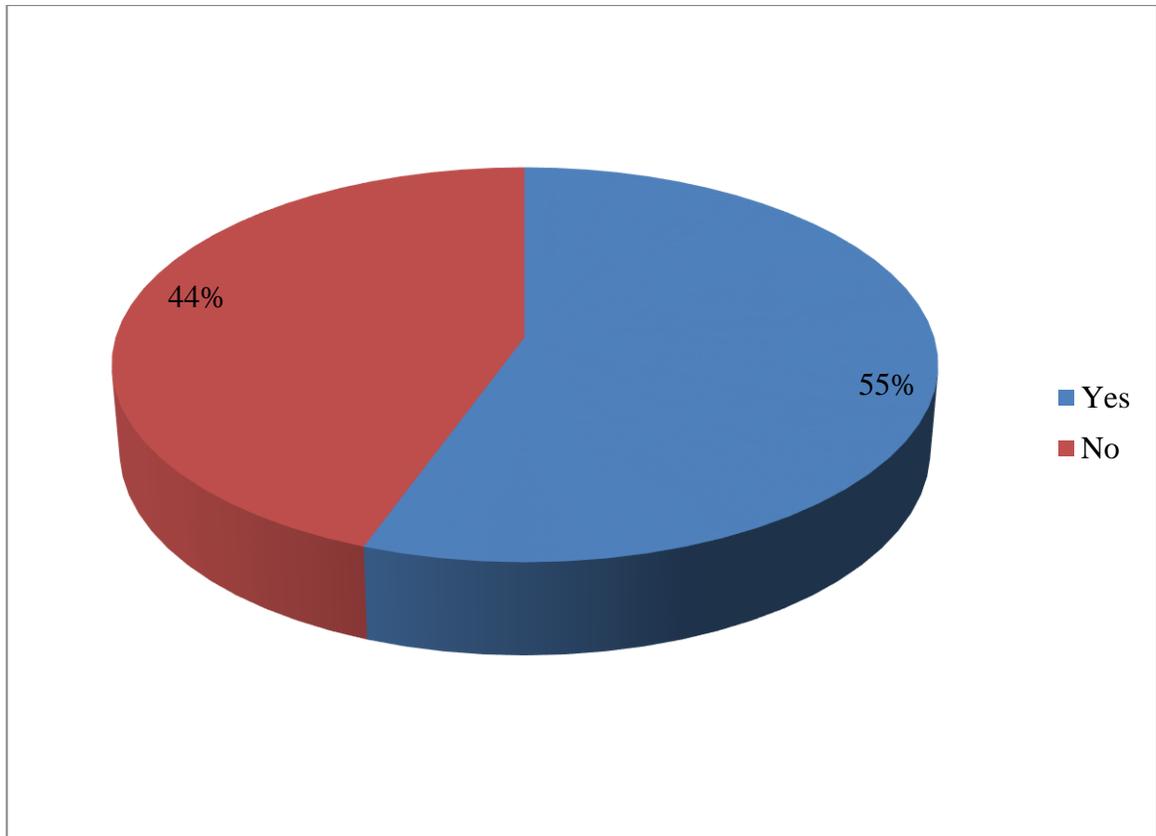
***Figure 4.10: Achieving of audit target***

The study sought to establish out the extent to which the respondents agreed with the statement that the internal auditors in the Ministry of finance meets the targeted number of audit reports as indicated in the audit plan. A five-point Likert type scale was provided with responses ranging from: significant below expectation, below expectation, Average expectation. The study established that 25% of the respondents indicated that it was significant below expectation, 30% of the respondents indicated that it was below expectation. While 38% indicated that it was average expectation and 7% were exceptionally above exceptionally.



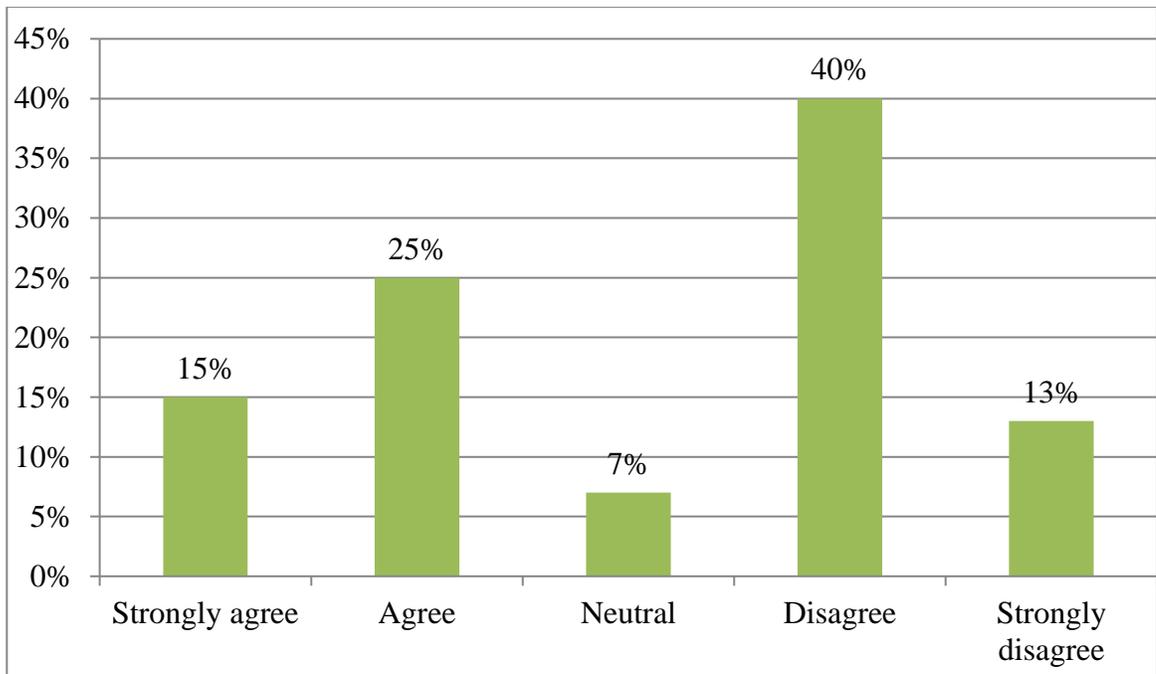
***Figure 4.11: Competent in governance, risk control assessment and risk analysis***

The study sought to establish the extent to which the respondents agreed with the statement that the internal auditors are competent in governance, risk control assessment and risk analysis. The study established that 14% of the respondents strongly agreed that internal auditors are competent in governance, risk control assessment and risk analysis, 17% of the respondents agree resulting to the total no of 31% agreeing, 30% of the respondents disagreed and 39% strongly disagreed resulting to the total no of 39% disagreeing that internal auditors are competent in governance, risk control assessment and risk analysis.



