

AUDIT PRACTICES AND PERFORMANCE IN FRAUD
DETECTION AND PREVENTION IN THE PUBLIC SECTOR IN
UGANDA
CASE OF KIRUHURA DISTRICT

BY

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DECLARATION

I, **Katusiime Adrine**, hereby declare that this is my original thesis report and has not been previously presented in any other university or college for academic award. All information from the named sources has been duly acknowledged.

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Signature

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Date

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APPROVAL

This study on the Audit practices and Performance in fraud detection and prevention in the public sector in Uganda has been submitted with the approval of my research supervisors.

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DEDICATION

Special dedication to my mother Eve Muruka, my dear husband Mr. Mwebesa Joseph, to my children Joanah, Josh and Jaiden for all the support and patience they accorded me to enable me complete this project. Most of all, to the Almighty God whose guidance I sought while carrying out the study.

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May God Bless You

Table of Contents

DECLARATION	i
APPROVAL	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
Table of Contents	v
List of Abbreviations	vii
List of Tables	viii
Abstract	ix
CHAPTER ONE	1
1.0 Introduction	1
1.1 Background	1
1.2 Problem Statement	3
1.3 Purpose of the Study	4
1.4 Specific Objectives	4
1.5 Research Questions	4
1.7 Significance of the Study	5
CHAPTER TWO	7
LITERATURE REVIEW	7
2.1. Introduction	7
2.2 Theoretical Foundation	7
2.3 Review of Related Literature	8
2.3.1 Fraud	8
2.3.2 Forms of Fraud	9
2.4 Audit Practices in Fraud Prevention, Mitigation and Management	10
2.5 Tools used in Fraud detection and Prevention	13
2.6 Auditors' Experience and Professionalism in Detecting Fraud	15
2.7 Audit Practices and Service delivery	16
2.8 Audit Practices and performance	17
2.9 Summary of Literature	19
CHAPTER THREE	20
RESEARCH METHODOLOGY	20
3.0 Introduction	20
3.1 Research Design	20
3.2 Study Area	21
3.3 Population description	21
3.4 Sampling and Sample size determination	21
3.5 Data Collection Methods	22
3.6 Quality Control	23

3.7 Research procedure.....	23
3.8 Data Analysis	24
3.9 Problems encountered.....	25
CHAPTER FOUR.....	26
ANALYSIS, PRESENTATION AND INTERPRETATION OF RESULTS.....	26
4.0 Introduction.....	26
4.1 Demographic Characteristics of the Respondents	26
4.2 Current Audit practices used to detect and prevent fraud in Public sector.....	27
4.3 Tools used in Fraud detection and Prevention.....	32
4.4 Auditors' Experience and Professionalism in Detecting Fraud.....	35
4.5 Testing for Linearity between Audit practices and Performance	37
CHAPTER FIVE	42
DISCUSSION, SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	42
5.0 Introduction.....	42
5.1 Discussion of Results.....	42
5.1.1 Current audit practices used by Internal Auditors in Kiruhura district in detecting and Preventing Fraud.....	42
5.1.2 Tools and Methods used by internal auditors to detect fraud in Kiruhura district	44
5.1.3 Level of experience and professionalism required of internal auditors in detecting and preventing the fraud risk	45
5.2 Summary	47
5.3 Conclusions.....	48
5.4 Recommendations	48
5.5 Areas for further Research	49
Appendix 1: Questionnaire	53
Appendix 2: SPSS Output Results.....	56

List of Abbreviations

ACFE;	Association of Certified Fraud Examiners
CAO:	Chief Administrative Officer
CHOGM:	Commonwealth Heads of Government Meeting
FY:	Financial year
GTAG:	Global Technology Audit Guide
IIA:	Institute of Internal Auditors
LCs:	Local Councils
MoLG:	Ministry of Local Government
NN:	Neural Networks
NSSF:	National Social Security Fund
OAG:	Office of the Auditor General
PAC:	Public Accounts Committee
RDC:	Resident District Commissioner
SPSS:	Statistical Package for Social Scientists
UPF:	Uganda Police Force

List of Tables

Table 3.1: Showing the Sampling Frame for the Study	22
Table IV: Responses on Demographic Characteristics of Respondents.....	27
Table V: Findings about Current Audit Practices in the Public sector	29
Table VI: Findings about Current Audit Tools used to Detect and Prevent Fraud	33
Table VII: Showing Responses on Auditors' Experience and Professionalism.....	36
Figure 1: Pre-test condition for Linearity	38
Table VIII: Pearson Product Moment Correlation	39
Table IX: Correlations	39
Table X: Analysis of Variance (ANOVA).....	40
Table XI: Regression analysis results Coefficients	40

Abstract

According to Coram, Ferguson, Moroney (2006), fraud encompasses an array of irregularities and illegal acts characterized by intentional deception, either for the benefit or detriment of the organization by internal or external persons. It comprises all acts, omissions and concealments involving a breach of a legal or equitable duty and resulting damage to another.

This study set out to analyze the Audit Practices used in detecting and preventing fraud in Kiruhura district.

The objectives of the study were to examine the: current audit practices used by internal auditors; tools used by internal auditors to detect fraud; level of experience and professionalism required of internal auditors in detecting and preventing the fraud risk; performance of the various audit practices in detecting and preventing fraud.

The study findings indicated that: internal audit practices (internal control system (60%); supervision of transactions; whistle blowing (86.7%); segregation of duties (93.3%) are in excellent position to identify fraud schemes and scenarios and evaluate the controls in place to prevent them; the tools used by organizations such as financial model of fraud risk assessment perform, computer based audit techniques to perform analytical procedures, and use of computer programs and checklists are in a better position to detect and prevent fraudulent activities in organizations; and auditors must possess a given set of professional skills and a high degree of professionalism to be able to detect and prevent fraudulent cases in organizations.

The study recommends organizations should use a good mix of audit practices with a good number of the tools used while emphasizing on the use of auditors that are well trained and practice a high level of professionalism to effectively detect and prevent fraud in organizations.

The study also recommends that more research is needed to focus on the intrinsic and extrinsic factors that motivate internal auditors to effectively detect and prevent in organizations where they work.

CHAPTER ONE

1.0 Introduction

This chapter presents the background, problem statement, purpose, objectives, research questions, scope and significance of the study as well as the conceptual framework. This study is focused on audit practices and performance of the public sector in fraud prevention and detection.

1.1 Background

Internal audit is an independent appraisal function within the organisation set up for the view of systems of controls and quality performance (khalisa 2000). Fullerton and Durtschi (2004) refer to Internal audit function as an impendent objective assurance and consulting activity designed to add value and approve an organization's operations including detecting and preventing fraud. Fraud encompasses an array of irregularities and illegal acts characterized by intentional deception, either for the benefit or detriment of the organization by internal or external persons (Coram, Ferguson, Moroney; 2006).

Section 90 of the Local Government Act (LGA) 1997 provides for the establishment of the internal audit departments in the local governments with a view of assisting the Local Government provide public goods and services in an effective, efficient and economic manner. Section 91 of the LGA as ammended to 2002 provides that every district, Municipal council or town shall provide for an internal department in order to foster financial management. Its head is charged with preparing quarterly reports and submit them to the council giving a copy to the

Local Government Accounts Committee. In execution of their duties Internal Auditors apply a number of audit practices to enhance good performance especially in the areas of detecting and preventing fraud.

Audit practices prescribe the way in which auditors must carry out their audit functions. The way in which auditors carry out their audit functions differ from sector to sector with each sector having a different code of audit practice (Nagy and Cenker, 2002). Codes of Audit Practice in each sector define the scope, nature and extent of local audit work and are always in line with its set of internal controls (Carcello, Hermanson and Raghunandan; 2005).

Local Governments in Uganda use codes of Audit Practices as stipulated in the Local Governments Internal Audit Manual (LGIAM) of 2007. Audit practices geared towards detecting and preventing fraud in Kiruhura district Local government cover aspects of income where tests are done to ensure the accuracy of the records in respect of the main areas of income; expenditure where tests are done to check the accuracy of the records in respect of the areas of expenditure being examined each financial year; cash and bank; assets and liabilities as well as checking whether financial statements have been properly drawn up from the trial balance, and that the trial balance has been correctly extracted from the books of account among other practices.

As organizations work to reduce the incidence of fraud, their anti-fraud programs continue to rely heavily on Audit practices. Over time as audit practices aim at reviewing systems in the organization, they develop an overall knowledge of the organization's processes, risks, control systems and personnel (Nestor, 2004). These factors contribute to their effectiveness in detecting

and preventing fraud. The effectiveness of audit practices in detecting and preventing fraud in organizations is reflected in the effectiveness of internal controls implemented in organizations. Conversely, inadequate internal controls are the primary contributing factor to frauds committed in organizations (ACFE, 2008).

1.2 Problem Statement

The Audit practices and performance has long been acknowledged as one of the cornerstones in an entity's corporate governance (Carcello, et al, 2005).

Despite the Audit Practices put in place by Kiruhura Local Government to verify, evaluate and examine book keeping records in accordance with the Local Government Finance and Accounting Regulation(LGFAR) 1998 and the Internal Auditors' Manual 2007, fraud detection and prevention has remained rampant in the district. Since 2011, several employees in the accounts department have interdicted due to misappropriation of funds meant for Local Government development projects and salaries for other employees as reported by the Public Accounts Committee (PAC) report 2012 and the Office of the Auditor General's (OAGs) report for the year ending 30th June 2012. According to the PAC and OAG reports Musinguzi was interdicted for fraud involving UGX 30m meant for the extension of water and sanitation services in the district while Kirumira was charged for diversion of 190million shillings that was wired from Kiruhura district intended to end up in the consolidated account in Bank of Uganda. Instead, the money was traced to Kirumira's Bank of Baroda Account.

There is thus a need to review the audit practices carried in the district and their performance in fraud detection and prevention, a motivation for this research.

1.3 Purpose of the Study

The main purpose of this research is to examine audit practices used in fraud prevention and detection in the public sector in Uganda with Kiruhura district as a case study.

1.4 Specific Objectives

The specific objectives of the study were to:

1. Examine the effectiveness of Audit practices used by internal auditors in detecting and preventing fraud in Kiruhura district;
2. Identify the tools used by Internal Auditors and their effectiveness in fraud detection and prevention in Kiruhura district;
3. Examine the relationship between experience and professionalism of Internal Auditors and the performance of Audit Practices in fraud detection and prevention;

1.5 Research Questions

This research was guided by the following research questions:

1. How effective are the audit practices in fraud detection and prevention in Kiruhura district?
2. What tools are used by internal auditors to detect and prevent fraud in Kiruhura district?
3. What is the relationship between the level of experience and professionalism of internal auditors and the performance of Audit Practices in fraud detection and prevention?

1.6 Scope of the Study

This research was based mainly on a case study of Kiruhura District Local Government. Particular emphasis was put on the finance department of the district, Mbarara regional auditor-

General's office and Kiruhura district Internal Audit department. Decisions and conclusions were based on the views expressed by respondents in these departments. Also the office of Chief Administrative Officer, RDC and the District Local Council V was also interviewed.

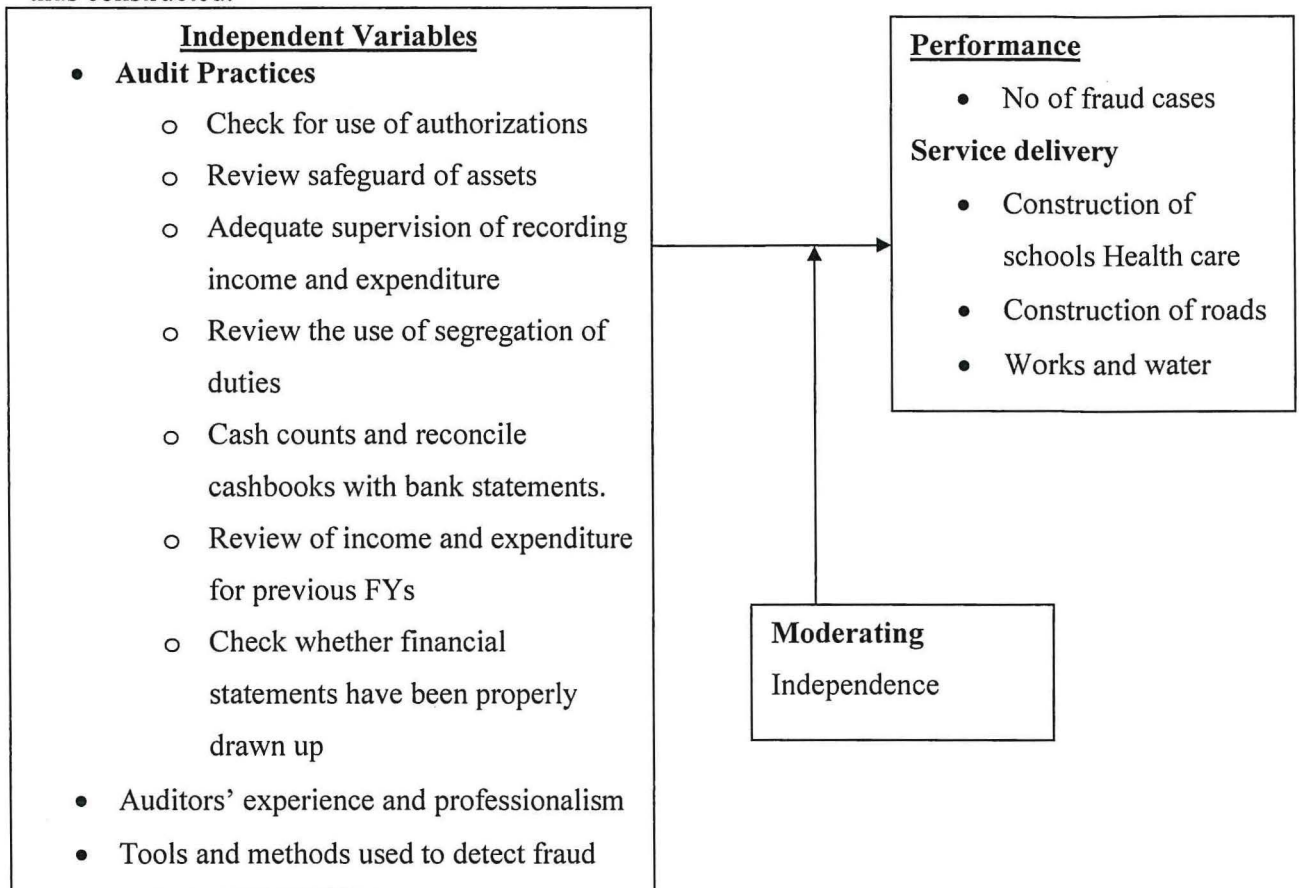
The study also focused on the various audit practices used by Internal Auditors in detecting and preventing fraud in the district. The performance of audit practices were examined in terms of improving the quality of financial information; reducing fraud cases; enhancing the organizations firm value. The study finally focused on how internal controls have influenced the fraud status in Kiruhura district for the last five financial years (i.e. FY 2008/2009 to 2012 to 2013).

1.7 Significance of the Study

There is the need for the internal auditor to be effective so as to create improvement in the management of government parastatals. This expectations gap arising from the mandatory obligation imposed on internal auditors raises the question of internal auditors' fraud detection capabilities in the context of assessing the effectiveness of internal audit as a tool to detect and prevent fraud in the public sector with a major focus on Kiruhura district. Positive improvements in the public sector will definitely benefit the citizenry of the Ugandan nation. Therefore, this study aims to identify the determinants of auditor performance in the fraud detection task.

1.8 Conceptual Framework

From the above sub-sections and literature reviewed, the following conceptual framework is thus constructed.



The above conceptual framework describes that the effectiveness of audit practices mainly depends on the Independence of the Internal Auditors in performing their audit functions.

Auditors experience and level of professionalism as well as tools and methods used by Internal Auditors in their audit functions have a direct impact in the delivery services in Kiruhura district. The success of audit practices, auditor's level of experience and professionalism and the tools and methods used in their audit function leads to the better performance of Kiruhura district in terms of detecting and preventing fraud, construction of schools and health centers as well as provision of water and sanitation services.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter focused on reviewing the literature related to audit procedures, the value of internal audit in fraud prevention and detection, and performance management of audit procedures in fraud prevention and detection.

The primary aim of this literature review was to analyze what has been researched in relation to the topic under study. This provided profound insight into the topic and facilitated the interpretation of the findings. The source of this literature was mainly from academic journals, the internet, newspapers and magazines, newsletters and reports of specific institutions.

2.2 Theoretical Foundation

The organizational theory and contracting theory suggests that only certain types of organizations with particular firm characteristics could benefit from internal audit quality (IAQ) as exemplified by the Audit practices undertaken¹.

¹ SAS 65 (AICPA 1991) describes internal audit quality characteristics as comprising of competence (i.e. educational level, certification and prior experience), objectivity (e.g., reporting relationship, party responsible for appointment and termination of internal auditors), and quality of work performance (e.g., adequacy of audit practices). Likewise, the IIA standard 1210 on internal auditor's proficiency specifies that the internal auditors should possess the knowledge, skills and other competencies needed to perform in order to ensure audit effectiveness. In our study, we focus on internal auditors' competence, proxied by auditing experience and certification of the internal audit staff

According to organizational contingency theory, linkages between specific management control systems and firm performance are likely to depend on contextual and environmental factors (Chenhall, 2003). Similarly, according to contracting theory the relationship between management control systems and firm performance depends on the costs of writing and enforcing contracts which may vary depending on firm characteristics (Watts and Zimmerman 1986). In this study we draw on contracting theory to investigate whether audit practices affect the relationship between fraud detection and prevention and organizational performance.