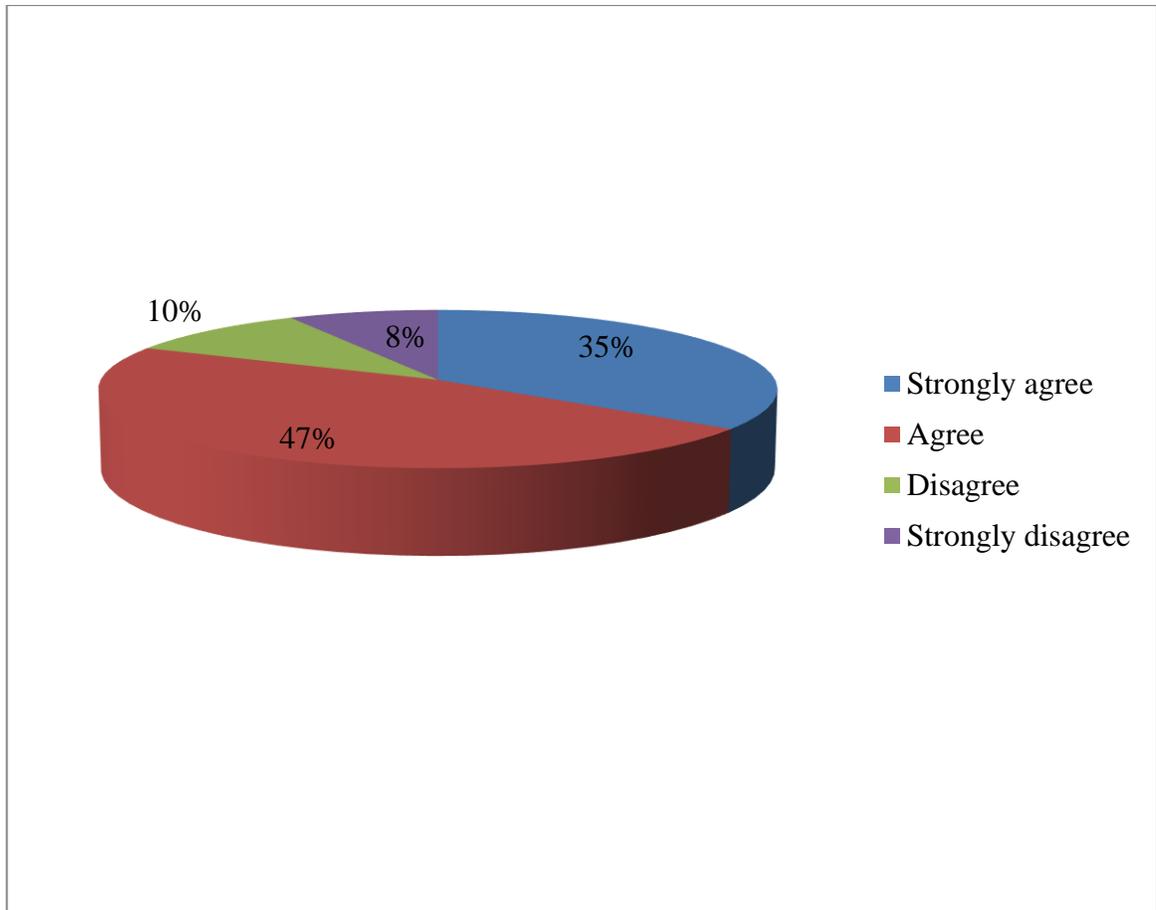
***Figure 4.12: Implementation of recommendation made by internal auditors***

The study also sought to establish whether the recommendations made by the internal auditors after conducting of audits are being implemented by top management. The study revealed that 55% of the respondents agreed that the management do implement recommendations which are made by auditor, while 45% did not agree with the statement that management implements the recommendations which are being made by the auditors.



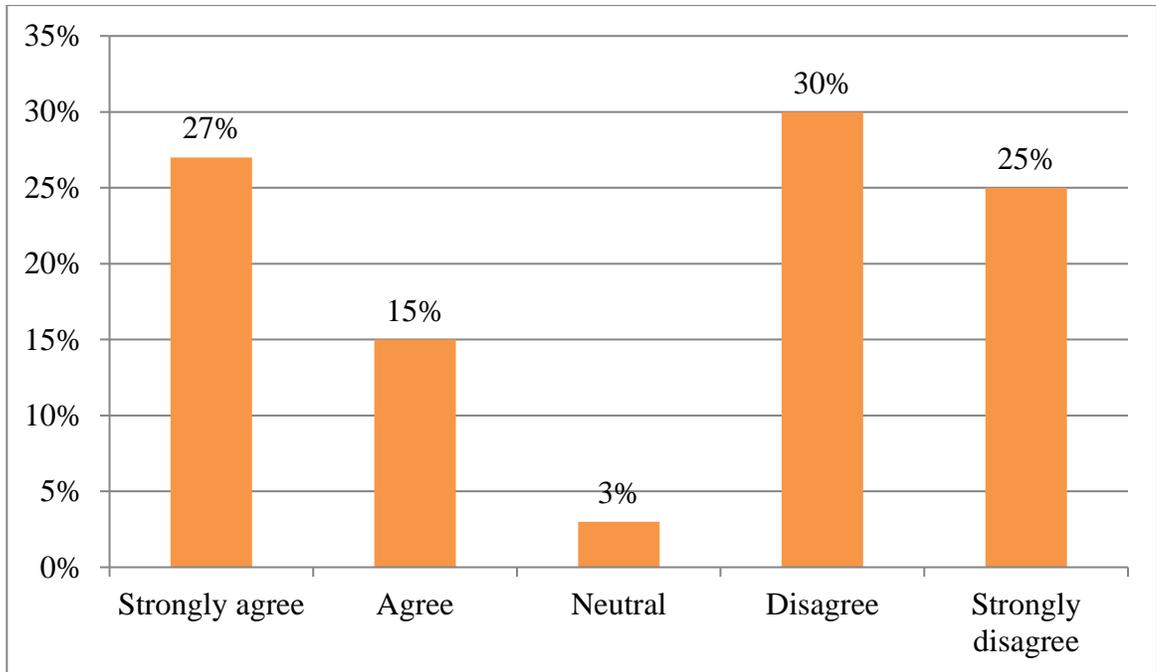
**Figure 4.13: Flexibility of processes and control**

The study also aimed at establishing the extent to which the respondents agree with the statement that there are flexibility of processes and control in place to manage the changing environment, new risks and new operational gaps in the MoF. The study revealed that 15% of the respondents strongly agreed and 25% agreed which represents a total number of 40% of the respondents agreeing that there are flexibility of processes and control in place to manage the changing environment, new risks and new operational gaps in the MoF. On contrary 7% were neutral, 40% disagreed and 13% strongly disagreeing that there are flexibility of processes and control in place to manage the changing environment, new risks and new operational gaps in the MoF.



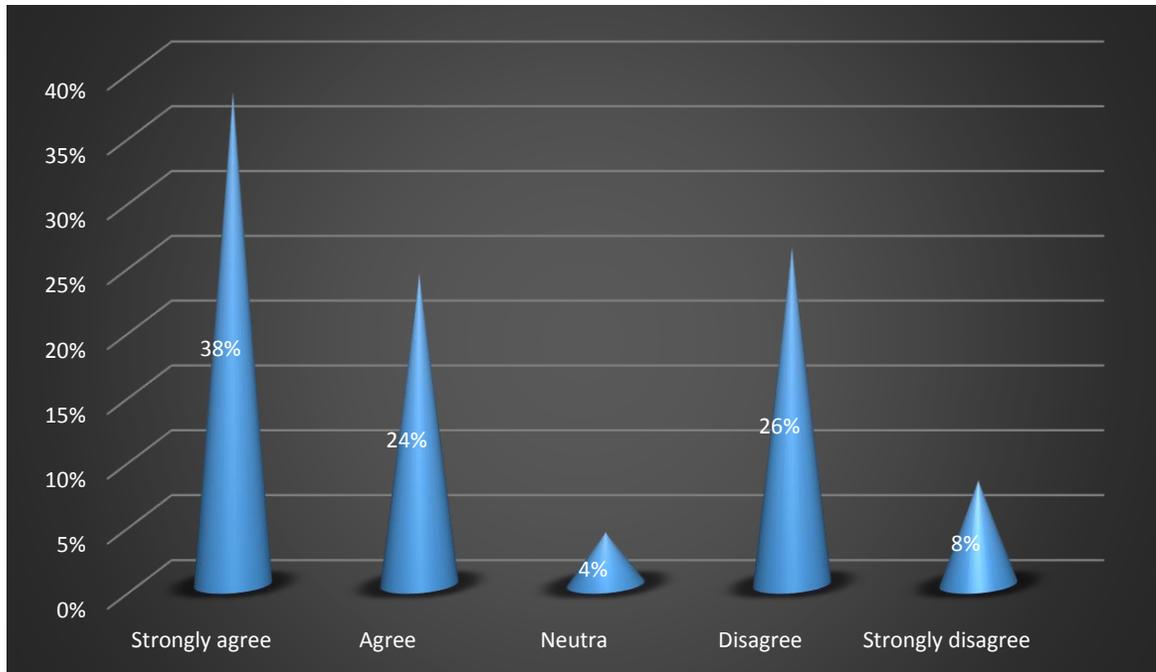
***Figure 4.14: Strategic plan, setting targets and scope of the freedom to act***

The study also aimed at establishing the extent to which the respondents agree with the statement that the MoF shares its strategic plan, set targets and what is expected of them and scope of their freedom to act. 35% of the respondents strongly agreed and 47% agreed which represents a total number of 82% of the respondents agreeing that the MoF shares its strategic plan, set targets and what is expected of them and scope of their freedom to act, shares its strategic plan, set targets and what is expected of them and scope of their freedom to act. On contrary 10% disagree and 10% strongly disagree, which gives a total of 18% disagreeing that the MoF shares its strategic plan, set targets and what is expected of them and scope of their freedom to act,



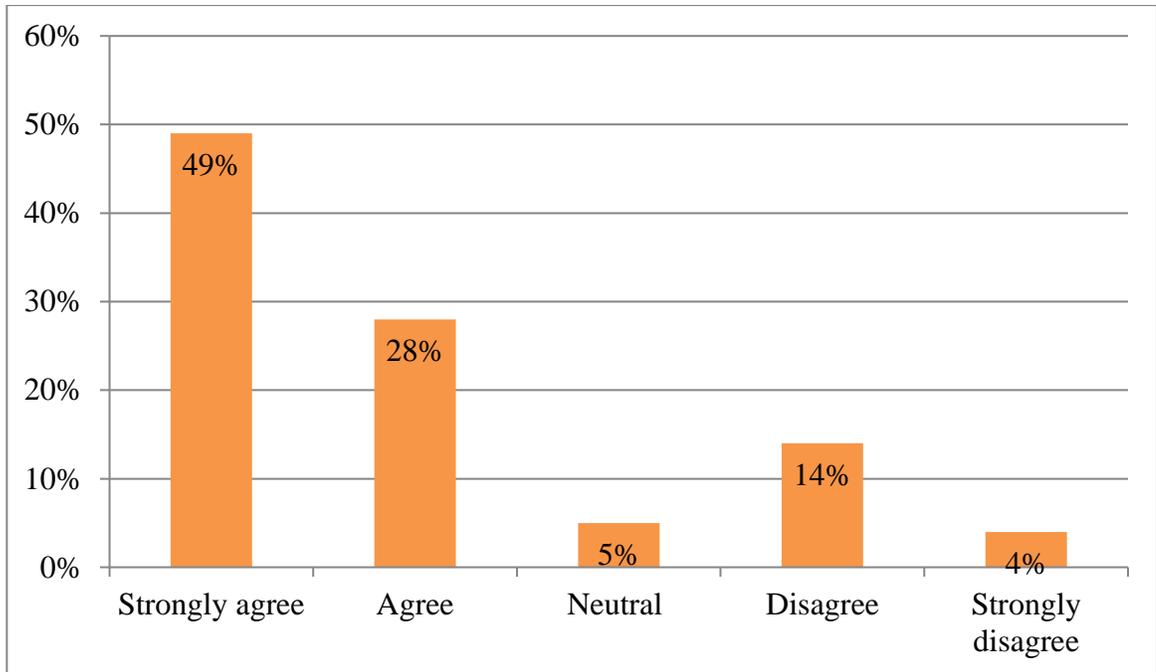
**Figure 4.15: The audit plans for managing major risks identified by internal auditors**

The study sought to find out the extent to which the respondents agreed with the statement that the audit department has well laid out audit plans for managing major risks identified by internal auditors. 27% of the respondents strongly agreed and 15% agreed which represents a total number of 42% of the respondents agreeing that the audit department in the audit department has well laid out plans for managing major risks identified by internal auditors in the audit department has well laid out plans for managing major risks identified by internal auditors MoF. On contrary 10% disagree and 8% strongly disagree, which gives a total of 18% disagreeing that the audit department in the MoF has well laid out audit plans for managing major risks identified by internal auditors.