2.3 Review of Related Literature

2.3.1 Fraud

According to Coram et al (2006), 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 or she it is entitled by using any of the means described above also constitutes fraud.

Fullerton and Durtschi (2004) agree that fraud takes many forms that include: embezzlement, kickbacks, theft, fraudulent financial reporting, environmental crimes, software piracy, bid rigging, computer-related crime, identity theft, credit card fraud, check fraud, fraudulent workers compensation claims, ghost employee schemes, expense report schemes, “dummy” vendors, unreported conflicts of interest, among others.

According to Adeniji (2004) and ICAN (2006), fraud is an intentional act by one or more individuals among management, employees or third parties, which results in a misrepresentation

of financial statements. Fraud can also be seen as the intentional misrepresentation, concealment, or omission of the truth for the purpose of deception or manipulation to the financial detriment of an individual or an organization which also includes embezzlement, theft or any attempt to steal or unlawfully obtain, misuse or harm the asset of the organization, (Adeduro, 1998 and, Bostley and Drover 1972). Fraud has increased considerably over the recent years and professionals believe this trend is likely to continue.

According to Brink and Witt (1982), fraud is an ever present threat to the effective utilization of resources and it will always be an important concern of management. ISA 240 „The Auditor’s Responsibilities to Consider Fraud in an Audit of Financial Statement (Revised)“ refers to fraud as “an intentional act by one or more individuals among management, those charged with governance, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage”. Aderibigbe and Dada (2007) define fraud as a deliberate deceit planned and executed with the intent to deprive another person of his property or rights directly or indirectly, regardless of whether the perpetrator benefits from his or her actions.

2.3.2 Forms of Fraud

Weirich and Reinstein (2000 cited in Allyn and Howard 2005), define fraud as “intentional deception, cheating and stealing”. Some common types of fraud include creating fictitious creditors, “ghosts” on the payroll, falsifying cash sales, undeclared stock, making unauthorized “write-offs”, and claiming excessive or never-incurred expenses.

Pollick (2006) regards fraud as a “deliberate misrepresentation, which causes one to suffer damages, usually monetary losses”. Albrecht *et al* (1995 cited in Allyn and Howard, 2005:287)

classified fraud into employee embezzlement, management fraud, investment scams, vendor fraud, customer fraud, and miscellaneous fraud.

Fraud also involves complicated financial transactions conducted by white collar criminals, business professionals with specialized knowledge and criminal intent (Pollick 2006). According to Aguolu (2002), fraud can take place in one of two forms, which are either defalcations or manipulations.

Defalcation is the misappropriation of a company's assets. Manipulation is either the falsification of a company's records or the improper use of the asset of the company. Defalcation will often go with manipulations. Where the assets of a company have been misappropriated, the offender will often alter the records to conceal the misappropriation. Manipulations on the other hand, may go without defalcation. This may take the form of inflating the assets or omitting liabilities in order to show a particular view. However, for the purpose of this paper, the forms of fraud identified by Aguolu (2002) were adopted.

2.4 Audit Practices in Fraud Prevention, Mitigation and Management

According to Carcello et al (2005), there are a number of procedures adopted by organizations to help reduce the risk of fraudulent activity occurring within an organization.

Local Governments in Uganda use codes of Audit Practices as stipulated in the Local Governments Internal Audit Manual (LGIAM) of 2007. Audit practices geared towards detecting and preventing fraud in Kiruhura district Local government cover aspects of income where tests

are done to ensure the accuracy of the records in respect of the main areas of income; expenditure where tests are done to check the accuracy of the records in respect of the areas of expenditure being examined each financial year; cash and bank; assets and liabilities as well as checking whether financial statements have been properly drawn up from the trial balance, and that the trial balance has been correctly extracted from the books of account among other practices.

These audit practices essentially, involve the establishment of a positive internal control environment. A genuine interest and concern related to implementing sound internal controls in an organization should be conveyed to all personnel, and the major tenets of an internal control system include:

- Check for use of authorizations
- Review safeguard of assets
- Adequate supervision of recording income and expenditure
- Review the use of segregation of duties
- Cash counts and reconcile cashbooks with bank statements.
- Review of income and expenditure for previous FYs
- Check whether financial statements have been properly drawn up
- Independent validation of transaction accuracy.

Furthermore, the management of an organization is saddled with the prevention and control of all forms of fraudulent activities by instituting a sound internal control system manned by an internal auditor (Nessuer, 1997). The internal auditor endeavors to reveal any serious defect in systems of internal control which might lead to the perpetration of fraud and must have regard to the possibility of malpractice in areas under examination. He must be alert to the possibility of

corruption and be prepared to inform the appropriate level of management of any justifiable suspicions (Nessuer, 1997).

The existence of a properly functioning system of internal controls will diminish the incidents of fraud, so the auditor's opinion on the internal control system is of fundamental importance. Whenever a fraud is discovered, he should judge whether a weakness in internal control has been highlighted, and if so what changes are needed (Nessuer, 1997; David, 1999; Frigo, 2002).

Fullerton and Durtschi (2004), further supports this view and argues that audit practices are ideally placed to discover some anomalies that may be symptoms of fraud; internal auditors should receive fraud awareness training and be at the forefront of management actions in preventing and detecting of fraud.

Zikmund (2008) considers that internal audit practices are in excellent position to identify fraud schemes and scenarios and evaluate the controls in place to prevent them. Accordingly, audit practices in fraud risk assessment have the following benefits:

- Knowledge of fraud risks and ability to design audit programs to address those risks.
- Awareness of business operations and risks associated with the nature of operations.
- Ability to assess internal controls and antifraud programs.
- Ability to design audit programs to detect red flags for fraud schemes identified as high priority during the fraud risk assessment project.

Zikmund (2008), further argues since fraud risk assessments differ somewhat from the more conventional methods used to assess risk in that they are schemes- and scenarios-based, audit

practices in fraud cases requires experienced personnel who are familiar with the more common fraud schemes impacting today's organizations.

According to Matsumura and Tucker (1992), auditors are expected to better detect fraud when penalties for not detecting fraud are increased, when testing requirements are increased, or when clients' internal controls are strong. Managers are expected to be less likely to commit fraud when testing requirements are increased or when clients' internal controls are strong. An experimental market using accounting students and economic gains and losses to represent benefits and costs in this setting found results consistent with the expectations.

Caplan (1999) carried out a study that models the auditor's fraud investigation decision in a setting in which management is given two choices: whether to install weak or strong internal controls and whether to engage in fraudulent financial reporting. The study concluded that the use of control strength as a "red flag" in fraud risk assessment is reasonable even when management can override controls, and that, the audit failure rate is higher when internal controls are weak. When internal controls are weak, the auditor expects to find numerous errors. Because routine audit procedures do not distinguish between errors and fraud, the impact of fraud on audit evidence may go unnoticed.

2.5 Tools used in Fraud detection and Prevention

As many perpetrators use technology to carry out their frauds, internal audit practices should use technology to detect those misappropriations (IIA 2009b). IIA Standard 1220A2, *Due Professional Care*, specifically mentions the use of technology-based audit techniques (IIA

2009a, 20). Internal audit practices may find that several business intelligence tools can be effective for detecting fraud in the identified fraud risk areas. Several such techniques are addressed in The IIA's December 2009 Global Technology Audit Guide (GTAG), "Fraud Prevention and Detection in an Automated World." Due to the importance of this audit technique, the respondents were asked to indicate whether they used IT tools and if so which ones.

According to Eining, Jones, and Loebbecke (1997), auditors using a model that provided a suggested fraud risk assessment perform better than those using the checklist and those making unaided decisions. However, those using the expert system with constructive dialogue outperformed all other groups. The importance of management fraud assessment stems from its potential effect on subsequent audit planning decisions. In this regard, auditors using the expert system make decisions concerning additional audit actions that are more consistent with their risk assessments than auditors in the other groups (Eining, et al, 1997).

Green and Choi (1997) undertook a study to examine the relative effectiveness of neural networks (NN) as a means of detecting financial statement fraud in the revenue and collection cycle of publicly held manufacturing and merchandising companies. Three NN models are developed and applied to a sample containing both fraudulent and non-fraudulent financial statements. The study's results support future use of NNs as a fraud-risk assessment tool. Calderon and Green (1994) carried out a study that examines the use of financial analysts' forecasts in performing analytical procedures directed toward identifying fraudulent financial reporting. The authors find that financial analysts' forecasts provide relatively accurate signals of

fraud in the presence of fraudulent financial reporting. However, financial analysts' forecasts are ineffective in signaling the absence of fraud when fraud is not present.

Further study by Hassell (1994) identifies two limitations of the Calderon and Green (1994) study. First, analysts' forecasts are not intended to predict fraud. Second, analysts' forecasts may not be independent of management because of personal relationships between analysts and company employees.

Summers and Sweeney (1998) considers the explanatory power of a number of financial characteristics in predicting fraud. They concluded that fraud companies have a higher level of inventory relative to sales, are growing faster, and have a higher return on assets than non-fraud companies in the year prior to the beginning of the fraud.