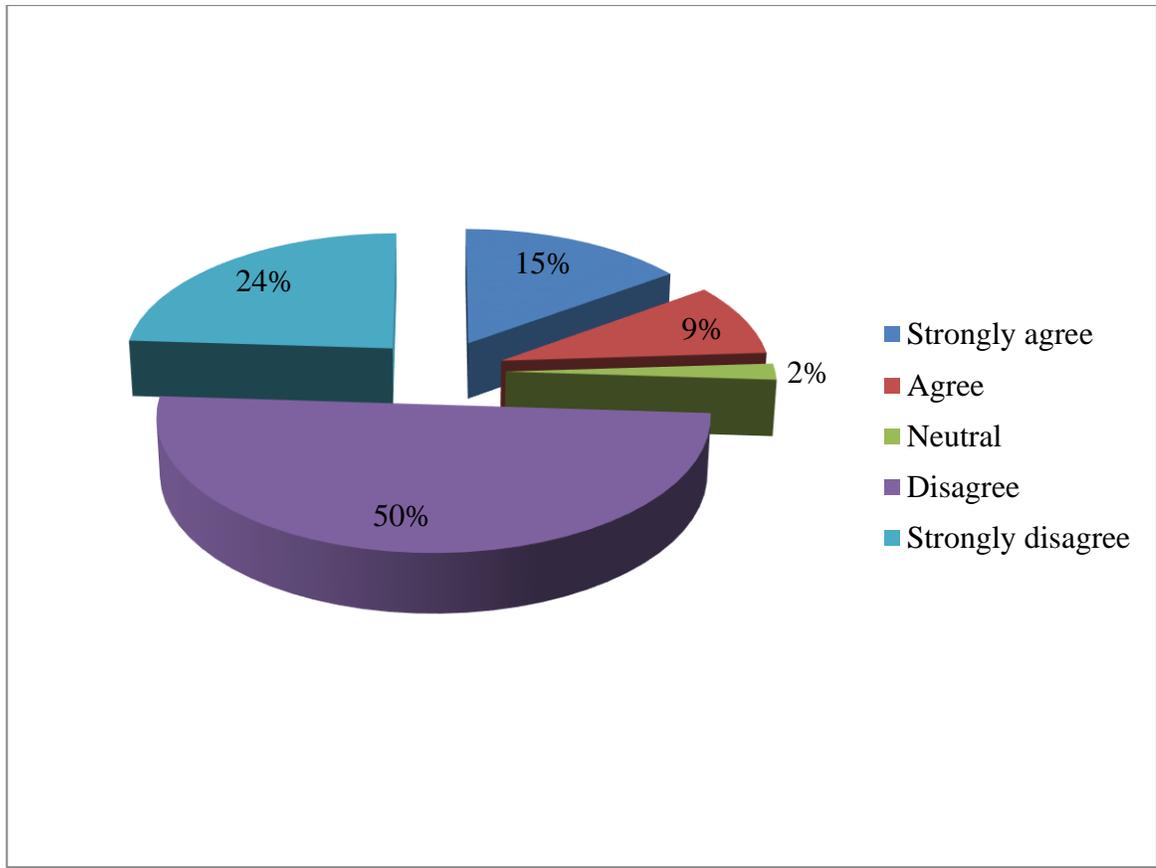
**Figure 4.16: Internal pressure**

The study sought to find out the extent to which the respondents agreed with the statement that the internal auditors are sufficiently immune from any internal pressure and undertake audits, report findings and recommendations. According to the respondents 38% of the respondents agreed and 24% agreed which represents a total number of 62% of the respondents agreeing that the internal auditors are sufficiently immune from any internal pressure and undertake audits, report findings and recommendations. On contrary 4% were neutral, 26% disagreed and 8% strongly disagreeing that the internal auditors are sufficiently immune from any internal pressure and undertake audits, report findings and recommendations. The internal auditors are sufficiently immune from any internal pressure and undertake audits, report findings and recommendations.



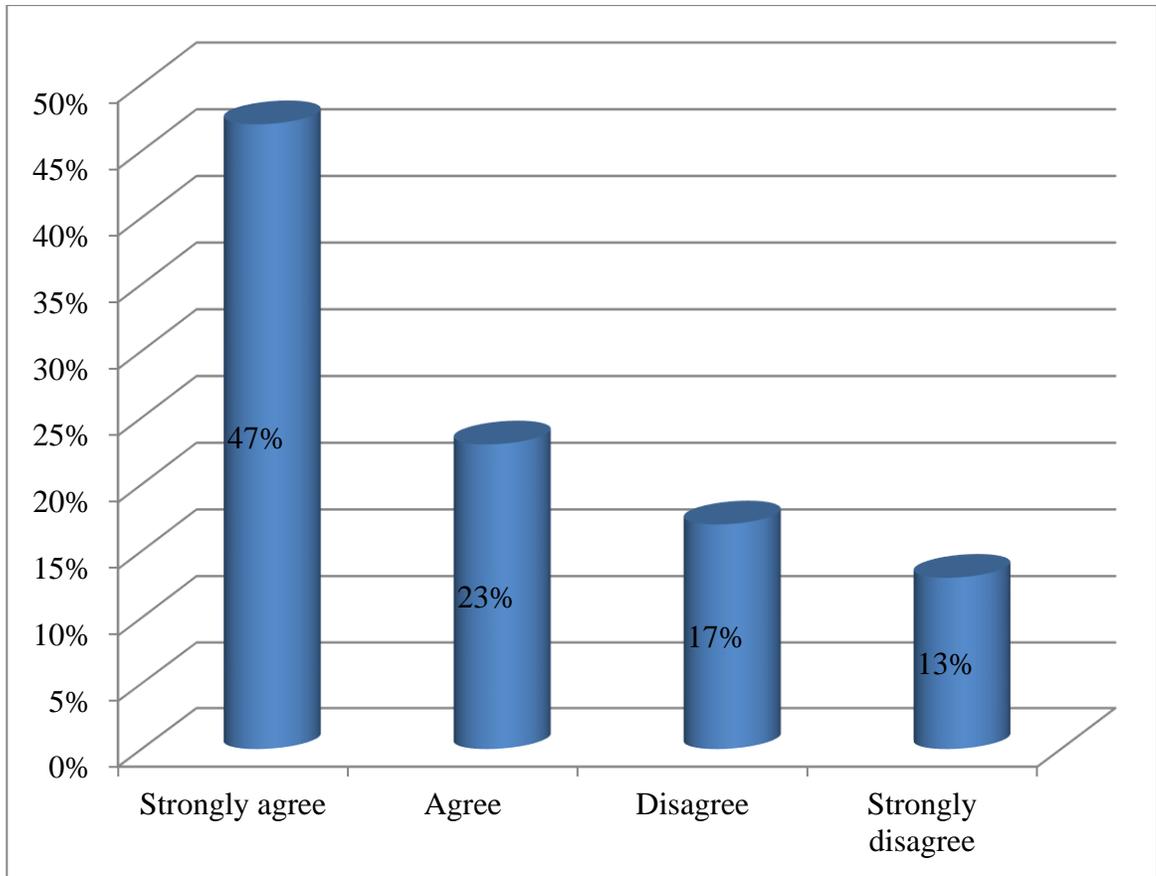
**Figure 4.17: Permitting internal auditors to audits their operations**

The study sought to find out the extent to which the respondents agreed with the statement that the MoF does not permit internal auditors to audit operations which they have undertaken. According to the respondents 49% of the respondents agreed and 28% agreed which represents a total number of 77% of the respondents agreeing that the MoF does not permit internal auditors to audits operations which they have undertaken. On contrary 5% were neutral, 14% disagreed and 4% strongly disagreeing that the MoF does not permit internal auditors to audits operations which they have undertaken.



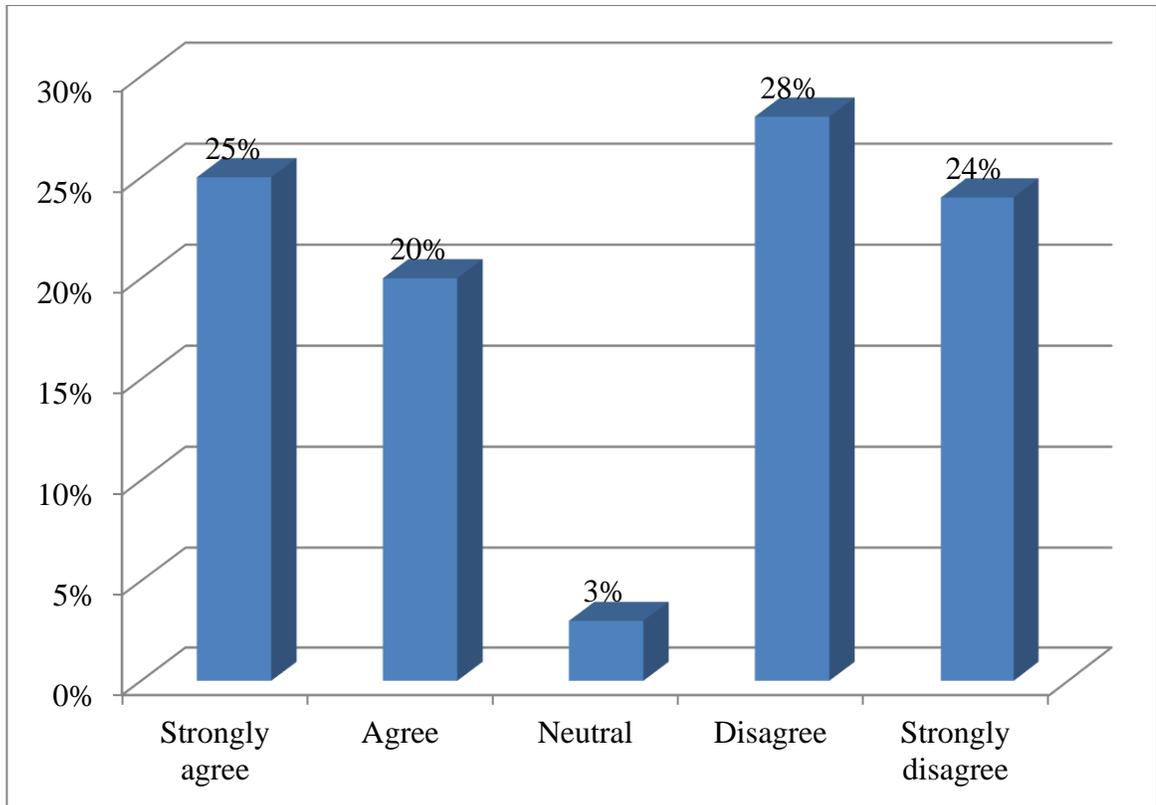
***Figure 4.18: Grading and remuneration of internal auditors***

The study sought to find out the extent to which the respondents agreed with the statement that the internal auditors are adequately graded and remunerated according to their roles and responsibilities. According to the respondents 15% of the respondents agreed and 9% agreed which represents a total number of 24% of the respondents agreeing that the internal auditors are adequately graded and remunerated according to their roles and responsibilities. On contrary 2% were neutral, 50% disagreed and 24% strongly disagreeing that the internal auditors are adequately graded and remunerated according to their roles and responsibilities.



**Figure 4.19: Free and unrestricted access**

The study also sought to find out the extent to which the respondents agreed with the statement that the internal auditors has free and unrestricted access to all operations, personnel assets and transaction records of the MoF. According to the respondents 47% of the respondents agreed and 23% agreed which represents a total number of 70% of the respondents agreeing that the internal auditors has free and unrestricted access to all operations, personnel assets and transaction records of the MoF. On the contrary 17% disagreed and 13% strongly disagreeing that the internal auditors had free and unrestricted access to all operations, personnel assets and transaction records of the MoF.



***Figure 4.20: Adequate awareness of risk management strategy for the MoF***

The study also sought to find out the extent to which the respondents agreed with the statement that the internal auditors are aware of various principles of risk assessment and appraisal as well as risks management of the MoF. According to the respondents 25% of the respondents agreed and 20% agreed which represents a total number of 45% of the respondents agreeing that the internal auditors are aware of various principles of risk assessment and appraisal as well as risks management of the MoF. On contrary 3% were neutral, 28% disagreed and 24% strongly disagreeing that the internal auditors are aware of various principles of risk assessment and appraisal as well as risks management of the MoF.

## **4.2 Oral interviews for Management**

### **4.2.1 The researcher sought to find out from the respondents if there is clear legislation and charters that define the roles and authorities of internal auditors?**

According to the respondents the audit charter defines clear and formally the functions and authorities of an internal auditor as provided by the Namibia State Finance Act of 1991, (No. 13 of 1991). Furthermore, the respondents indicated that the internal auditors are provided with the audit manual to guide them.

### **4.2.2 The respondents were also requested to provide information on whether there is a precise management policy on risk management.**

According to the respondents there was no precise management policy on risk management, but there were guidelines in place on how to mitigate and reduce the risk to occur within the different departments and that the only guide public document which is available for government institutions in the State Finance Act and the treasury instruction.