2.6 Auditors' Experience and Professionalism in Detecting Fraud

While The IIA *Standards* do not require that internal auditors have the expertise of a person whose job it is to detect and investigate fraud, they are expected to have, as mentioned above, "sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization" (IIA 2009a, 19).

Bernardi (1994) argues that except for auditors with a high degree of sensitivity to ethical situations, auditors are insensitive to information about client integrity and competence when conducting a substantive audit procedure. This conclusion was supported in a behavioral experiment using managers and seniors from five of the then Big 6 firms. Further, fraud detection was higher for managers and for those with an increased prior belief about fraud. From

the findings by Bernardi (1994), it is evident that auditors must possess a given set of professional skills and a high degree of professionalism to be able to detect and prevent fraudulent cases in organizations where they are tasked with the responsibility of detecting and preventing fraud.

Hoffman and Patton (1997), examined whether the extent of dilution (i.e. the extent to which auditors' judgments are influenced by irrelevant information) in the fraud risk context is affected by accountability to superiors. Results show that auditors' judgments exhibit the dilution effect regardless of accountability. While accountability does not exacerbate the dilution effect, it is associated with more conservative fraud-risk assessments.

According to Braun (2000), time pressure reduces the likelihood that auditors will detect cues that could lead to discovery of fraudulent financial reporting. According to him, experienced auditors under time pressure in an experiment were more focused on accumulating evidence regarding frequency and amount of misstatements at the expense of attention given to qualitative aspects of misstatements indicative of potential fraud. Further, evidence suggested that those under low levels of time pressure considered a broader range of cues while executing detailed tests.

2.7 Audit Practices and Service delivery

Audit Practices as part of the organization corporate plan is expressive of its direction and how the internal set up is anticipative of the future. According to the report by the Inspector General of Government (IGG), 2002 the success of decentralization powers, functions, and services is

subject to local revenue potential of the Local Governments and their performance. However, available data in many local governments indicate that local revenues perform poorly against the annual projections or budget due to poor auditing carried out. This is evidenced by accumulation of salary arrears, failure to account for donor funds, failure to fund development projects from local revenues and poor service delivery. Humprey (2006) argues that many audit practices are done as pre-audit activities which are part of the larger audit practices in public corporations. This is contrary to internal auditing which is the review of operations. Thus internal auditors do not get time to review all operations since Audit staffs are normally few in number which is a major hindrance decision making. Local governments must meet minimal standards before they can receive development funds. These include ensuring sufficient financial accounting practices that working communities are in place and capable of steering investments through the design, appraisal and implementation process (Ursala, 2002). Additionally, Local Governments reports on their performance submit their accounts and must ensure periodic monitoring of investments in order to maintain quarterly payments (Kullenberg and Porter, 2001).

2.8 Audit Practices and performance

Mc Namee and Selim (2000) stated that managers are operating in an increasingly complex of corporate governance. The emergence of risk management as a key organizational process gives the internal auditing profession a unique opportunity to shift its focus from control of functional area to risk. The new paradigm recognizes that risk is the driver of organizational activity and corporate governance is the organization's strategic responses to risk. According to Hespeneide (2003), demonstrating an understanding of the importance of strong corporate governance is a

great opportunity for a company to win in the market place to owners, that the company is managing their risks and thus a sound investment. Roth(2004) observed that good audit practices provide reliable financial reporting for management decisions and the accomplishment of goals and objectives, poor or excessive internal controls reduce productivity increase the complexity of processing transaction, increase in the time required to process transactions and add no value to the activity. Humprey (2006) asserts that in the process and audit interviews, interactions with internal auditors, and review of audit reports, employees get a greater understanding of the functions they perform and why the functions are important. By understanding each task's significance, employee can have beyond perfunctory activity to performance excellence. In line with Humprey(2006), Reanger (2006) argues that, in addition to identifying weak or overlooked controls, audit practices lead to process improvement discoveries or efficiency break through and that such exchanges with internal auditors can provide employees with new perspectives on their positions, triggering ideas for process improvements or new business possibilities Gramling (2004) argues that audit practices have demonstrated over the past few years as many departments played a significant role in helping their organizations meet increased compliance requirement. Accordingly Maletta (2004) adds that audit practices are now looking for improvement opportunities within the audit department, and internal audit leaders are searching for new ways to manage ongoing performance. This can be achieved by designing an effective performance measurement framework, implementing quality assurance programs and embedding improvement initiative in department workflow.

2.9 Summary of Literature

From the international reviews made, it has been made clear that based on an understanding of the fraud risks that confront organizations, detection rests on the implementation of detection methods that respond to those fraud risks as they evolve over time (IIA 2009c). Once internal audit practices are concerned with a possible fraud, they need to decide what audit procedures to use when they attempt to determine if a fraud has occurred. However, the benefits accruing from the use of such operations in the management of fraud has not been assessed and clearly documented in Uganda. There also lacks proper documentation concerning guidelines and key challenges faced in the use of such operations. Experiences and lessons drawn from such audit practices indicate lack of deliberate efforts to improve the procedures.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the research design that was used and describes the study area, the study population, sample size and sampling techniques employed. It also describes the instruments of data collection that were used, quality control mechanisms and data analysis and presentation procedures.

3.1 Research Design

This study adopted a case study approach. According to Sekaran (2003) a case study approach is used to study a given subject in-depth. Since this research focused on use of Internal Audit practices in the detection and Prevention of Fraud in the Public Sector in Uganda, a case study of Kiruhura district Local Government was inevitable since Section 90 of the Local Government Act 1997 provides for the establishment of the internal audit departments in the local governments with a view of ensuring that public goods and services are provided in an effective, efficient way. As a service department to the organization, the internal audit function objectively examines, evaluates and reports on the adequacy of internal controls as a contribution to proper economic use of resources.

In this research both quantitative and qualitative research methods were used to collect and analyze data. Quantitative data was collected with the use of semi-structured questionnaires. While qualitative data was collected with the use of an interview guide.

Furthermore, a comprehensive literature search and review was carried out as part of the methodology to focus on the current debate and previous studies carried out on the use of Internal Audit practices in the detection and prevention of fraud in the public sector in Uganda.

3.2 Study Area

The study area covered Kiruhura district Local Government headquarters. The research largely focused on the the available internal controls as one of the main factors that impact on the detection and prevention of fraud in the district.

3.3 Population description

The study population comprised of employees in the departments of Finance, Internal Audit, Procurement and Personnel. This population was purposively considered to provide sufficient and relevant information from the right people for this study.

3.4 Sampling and Sample size determination

This study used Simple random sampling to select 30 respondents. According to Sekaran (2003), in Simple Random Sampling, every element in the population has an equal and a known chance of being selected as a subject into a sample.

The sampling frame for this study comprised of employees in the departments of Finance, and Planning, Internal Audit, Procurement and Personnel as well as members of the Auditor General's Office in Mbarara district. The Sampling frame for this study is thus summarized in Table 3.1.

Table 3.1: Showing the Sampling Frame for the Study

Department	Total Population	Sample size
Accounts	12	6
Finance and Planning	10	5
Personnel	18	9
Procurement	8	4
Internal Audit	12	6
Total	60	30

Sample size Determination

All members that fell within a given department were listed and simple random sampling was used to select the respondents of this study. Each member's name in a department was assigned a number from 1 up to the last member in the department. Members whose names and numbers are odd numbers(i.e. 1,3,5,etc) were selected and included in the sample. The sample size for each department is summarized in Table 3.1.

3.5 Data Collection Methods

Data was collected mainly through the use of self administered questionnaires and interview guides.

The questionnaires were tailored to achieve the research objectives and the questions were clear and easy to understand so as to ease the process of collecting data. The questionnaire was used to collect quantitative data.

In addition to questionnaires, in-depth Interviews were conducted to get more information using interview guides that would not be captured using self administered questionnaires. Interview guides largely collected qualitative data.

Lastly, documents were reviewed to identify trends and practices in other countries on audit practices and their performance in fraud detection and prevention. This involved reading of literature from international sources mainly from Journals and Internet, Office of the Auditor General's office (OAG), Local Government Public Accounts Committee (PAC), and annual progress reports on internal controls and fraud in Uganda.

3.6 Quality Control

Pre-testing of questionnaires was done to ensure that they are clear and well understood to enable respondents answer questions with ease. The validity of the questionnaire was vetted through a pilot test exercise. The questionnaire was pre-tested with a total of 6 respondents from Audit departments of Sheema district local government, Mbarara and Mpigi districts. Two (2) respondents were selected for pre-testing in each of the above mentioned districts. After the pre-testing exercise, questions that are unable to elicit appropriate responses were adjusted by using appropriate wording, and reduction of multiple response options to suit the respondents. In addition, questions that appeared repetitive by eliciting the same responses were also trimmed to leave one question for each set. A research assistant was recruited and trained to interview respondents using both the semi-structured and pre-coded questionnaire.