## **4.3 Chapter summary**

This chapter presented the results and an analysis of the findings of the study. The data was gathered using a questionnaire and an interview guide as the research instruments. The questionnaires were designed in line with the objectives of the study. The main objectives of the study were to investigate the effectiveness of internal audit in fraud detection and prevention in the MoF. The study revealed that the majority of the respondents were female. In addition, most of the respondents were internal auditors and most of the respondents had worked for a period of eleven to fifteen years. On the topic

of the level of education, the study established that the majority of the respondents were having tertiary qualifications in related fields of study and others fields of study. The next chapter presents the conclusions of the research and the recommendations.

## **CHAPTER 5**

### **CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 INTRODUCTION**

This chapter presents a summary of the key findings presented in the previous chapter, conclusions based on the findings and recommendations on the key problem areas that need attention and improvement. The purpose of this study was to investigate the effectiveness of internal control and internal audit in fraud detection and prevention in the MoF. This was to be achieved by addressing the following objectives:

- To determine the existence of internal audit control systems and their effectiveness.
- To identify the extent to which internal audit standards are adhered to at the MoF in terms of accountability, transparency, proper expertise and the effectiveness of fraud detection and prevention.
- To explore the impact of mal-administration on the organisation
- To recommend to the MoF the best strategy on prevention and fraud detection.

In chapter one, the motivation for the study was presented and culminated in the problem statement. The primary objectives were presented as being to investigate the effectiveness of internal audit in fraud detection and prevention in the MoF. This was followed by the conceptual framework which underpinned the study. Then the overview of the research method outlined the research design, data collection process, population and data analysis. The possible contribution of the study and chapter layout was then presented. Chapter two

contextualised the effectiveness of internal control and internal audit in the fraud detection and prevention for the public sector and private sector within a definition framework that included internal control systems and exposed how previous studies lend relevance to the whole effectiveness of internal control and internal audit in the fraud detection and prevention phenomenon. The discussion included internal control, internal audit and their significance. Chapter three presented a detailed discussion of the research methodology. In this regard, the research, components typical of a mixed methods study were explicated and included in the study. The research methods section comprising, research design, target population, sample, research instruments, procedures, data analysis and research ethics. Chapter four provided the data analysis and interpretation of the empirical data and the discussion of findings regarding the effectiveness of internal control and internal audit in the fraud detection and prevention phenomenon and chapter five presents the summary of the outcome of the whole study and presents conclusions on the findings as well as recommendations. It ends with identifying areas for future studies.

## **5.2 FINDINGS**

The research revealed that the majority of accounting, auditing and administration personnel are females, the majority were having at least 11-15 years working experience and have tertiary qualifications to facilitate achieving set goals and manage risks effectively. The study also revealed that, the management in the MoF in Namibia were committed to integrity and ethical values which are outlined in the code of conduct of the MoF. The study further revealed that the risks are not being identified, analysed and evaluated regularly. According to the respondents this is due to poor administration and lack of planning by management. However, it was further noted that there was an effective

authorisation and approval system in the MoF. Moreover, the study found that reconciliations were done but not checked by a respective officer in charge of the concerned unit. The study further established that the MoF was not doing enough in investing in the upgrading of information technology, for example staff members in the MoF are still using manual systems when conduct auditing, there is no accounting software used by auditors, the filling and retrieving of documents is also done manually which is a big risk, according to the respondents some files get lost and information disappearing.

The study revealed that management decisions were being made collectively without being manipulated by one dominant person. It was further revealed that management was seen as being solely responsible for setting up internal control systems and that no one particular person was in control of decisions. However, strengthening control systems and internal audit can be achieved through the use of five components of internal control namely: the risk assessment, control environment, control activities, information and communication and monitoring which are considered necessary for achievement of the MoF objectives.

The study noted that the core function of internal control and internal audit is to provide assurance to the MoF regarding the effectiveness of risk management. The majority of the respondents indicated that there are internal controls in the MoF. However, many of them indicated that the type of internal control system in existence is preventive. It was evident from the study that even though the MoF current risk management practices support the strong code of conduct of the MoF, there was lack of implementation from the management of the MoF.

The research revealed that the MoF does not have in place internal auditors skills development and supporting programmes for the internal auditors in order to improve their skills to enable them to carry out their roles objectively and in compliance with accepted criteria for professional practice and standards for audits. The study revealed that the internal auditor's independence and authority affects the performance of auditors. The study further noted that an internal auditor must be independent of both the personnel and operational activities of an organisation and the internal audit department in a public institution must be independent from activities which it controls.

However, the study revealed that the internal auditors in the MoF are sufficiently immune from any internal pressure and undertake audit, report findings and recommendations. The respondents agreed that the findings by internal auditors were being implemented by the management and the respondents revealed that there was flexibility of processes and controls to manage the changing environment with new risks or operational gaps.

The study further established that internal auditors' working environment affects the performance of internal auditors to a great extent. The study also revealed that internal auditors are expected to carry out their role objectively and in compliance with the accepted criteria set by the MoF and professional practice and standards for audits. The study also established that the auditor's independence and authority affects the performance of auditors. Therefore, the study revealed that an internal auditor must be independent of both the personnel and operational activities of an organisation.

The study also found that the majority of internal auditors did not have competencies in forensic skills, fraud awareness and relevant skills, tools and knowledge to facilitate

achieving set goals and manage risks effectively. The study further established that 55% of the internal auditors were not proficient in problem solving techniques and use of tools. The study also revealed that half of the internal auditors in the Ministry of finance don't meet the targeted number of audit reports as indicated in the audit plan.

The study further found out that the respondents agreed that the MoF shares its strategic plan, set targets and what is expected of them and scope of their freedom to act. The study also revealed that the respondents agreed that internal auditors have free and unrestricted access to all departments, operations, source documents, transaction records and assets of the MoF.

### **5.3 CONCLUSIONS**

The results of the study revealed that there are internal control and internal audit systems in the MoF. However, there was lack of implementation by the management on the findings and recommendations made by the internal auditors, therefore, the effectiveness of internal control and internal audit could be described as not being effective.

The study also concluded that the effectiveness of internal control and internal audit in fraud detection and prevention has a negative and significant relationship between internal control and internal audit and the level of fraud detection and prevention. The government ministries that have sound internal control and internal auditors face a low number of fraud incidences. Furthermore, the study further concludes that internal control and internal auditors of the MoF offered independent opinion regarding the operations of the MoF and that the MoF were not supporting the auditors with the formal audit training courses and were accorded with skills that suit their work in the internal audit department of the MoF. The study also concluded that the MoF does not optimally invest in information technology

and personnel are still using manual systems in most of their jobs which is a major challenge when it comes to internal assessment and risk analysis.