3.7 Research procedure

Respondents were approached through the Chief Administrative Officer (CAO) Kiruhura district Local Government to authorize the participation of his/her staff in the research. A letter of undertaking of this research was obtained from Kyambogo University through my researcher supervisor authorizing the researcher to undertake the research. A Copy of this letter together with an approved questionnaire by my supervisors was sent to the Chief Administrative officer

Kiruhura district requesting permission to approach the organizations' employees and cooperation in gathering together responses for this study. A telephone call then followed to confirm their assistance and participation in research. This data collection exercise lasted for two (2) weeks and filled in questionnaires by respondents were collected from the field and analysed to extract insights into the study themes and objectives.

3.8 Data Analysis

Data analysis is the science of examining raw data with the purpose of drawing conclusions about that information. The collected data was analysed quantitatively which majorly involved six major activities namely, data preparation, counting, grouping, relating, predicting and statistical testing.

Data preparation involved all forms of manipulations that will be necessary for preparing data for further processing e.g. coding, categorizing answers to open-ended questions, editing and checking as well as preparation of tables; Counting included the mechanical task of registering the occurrence and frequency of the occurrence of certain answers or research items; Grouping and presentation involved ordering of similar items into groups and this will result in distribution of data presented in the form of tables and graphs; Relating involved the use of cross-tabulation and statistical tests to explain the occurrence and strength of relationships; Predicting is a process of extrapolating trends identified in the study into the future and this statistical method helped the researcher complete this task;

Statistical testing refers to the stage where test of significance, inference, hypotheses and correlation are employed during the process of analysis.

Data was entered into Statistical Package for Social Scientist (SPSS) which is a statistical tool that was developed for analyzing survey data.

3.9 Problems encountered

The study encountered a number of problems which constrained in arriving at a good conclusion in time.

- i) This being a sensitive study, the respondents were reluctant to reveal information for fear of their positions or jobs. However the researcher assured the respondents that the information provided would be treated with utmost confidentiality and no mention of names would be done in the research report.
- ii) Audit practices and their performance in detecting fraud in the public sector have not been extensively studied; therefore very little literature was available. However the researcher to move to libraries of professional bodies such as those of ACCA and CPA and internet cafes to get the scarcely available information.
- iii) The limited financial resources since this are a personal initiative and there are no public resources supporting this. However the student devised for more funds from relatives and friends.

CHAPTER FOUR

ANALYSIS, PRESENTATION AND INTERPRETATION OF RESULTS

4.0 Introduction

This chapter presents, analyses, and interprets the results of the study in relation to the study objectives.

This chapter is divided into four sections: the first section presents demographic data about respondents; the section presents, analyses and interprets audit practices used to detect and prevent fraud; the third section covers the results on the tools used by internal auditors in detecting and preventing fraud; and the fourth section presents the findings on the level of experience and professionalism required of internal auditors to successfully detect and prevent fraud.

The results are based on the sample size of 30 respondents. The findings are presented using descriptive statistics of the basic features of data providing means and standard deviations. Analytical data procedures are presented to show the relationships between variables of study and regression analysis was used to determine the influence of the independent variables (audit practices, tools used in audit and level of experience and professionalism of internal auditors) on the dependent variable (audit performance).

4.1 Demographic Characteristics of the Respondents

The study analyzed demographic data relying on a number of variables that included: sex of the respondents, number of auditors in the audit department and working experience of the

respondents. The responses for each of the variables on demographic characteristics are summarized as follows:

Table IV: Responses on Demographic Characteristics of Respondents

	Frequency	Percent (%)
Sex		
Male	24	80.0
Female	6	20.0
Total	30	100.0
Experience		
Less than 1 year	6	20.0
1 to 5 years	24	80.0
Total	30	100.0
Number of employees in the department		
1 to 5 employees	30	100.0
Total	30	100.0

Source: Field data

From table IV above, the study revealed that, the majority (80%) of respondents were males. Of these 80% had a working experience of between 1 to 5 years and they all (100%) belonged to the total number of auditors of 1 to 5 employees in the department of Internal Audit.

4.2 Current Audit practices used to detect and prevent fraud in Public sector

Audit practices prescribe the way in which auditors must carry out their functions. The ways in which auditors carryout their audit functions differ from sector to sector with each sector having

a different code of audit practice. According to Carcello et al (2005), the Codes of Audit Practice in each sector define the scope, nature and extent of local audit work and are always in line with its set of internal controls. Kiruhura district uses codes of audit practices as stipulated in the Local Governments Internal Audit Manual (LGIAM) of 2007.

According to LGIAM of 2007, Audit practices geared towards detecting and preventing fraud in Local government cover aspects of income where tests are done to ensure the accuracy of the records in respect of the main areas of income; expenditure where tests are done to check the accuracy of the records in respect of the areas of expenditure being examined each financial year; cash and bank; assets and liabilities as well as checking whether financial statements have been properly drawn up from the trial balance, and that the trial balance has been correctly extracted from the books of account among other practices.

In light of the above, the study sets one of its objectives to ascertain the audit practices used in detecting and preventing fraud in Kiruhura district, and the details are presented in the descriptive statistics shown by the values of the respective means and standard deviations of the key empirical references. Details of these analyses are shown in table V below;

Table V: Findings about Current Audit Practices in the Public sector

	N	Minimum	Maximum	Mean	Std. Deviation
We review income and expenditure for previous FYs as a means to fight fraudulent practices	30	3	5	4.17	.699
We independently check whether financial statements have been properly drawn up from the Trial balance	30	2	5	3.50	.861
We use authorization of transactions to prevent the occurrences of irregularities	30	3	5	4.17	.699
We physically safeguard our assets to mitigate fraud	30	2	4	3.33	.711
We carryout proper documentation to reduce manipulations of financial records	30	2	5	3.50	.861
We carryout adequate supervision of transactions to help curb fraud	30	2	5	3.50	.861
We carryout separation of duties to help curb fraud	30	3	5	4.40	.621
We use internal audit to independently validate the accuracy of our transactions	30	2	5	3.50	.861
We carryout cash counts and reconcile cashbooks with bank statements	30	3	5	4.13	.629
We use the services of external auditing to detect fraud in our organization	30	2	5	3.60	1.003

Source: Field data, 2013

From table V the study revealed that the details of the existence of audit practices used by organizations in the public sector to detect and prevent fraud obtained from the respondents. The statements have been ranked in terms of their means and standard deviations so as to deduce meaning out of the results. Therefore the details of the table are presented and analysed below as follows:

The findings in the table V show that respondents seem to agree that the practice of reviewing income and expenditure for previous FYs and authorization of financial transactions are important in the fight of fraudulent practices in their organizations (Mean= 4.17 stD =0.699)

there was variations in responses to these tests as revealed by the standard deviations of 0,699.

However the variations in responses do not show a big movement from the mean.

In addition to the above, the study indicated that respondents were in agreement that there is need to practice separation/segregation of duties so as to curb fraud in their organizations (Mean= 4.40 stD =0.621), there was variations in responses to this test as revealed by the standard deviation of 0.621. However the variations in responses do not show a big movement from the mean.

Further still, the study indicated that respondents accepted that there is need to carryout cash counts and reconcile cashbooks with bank statements as a practice in detecting and preventing fraud in their organizations (Mean= 4.13 stD =0.629), there was variations in responses to this test as revealed by the standard deviation of 0.629. However the variations in responses do not show a big movement from the mean.

More so, the study indicated that the respondents were in agreement that the use of external auditing helps to detect and prevent fraud in their organizations (Mean= 3.60 stD =1.003), there was variations in responses to this test as revealed by the standard deviation of 1.003. However the variations in responses do not show a big movement from the mean.

More to that, the study indicated that respondents accepted that independently checking whether financial statements have been properly drawn up from the Trial balance helps to curb fraud in their organizations (Mean= 3.500 stD =0.861), there was variations in responses to this test as revealed by the standard deviation of 0.861. However the variations in responses do not show a big movement from the mean.

In addition to the above, the revealed that respondents were in agreement that proper documentation of financial transactions helps to reduce manipulations of financial records

leading to fraud in their organizations (Mean= 3.500 stD =0.861), there was variations in responses to this test as revealed by the standard deviation of 0.861. However the variations in responses do not show a big movement from the mean.

Further still, the revealed that respondents accepted that adequate supervision of financial transactions helps to curb fraud in their organizations (Mean= 3.500 stD =0.861), there was variations in responses to this test as revealed by the standard deviation of 0.861. However the variations in responses do not show a big movement from the mean.

More so, the study indicated that respondents were in agreement that the use of internal auditing to independently validate the accuracy of information helps to detect and prevent fraud in their organizations (Mean= 3.500 stD =0.861), there was variations in responses to this test as revealed by the standard deviation of 0.861. However the variations in responses do not show a big movement from the mean.

More still, the study revealed that respondents accepted that physical safeguard over assets helps in mitigating fraudulent activities in organizations (Mean= 3.33 stD =0.711), there was variations in responses to this test as revealed by the standard deviation of 0.861. However the variations in responses do not show a big movement from the mean.

From the above findings, it is evident that audit practices such as tests and checks to ensure the accuracy of the records in respect of the main areas of income; tests checks to ensure the accuracy of the records in respect of the areas of expenditure each financial year; cash and bank; assets and liabilities as well as checking whether financial statements have been properly drawn up from the trial balance, and that the trial balance has been correctly extracted from the books of

account; supervision of financial transactions; and segregation of duties among others improve the performance of Kiruhura district by being able to detect and prevent fraud in the district.

4.3 Tools used in Fraud detection and Prevention

Section 91 of The Local Government Act as amended (2002), states that every local government shall have an internal audit department with audit committees comprising of non-executive members charged with the responsibility for independent review of the framework of control and of the external audit process. The audit department in Kiruhura district is understaffed with 3 employees that are charged with the auditing function in the district. The Local Governments Internal Audit Manual (LGIAM) of 2007 states that local governments must use several generic techniques that include: inspection(i.e. reviewing or examining records, documents or tangible assets); observation(i.e. looking at an operation or procedure being performed by others with a view of determining the manner of its importance); enquiry(i.e. seeking relevant information from knowledgeable persons inside or outside the audit entity, whether formally or informally, orally or in writing); and Computation(i.e. checking the arithmetical accuracy of accounting records or performing independent calculations). These audit practices in gathering evidence for purposes of detecting and preventing fraud can be done using checklists, computer expert systems, computer based audits or financial prediction model.

It was on this basis that the study set the second objective to ascertain the audit tools used by internal auditors in Kiruhura district to detect and prevent fraud, and details are presented in the descriptive statistics shown by the values of the respective means and standard deviations of the key empirical references. Details of these analyses are shown in table VI below;

Table VI: Findings about Current Audit Tools used to Detect and Prevent Fraud

	N	Minimum	Maximum	Mean	Std. Deviation
Our internal auditors use computer programs to detect and prevent fraud	30	1	4	2.93	1.112
Our auditors use the financial prediction model to detect and prevent fraud	30	1	4	2.93	1.112
Our auditors use computer based audit techniques to perform analytical procedures aimed at detecting and preventing fraud	30	1	4	2.93	1.112
Our auditors use checklists to detect and prevent fraudulent financial reporting	30	3	5	4.13	.629

Source: Field data, 2013

From table VI the study revealed that the details of the existence of various audit tools used by organizations in the public sector to detect and prevent fraud obtained from the respondents. The statements have been ranked in terms of their means and standard deviations so as to deduce meaning out of the results. Therefore the details of the table are presented and analysed below as follows:

The findings in the table VI show that respondents are in agreement that the use of checklist is an important tool to detect and prevent fraud in their organizations (Mean= 4.13 stD =0.629), there was variations in responses to this test as revealed by the standard deviation of 0.629. However the variations in responses do not show a big movement from the mean.

Furthermore, the study revealed that respondents were not agreeing that they use of computer programs to detect and prevent fraud in their organizations (Mean= 2.93 stD = 1.112), there was variations in responses to this test as revealed by the standard deviation of 1.112. However the variations in responses show a big movement from the mean which implies that respondents were not sure whether there was a computer program in their organization for detecting and preventing fraud.

In addition to the above, the study revealed that respondents were not agreeing that they use the financial prediction model to detect and prevent fraud in their organizations (Mean= 2.93 stD = 1.112), there was variations in responses to this test as revealed by the standard deviation of 1.112. However the variations in responses show a big movement from the mean which implies that respondents were not sure whether they use the financial prediction model to detect and prevent fraud.

Further, the study revealed that respondents were not agreeing that they use computer based audit techniques to perform analytical procedures aimed at detecting and preventing fraud in their organizations (Mean= 2.93 stD = 1.112), there was variations in responses to this test as revealed by the standard deviation of 1.112. However the variations in responses show a big movement from the mean which implies that respondents were not sure whether they use computer based audit techniques to perform analytical procedures aimed at detecting and preventing fraud.

From the above findings it is evident that audit tools and methods such as the financial prediction model, computer based audit techniques to perform analytical procedures, the use of checklists and computer programs as well as methods such as reviewing or examining records, documents or tangible assets; seeking relevant information from knowledgeable persons inside or outside the audit entity, whether formally or informally, orally or in writing improve the performance of Kiruhura district being in a better position to detect and prevent fraud.

4.4 Auditors' Experience and Professionalism in Detecting Fraud

Section 91 of The Local Government Act as amended (2002), states that in local governments performance of audit practices performed by Internal audits should be effective if all staff members are effectively monitored, mentored and appraised, on an ongoing basis. According to the Local Governments Internal Audit Manual (LGIAM) of 2007, for effective performance of audit practices, audit staff working papers should enable the manager to monitor audit standards and quality as reflected by the training and level of experience of internal auditors.

The Local Governments Internal Audit Manual (LGIAM) of 2007 states that local governments must train their Internal auditors and the overall aim of the training and development programme should be to develop a wide range of audit skills in the following areas of: Basic Technical Skills(i.e. analytical skills, use of audit programmes and internal control questionnaires, production of satisfactory working papers and audit report writing); professional Skills(i.e. knowledge of accountancy and auditing, relevant legislation, ethics of the Institute of Internal Auditors); specialist technical skills(i.e. computer and contract audit skills); Investigatory skills(i.e. how to conduct a value-for-money study and how to investigate fraud and corruption); Interpersonal and Communication Skills(i.e.interviewing techniques, how to deal with uncooperative auditees and how to persuade management to accept audit recommendations); Management and Organisational Skills(i.e. how to conduct an audit, how to lead an audit team and audit planning and control); and Knowledge of an Organisation(i.e. knowing the protocol, regulations, procedures and decision making processes of an organisation and knowing how it is structured).

It is therefore on this background that the study set the third objective as to ascertain the current level of experience and professionalism by internal auditors in the public sector to detect and prevent fraud, and details are presented in the descriptive statistics shown by the values of the respective means and standard deviations of the key empirical references. Details of these analyses are shown in table VII below;

Table VII: Showing Responses on Auditors' Experience and Professionalism

	N	Minimum	Maximum	Mean	Std. Deviation
Internal auditors are taking career growth in professional courses such as ACCA and CPA	30	3	5	4.167	.699
Our internal auditors have a minimum experience of 5 years	30	2	5	3.60	1.003
Our internal auditors are sensitive to ethical situations and conduct to LG staff as an indicator of fraud in the district	30	1	4	2.867	1.074
Our internal auditors exhibit a high level of professionalism while doing their job	30	2	.5	3.500	.861

Source: Field data, 2013

From table VII the study revealed that the details of the existence of various skills and professionalism required by internal auditors to detect and prevent fraud obtained from the respondents. The statements have been ranked in terms of their means and standard deviations so as to deduce meaning out of the results. Therefore the details of the table are presented and analysed below as follows:

The findings in the table VII show that respondents are in agreement that Internal auditors have taken a career growth path by undertaking professional courses such as ACCA and CPA in Kiruhura district to better equip themselves with antifraud skills (Mean= 4.17 stD =0.699), there

was variations in responses to this test as revealed by the standard deviation of 0.629. However the variations in responses do not show a big movement from the mean.

Further, the study indicated that respondents accepted that internal auditors have a minimum level of 5 years experience that contribute to detect and prevent fraud in Kiruhura district (Mean= 3.600 stD =1.003), there was variations in responses to this test as revealed by the standard deviation of 1.003. However the variations in responses do not show a big movement from the mean.