#### **5.4 RECOMMENDATIONS**

This study focused more on the investigation of the effectiveness of internal control and internal audit in fraud detection and prevention in the MoF, based on the findings and conclusions made, the researcher suggests the following recommendations:

- The MoF should adopt proper planning and monitoring of risk strategies
- For the MoF to operate effectively and mitigate risk, they should provide more training to the internal auditors, organising seminars and workshops where the internal auditors would be trained frequently by experts and exchange ideas.
- The internal auditor's work must be carefully directed, supervised and reviewed
- The MoF have to accept internal auditing as a tool for effective internal control and implement its recommendations in order to realise the objective of the MoF.
- The management in the MoF should procure the latest ICT internal audit software which will ensure better determination of risk and improve service delivery including fraud detection and prevention of non-compliance.
- Internal auditors should also be exposed to the developments in the internal audit frameworks regularly as provided for by the Institute of Internal auditors, professional bodies such as World Bank and the International Monetary Fund

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## APPENDICES

### APPENDIX 1: QUESTIONNAIRE

This questionnaire is designed to collect data investigation of effective of internal control and internal audit in fraud detection and prevention: A case study of Ministry of Finance

#### PART A: GENERAL INFORMATION

1. Gender

- a. Male [ ]
- b. Female [ ]

2. What is your age group?

- a. 20-35 years [ ]
- b. 36-51 years [ ]
- c. 52 and above [ ]

3. What is the level of the qualification do you have?

- a. No qualification [ ]
- b. Secondary education certificate [ ]
- c. Tertiary qualification in internal auditing and accounting [ ]
- d. Other tertiary qualifications [ ]

4. How long have you worked for the Ministry of Finance?

- a. 1-5 years [ ]
- b. 6 -10 years [ ]
- c. 11-15 years [ ]
- d. 16 – 20 years [ ]
- e. 21 years and above [ ]

5. What type of job are doing in your current position?

- a. Administration duties [ ]
- b. Accounting duties [ ]
- c. Auditing task [ ]

6. To what extent do you agree with the statement that the employees of the Ministry of Finance understand the code of conduct of government
- d. Strongly agree [ ]
  - e. Agree [ ]
  - f. Neutral [ ]
  - g. Disagree [ ]
  - h. Strongly disagree [ ]
7. To what extent do you agree with the statement that the management decisions are being made collectively and not being manipulated one dominant person?
- a. Strongly agree [ ]
  - b. Agree [ ]
  - c. Neutral [ ]
  - d. Disagree [ ]
  - e. Strongly disagree [ ]
8. To what extent do you agree with the statement that ethics policies exist in the Ministry of Finance
- a. Strongly agree [ ]
  - b. Agree [ ]
  - c. Neutral [ ]
  - d. Disagree [ ]
  - e. Strongly disagree [ ]
9. To what extent do you agree with the statement that the internal audit mechanism exists in the Ministry of Finance
- a. Strongly agree [ ]
  - b. Agree [ ]
  - c. Neutral [ ]
  - d. Disagree [ ]
  - e. Strongly disagree [ ]
10. To what extent do you agree with the statement that the top management were committed to issues of integrity
- a. Strongly agree [ ]
  - b. Agree [ ]
  - c. Neutral [ ]
  - d. Disagree [ ]
  - e. Strongly disagree [ ]

11. To what extent do you agree with the statement that technology issues are appropriately addressed?

- a. Strongly agree [ ]
- b. Agree [ ]
- c. Neutral [ ]
- d. Disagree [ ]
- e. Strongly disagree [ ]
- f.

12. The study sought to establish the extent to which the respondents agreed with the statement that the internal auditors are competent in risk control assessment.

- a. Strongly agree [ ]
- b. Agree [ ]
- c. Neutral [ ]
- d. Disagree [ ]
- e. Strongly disagree [ ]

13. Do you think the Ministry of Finance has future training plan for the internal auditors in order to upgrade their skills and expertise in the field of auditing?

Yes [ ]

No [ ]

14. Do you think the recommendations made by the internal auditors after conducting of audits are being implemented by the top management?

Yes [ ]

No [ ]

15. To what extent do you agree with the statement that there are flexibility of processes and control in place to manage the changing environment, new risks and operational gaps in the Ministry of Finance?

- a. Strongly agree [ ]
- b. Agree [ ]
- c. Neutral [ ]
- d. Disagree [ ]
- e. Strongly disagree [ ]

16. To what extent do you agree with the statement that the Ministry of Finance shares its strategic plan, set targets and what is expected of them and scope of their freedom to act?

- a. Strongly agree [ ]
- b. Agree [ ]
- c. Neutral [ ]
- d. Disagree [ ]
- e. Strongly disagree [ ]

17. To what extent do you agree with the statement that the Ministry of Finance has well laid out audit plans for managing major risks identified by internal auditors?

- a. Strongly agree [ ]
- b. Agree [ ]
- c. Neutral [ ]
- d. Disagree [ ]
- e. Strongly disagree [ ]

18. To what extent do you agree with the statement that the internal auditors are sufficiently immune from any internal pressure and undertake audits, report findings and recommendations independently?

- a. Strongly agree [ ]
- b. Agree [ ]
- c. Neutral [ ]
- d. Disagree [ ]
- e. Strongly disagree [ ]

19. To what extent do you agree with the statement that the Ministry of Finance does not permit internal auditors to audit operations which they have undertaken?

- a. Strongly agree [ ]
- b. Agree [ ]
- c. Neutral [ ]
- d. Disagree [ ]
- e. Strongly disagree [ ]

20. To what extent do you agree with the statement that the internal auditors are adequately graded and remunerated according to their roles and responsibilities?

- a. Strongly agree [ ]
- b. Agree [ ]
- c. Neutral [ ]
- d. Disagree [ ]
- e. Strongly disagree [ ]

21. To what extent do you agree with the statement that the internal auditors has free and unrestricted access to all operations, personnel assets and transaction record for the Ministry of Finance
- a. Strongly agree [ ]
  - b. Agree [ ]
  - c. Neutral [ ]
  - d. Disagree [ ]
  - e. Strongly disagree [ ]
22. To what extent do you agree with the statement that the internal auditors are aware of various principles of risk assessment and appraisal as well as risks management of the Ministry of Finance
- a. Strongly agree [ ]
  - b. Agree [ ]
  - c. Neutral [ ]
  - d. Disagree [ ]
  - e. Strongly disagree [ ]
23. To what extent do you agree with the statement that the internal auditors are skilful in forensic both management and operation research skills
- a. Strongly agree [ ]
  - b. Agree [ ]
  - c. Neutral [ ]
  - d. Disagree [ ]
  - e. Strongly disagree [ ]
24. To what extent do you agree with the statement that the internal auditors are proficient in problem solving techniques and of tools
- a. Strongly agree [ ]
  - b. Agree [ ]
  - c. Neutral [ ]
  - d. Disagree [ ]
  - e. Strongly disagree [ ]
25. To what extent do you agree with the statement that the internal auditors are skilful in in planning on risk based internal auditing
- a. Strongly agree [ ]

- b. Agree [ ]
- c. Neutral [ ]
- d. Disagree [ ]
- e. Strongly disagree [ ]

26. To what extent do you agree with the statement that the internal auditors are skilful in techniques on computer on using auditing software?

- a. Strongly agree [ ]
- b. Agree [ ]
- c. Neutral [ ]
- d. Disagree [ ]
- e. Strongly disagree [ ]

27. The study sought to establish out the extent to which the respondents agreed with the statement that the internal auditors are competent in forensic audit.

- Significant below expectation [ ]
- Below expectation [ ]
- Average expectation [ ]
- Above average expectation [ ]
- Exceptionally above expectation [ ]

28. Please rate the internal auditors in the Ministry of Finance using the key performance indicators; a. significantly below expectation. b. Below expectation c. Average d. above average e. exceptionally above exceptionally.

- a) Significantly below expectation
- b) Below expectation
- c) Average
- d) Above average
- e) Exceptionally above exceptionally

29. The internal auditors in the Ministry of Finance meets the targeted number of audit reports as indicated in the audit plan?

- f) Significantly below expectation
- g) Below expectation
- h) Average
- i) Above average
- j) Exceptionally above exceptionally.

30. Please explain in details if you there is clear legislation and charters that define the roles and authorities of internal auditors?

.....  
.....  
.....  
.....

32. Please explain in details whether there is a precise management policy on risk management?

.....  
.....  
.....  
.....

**APPENDIX 2: AUTHORISATION LETTER TO CONDUCT RESEARCH AT  
MINISTRY OF FINANCE**

6-0/0179



**REPUBLIC OF NAMIBIA**

**MINISTRY OF FINANCE**

Tel: (00 264 61) 2099111  
Fax: (00 264 61) 236454

Fiscus Building  
10 John Meinert Street  
Private Bag 13295  
Windhoek

Enquiries: ..... *Office of the PS* .....

Our Ref: ..... Your Ref: .....

**31 August 2018**

Ms Sarafina Kashona  
Student  
University of Namibia (NBS)  
**WINDHOEK**

Dear Ms Kashona,

**RE: REQUEST OF RESEARCH PROJECT AUTHORIZATION LETTER**

I acknowledge with appreciation, receipt of your letter dated 07 August 2018, on the above subject.

The Ministry is in full support of your request, and hereby, authorises you to conduct the research study.

You are advised to act in accordance with the Ministry of Finance policies and procedures, and all information obtained remains the property of this Ministry, and should be strictly used for the study purpose only.

It will be highly appreciated if you share with us the final report, which will allow us to work on the findings and recommendations.

Yours sincerely,

**ERICA SHAFUDAH  
PERMANENT SECRETARY**

*Cc: Deputy Director- Internal Audit*

All official correspondence must be addressed to the Permanent Secretary

## APPENDIX 3: AUTHORISATION LETTER TO CONDUCT RESEARCH FROM NAMIBIA BUSINESS SCHOOL



13 July 2018

### TO WHOM IT MAY CONCERN

**RE: MBA STUDENT – MS SARAFINA KASHONA – STUDENT NO: 200302922**

As part of our MBA Programme, students are expected to submit a research report after completion of their course-work. They need to explore in detail, some concepts and issues pertaining management strategies. To do that effectively, they need to conduct interviews and obtain practical examples.

Ms Kashona has chosen your organization to approach for information. It is against this background that I wish to kindly request you to assist Ms Kashona with the information she requires. Accept our assurance that the data will be used for academic purposes only. A copy of the completed document will be available at the Namibia Business School for perusal. Her research synopsis indicates that her topic touches on the *“Investigating the effectiveness of internal Audit in Fraud Detection & Prevention in the Ministry of Finance”*

Your kind assistance is highly appreciated.

Yours sincerely

Greenfield Mwakipesile, Dr  
Research Co-Ordinator  
Namibia Business School  
University of Namibia  
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Tel: + 264 (61) 413500 – Fax +264 (61) 413512 – E-mail: [info@edu.na](mailto:info@edu.na) – Trust reg. no T263/05

## APPENDIX 4: LANGUAGE EDITING CERTIFICATE



The Rev. Dr. Greenfield Mwakipesile

Tel: +264 81 251 1701 | mwakipg@outlook.com

### CONTACT

PO Box 40529,  
Ausspannplatz,  
Windhoek,  
Namibia

### LANGUAGE & COPY-EDITING CERTIFICATE

27<sup>th</sup> October 2018

**RE: LANGUAGE, COPYEDITING AND PROOFREADING OF SARAFINA KASHONA'S THESIS FOR THE MASTER OF BUSINESS ADMINISTRATION DEGREE OF THE NAMIBIA BUSINESS SCHOOL OF THE UNIVERSITY OF NAMIBIA**

This certificate serves to confirm that I copyedited and proofread SARAFINA KASHONA's Thesis for the MASTER OF BUSINESS ADMINISTRATION DEGREE entitled: **AN INVESTIGATION INTO THE EFFECTIVENESS OF INTERNAL CONTROL AND INTERNAL AUDIT IN FRAUD DETECTION AND PREVENTION IN THE MINISTRY OF FINANCE NAMIBIA**

I declare that I professionally copyedited and proofread the thesis and removed mistakes and errors in spelling, grammar, and punctuation. In some cases, I improved sentence construction without changing the content provided by the student. I also removed some typographical errors from the thesis and formatted the thesis so that it complies with the University of Namibia's guidelines.

I am a trained language and copy editor and have edited many Postgraduate Diploma, Masters' Thesis, Dissertations and Doctoral Dissertations for students studying with universities in Namibia, Zimbabwe, Swaziland, South Africa and abroad. I have also copy-edited company documents for companies in the region and abroad.

Please feel free to contact me should the need arise.

Yours Sincerely,

A handwritten signature in black ink that reads "Dr. Greenfield Mwakipesile".

The Rev. Dr. Greenfield Mwakipesile



greenfield.mwakipesile



@mwakipg



+264813901701



Dr. Greenfield Mwakipesile