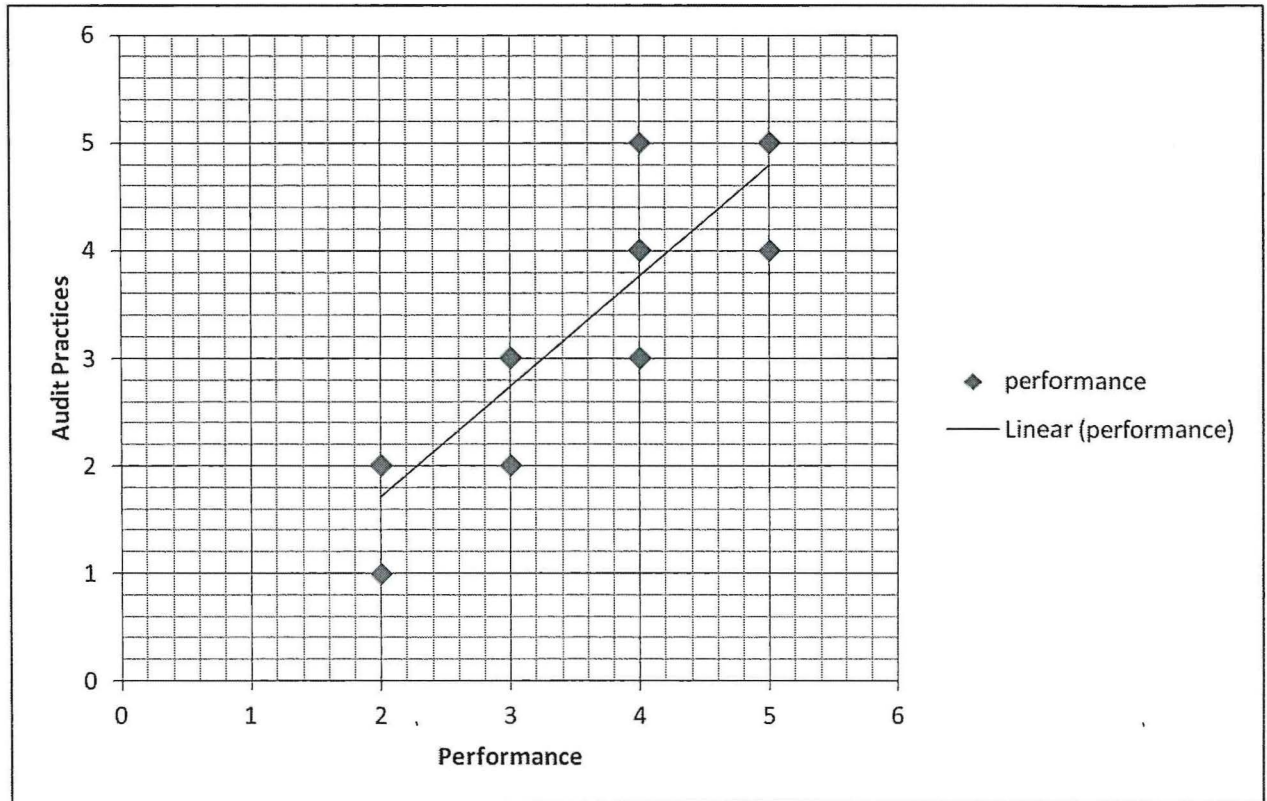
More so, the study revealed that respondents are in agreement that district internal auditor's exhibit a high level of professionalism while conducting audit practices in the district (Mean= 3.500 stD = .861), there was variations in responses to this test as revealed by the standard deviation of .861. However the variations in responses do not show a big movement from the mean.

In addition to the above, the study revealed that respondents were not agreeing that auditors are sensitive to ethical situations and conduct of Local government staff as a possible indicator of fraud in the district (Mean= 2.87 stD = 1.074), there was variations in responses to this test as revealed by the standard deviation of 1.074. However the variations in responses show a big movement from the mean which implies that respondents were not sure whether auditors are sensitive to ethical situations and conduct of Local government staff as a possible indicator of fraud in the district

4.5 Testing for Linearity between Audit practices and Performance

The study conducted a linearity test between audit practices and performance in detecting and preventing fraud in Kiruhura district. In order to test the relationship between the variables, it was important to first make a pre-condition test for linearity as shown in the figure below.

Figure 1: Pre-test condition for Linearity



Source: Primary data, 2013

From figure 1, the study revealed that there is a strong positive linear relationship between audit practices and performance as determined by the closeness of the points on the line of best fit and this led the study to determine the correlation of the variables of study as shown in the next tables.

Table VIII: Pearson Product Moment Correlation

		audit practices	performance
audit practices	Pearson Correlation	1	.875**
	Sig. (2-tailed)	.	.000
	N	30	30
performance	Pearson Correlation	.875**	1
	Sig. (2-tailed)	.000	.
	N	30	30

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Primary data, 2013.

The findings in Table VIII reveals that there is a strong and positive correlation ($r = .875$) since the p-value < 0.01 at 99% confidence interval. This implies effective audit practices leads to better audit performances in detecting and preventing fraud in organizations.

Table IX: Correlations

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.703	.494	.443	.335

a Predictors: (Constant), level of professionalism, audit practices, tools used

From Table IX, the study showed a strong linear relationship between audit practices, tools used in fraud detection and prevention and the level of professionalism and experience of internal auditors ($r = .703$). Effective audit practices, tools and methods used by auditors in fraud detection and prevention as well as the level of professionalism and experience of internal auditors account for 70.3% variance of audit performance in fraud detection and prevention.

Table X: Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.549	3	1.078	9.634	.000
	Residual	7.724	26	.112		
	Total	15.273	29			

Source: Field data, 2013

Furthermore, from Table X, these findings were statistically significant ($F=9.634$, $p<.01$).

Thus, this implies that:

- Audit practices leads to positive audit performance in detecting and preventing fraud in organizations
- Effective audit tools and methods used by internal auditors leads to better audit performance in fraud detection and prevention.
- Level of professionalism and experience of internal auditors leads to better audit performance in fraud detection and prevention.

In addition the coefficients of each audit practices show that tools and audit methods used by auditors in fraud detection and prevention, level of professionalism and experience of internal auditors in fraud detection and prevention affect the audit performance in fraud detection and prevention ($p<0.01$).

Table XI: Regression analysis results Coefficients

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	2.735	.737		3.713	.001
	audit practices	.480	.079	.769	6.049	.050
	Tools used	.128	.064	.182	1.995	.000
	Level of professionalism	.135	.045	.283	3.028	.003

a Dependent Variable: fraud detection and prevention

Source: Field data, 2013.

From Table XI above, the audit practices most affects audit performance ($t= 6.049$) in fraud detection and prevention, followed by level of professionalism and experience of internal auditors ($t=3.02$) and audit tools and methods ($t=1.995$) respectively.

This implies that effective audit practices will increase the performance of internal audit department in detecting and preventing fraud by 76.9%; follwed by the level of professionalism and experience by 28.3% and audit tools and methods by 18.2%.

CHAPTER FIVE

DISCUSSION, SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the discussion of findings, summary of findings, conclusions and recommendations of the research. It is divided into four sections. The first section presents the discussion of findings; the second section covers the summary of findings according to objectives. The third section presents conclusions and fourth section presents recommendations.

5.1 Discussion of Results

The discussion of the findings of this study is here presented by objectives of the study.

5.1.1 Current audit practices used by Internal Auditors in Kiruhura district in detecting and Preventing Fraud

The findings of the study revealed that audit practices in Kiruhura district are in excellent position to identify fraud schemes and scenarios and evaluate the controls in place to prevent them. These included: tests and checks to ensure the accuracy of the records in respect of the main areas of income; tests checks to ensure the accuracy of the records in respect of the areas of expenditure each financial year; cash and bank; assets and liabilities as well as checking whether financial statements have been properly drawn up from the trial balance, and that the trial balance has been correctly extracted from the books of account; supervision of financial transactions; and segregation of duties among others.

The results from an interview held with one of the departmental heads about audit practices used to detect and prevent fraud in Kiruhura district revealed that:

As a department, we always put in place audit practices in line with our internal controls to check, detect and prevent any form of fraudulent activities in the district; however, there is a lot of political interference in our work which makes our audit practices most vulnerable and inefficient. As a result, there are instances of fraudulent cases though on a minimal scale.

From the foregoing therefore, it should be assumed that loopholes in preventing fraud is directly linked to political interference other than the audit practices used in Kiruhura district.

From the study, it was also indicated that there is a strong linear relationship between audit practices and audit performance in fraud detection and prevention ($r=.703$). These findings were significant ($p<.01$). Thus the research question which states that: What audit practices are perceived by internal auditors to be the most effective at detecting fraud in their organizations, was answered. The implication of this finding is that effective audit practices leads to better audit performance in fraud detection and prevention.

This is in agreement with Nessuer (1997); David (1999); Frigo (2002) that argue that the existence of a properly functioning system of internal controls will diminish the incidents of fraud, so the auditor's opinion on the internal control system is of fundamental importance.

Zikmund (2008) in further support of the above mentioned audit practices, contends that internal audit practices are in excellent position to identify fraud schemes and scenarios and evaluate the controls in place to prevent them. Accordingly, audit practices in fraud risk assessment have the following benefits:

- Knowledge of fraud risks and ability to design audit programs to address those risks.

- Awareness of business operations and risks associated with the nature of operations.
- Ability to assess internal controls and antifraud programs.
- Ability to design audit programs to detect red flags for fraud schemes identified as high priority during the fraud risk assessment project.

From the foregoing therefore it should be stated that effective audit practices detects and prevents fraud in organizations.

5.1.2 Tools and Methods used by internal auditors to detect fraud in Kiruhura district

The study revealed that although there are a number of audit tools and methods used in fraud detection and prevention that include: the financial prediction model, computer based audit techniques to perform analytical procedures, the use of checklists and computer programs, the study noted that Kiruhura district only relies on the checklist method of detecting and preventing fraud in the district.

The results from an interview held with one of the interviewees about the tools and methods used by the internal audit in fraud detection and prevention in Kiruhura district revealed that:

As a department we know that several audit techniques such as inspection, observation, enquiry and computation would improve our performance in fraud detection and prevention, we a few in the department and we not well facilitated in terms of budgets.

The study indicated that there is a strong linear relationship between audit tools and methods used and audit performance in fraud detection and prevention($r=.703$). These findings were significant ($p<.01$). Thus the research question which states that: What audit tools and methods

are perceived by internal auditors to be the most effective at detecting fraud in their organizations was answered. The implication of this finding is that the use effective audit tools and methods lead to better audit performance in fraud detection and prevention.

These findings are found to be consistent with the earlier findings by Loebbecke et al (1997), while making a comparison between the tools used in fraud detection and prevention argued that the financial model of fraud risk assessment perform better than those using the checklist and those making unaided decisions. They further noted that computer based audit techniques to perform analytical procedures aimed at detecting and preventing fraud outperformed all other groups of tools used in fraud detection and prevention.

5.1.3 Level of experience and professionalism required of internal auditors in detecting and preventing the fraud risk

The study indicated that auditors must possess a given set of professional skills and a high degree of professionalism to be able to detect and prevent fraudulent cases in organizations where they are tasked with the responsibility of detecting and preventing fraud.

The results from an interview held with one of the departmental heads about experience and level of professionalism required of internal auditors to detect and prevent fraud in Kiruhura district revealed that:

All our members of staff in the audit department as part of our capacity building programs in the district are required to undertake professional courses such as ACCA and CPA so as to boost their skills in fraud detection and prevention. This program has led to all our members of staff in the finance and audit departments enroll for these courses and the district pays for their tuition and other associated costs.

Further from one of the interviews with one of the members of staff in the audit department in Kiruhura district, it was indicated that:

All our members of staff in this department were recruited right from the the inception of the district 10 years ago. I would say they are well experienced in all audit related matters including fraud detection and prevention.

From the study, it was also indicated that there is a strong linear relationship between auditors level of experience and professionalism in fraud detection and prevention($r=.703$). These findings were significant ($p<.01$). Thus the research question which states that: What is the level of experience and professionalism is required by internal auditors to be the most effective at detecting their organizations' top fraud risks, was answered. The implication of this finding is that level of experience and professionalism of internal auditors leads to better audit performance in fraud detection and prevention.

These findings were found to be consistent with the earlier research work by Bernardi (1994) who argues that except for auditors with a high degree of sensitivity to ethical situations, auditors are insensitive to information about client integrity and competence when conducting a substantive audit procedure. This conclusion was supported in a behavioral experiment using managers and seniors from five of the then Big 6 firms. Further, fraud detection was higher for managers and for those with an increased prior belief about fraud. From the findings by Bernardi (1994), it is evident that auditors must possess a given set of professional skills and a high degree of professionalism to be able to detect and prevent fraudulent cases in organizations where they are tasked with the responsibility of detecting and preventing fraud.

Further, Zikmund (2008) also contends that fraud risk assessments differ somewhat from the more conventional methods used to assess risk in that they are schemes- and scenarios-based, audit practices in fraud cases requires experienced personnel who are familiar with the more common fraud schemes impacting today's organizations.

Lastly in further support of training and level of professionalism, Fullerton and Durtschi (2004), argues that audit practices are ideally placed to discover some anomalies that may be symptoms of fraud; internal auditors should receive fraud awareness training and be at the forefront of management actions in preventing and detecting of fraud.

5.2 Summary

The finding indicated that there is a strong linear relationship between audit practices, tools used in fraud detection and prevention and the level of professionalism and experience of internal auditors ($r=.703$). Effective audit practices, tools and methods used by auditors in fraud detection and prevention as well as the level of professionalism and experience of internal auditors account for 70.3% variance of audit performance in fraud detection and prevention.

It was thus indicated that:

- Audit practices leads to positive audit performance in detecting and preventing fraud in organizations
- Effective audit tools and methods used by internal auditors leads to better audit performance in fraud detection and prevention.
- Level of professionalism and experience of internal auditors leads to better audit performance in fraud detection and prevention

5.3 Conclusions

The study focused on audit practices and audit performance in fraud detection and prevention in Kiruhura district. The study indicated that audit practices accounted for 70.3% of variation in audit performance in fraud detection and prevention. The study indicated that audit practices and methods most affects audit performance ($t= 6.049$) in fraud detection and prevention, followed by level of professionalism and experience of internal auditors ($t=3.02$) and audit tools and methods ($t=1.995$) respectively.

From the study, it can thus be concluded that audit practices, tools and methods used by internal auditors and the level of training and professionalism all significantly influence fraud detection and prevention. These factors should thus co-exist if fraud detection and prevention in organizations is to be successful.

5.4 Recommendations

Lastly, from the study it was evident that the success of detecting and preventing fraud in organizations will depend on the audit practices in an organization that includes: internal control system, supervision of financial transactions, whistles blowing, segregation of duties among others. The department of internal audit should thus strengthen its set of internal controls that focuses on whistle blowing and strong supervision of all financial transactions in the district so as adequately check and prevent fraud in the district.

Further, the study revealed that although there are a number of audit tools and methods used in fraud detection and prevention that include: the financial prediction model, computer based audit techniques to perform analytical procedures, the use of checklists and computer programs, the study noted that Kiruhura district only relies on the checklist method of detecting and preventing

fraud in the district. The district should thus diversify in its methods used to detect and prevent fraud in the district other than relying on the use of the check list.

5.5 Areas for further Research

Basing on the findings of this research, the researcher recommends that more research is needed to focus on the intrinsic and extrinsic factors that motivate internal auditors to effectively detect and prevent in organizations where they work.

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Appendix 1: Questionnaire

Dear respondent, I am Katusiime Adrine, a Masters Degree student at Kyambogo University who is carrying out an academic study on “Audit Practices and Performance in Fraud Detection and Prevention in the Public Sector in Uganda. The case study of Kiruhura district local government. You are humbly requested to volunteer and answer the questions in this questionnaire. The study is entirely for academic purposes and any information given will be treated with utmost confidentiality. Thank you for your cooperation.

Part I Background Information:

Qn1. Name of the respondent (optional)

Qn2. Position of the respondent in the organization.....

Qn3. Sex of the Respondent (Tick appropriately)

Female	
Male	

Qn4. How long have you been employed in this organization? (Tick appropriately)

>1 year	
1-5 years	
6-10 ears	
< 11 years	

Qn5. Number of Auditors in Internal Audit Department (Tick appropriately)

1 to 5 employees	
6 to 10 employees	
11 to 15 employees	
16 to 20 employees	
More than 21 years	

Part II – Current Audit Practices in Prevention and Management of Fraud in Kiruhura

Please tick appropriately to the following statements in relation to fraud prevention and management in the appropriate boxes that applies to you by using the following options.

5= To a very great extent; 4= To a considerable extent; 3= To a moderate extent; 2= To a slight extent; and 1= Not at all.

	5	4	3	2	1
1. To what extent are you acquainted with the practice of auditing and accounting in the fight of fraudulent practices in organizations?					
2. To what extent does the establishment of internal control system help to curb fraud in your organization?					
3. To what extent does the application of relevant authorization of transactions prevent the occurrences of irregularities in your company?					
4. To what extent does the physical safeguard over assets aid in fraud mitigation?					
5. To what extent does proper documentation reduce the manipulations of financial records?					
6. To what extent does adequate supervision of transaction help to curb fraud?					
7. To what extent does the separation of duties help to curb fraud?					
8. To what extent does your company use internal auditing to independently validate the accuracy of her transaction?					
9. To what extent is whistle blowing used to prevent fraud in your company?					
10. To what extent has external auditing been used to detect fraud in your firm?					

Part III – Tools used by Internal Auditors to detect and prevention Fraud in Kiruhura

Please tick appropriately to the following statements in relation to the tools used by internal auditors in Kiruhura district to detect and manage fraud in the appropriate boxes that applies to you by using the following options. 5= To a very great extent; 4= To a considerable extent; 3= To a moderate extent; 2= To a slight extent; and 1= Not at all.

	5	4	3	2	1
1. To what extent are computer programs helping internal auditors in Kiruhura district to detect and prevent fraud?					
2. To what extent does your current financial prediction model help internal auditors in the district to detect and prevent fraud?					
3. To what extent are computer based audit techniques help internal auditors in performing analytical procedures aimed at detecting and preventing fraud in financial reporting?					
4. To what extent are checklists help internal auditors in detecting and preventing fraudulent financial reporting?					

Part IV – Skills and professionalism required to detect and prevention Fraud in Kiruhura

Please tick appropriately to the following statements in relation to the skills and level of professionalism required of internal auditors to detect and prevent fraud in Kiruhura district in the appropriate boxes that applies to you by using the following options.

5= To a very great extent; 4= To a considerable extent; 3= To a moderate extent; 2= To a slight extent; and 1= Not at all.

	5	4	3	2	1
1. To what extent are Internal auditors taken a career growth path by undertaking professional courses such as ACCA and CPA in Kiruhura district to better equip themselves with antifraud skills?					
2. To what extent is the minimum level of 5 years experience of your internal auditors contribute to detect and prevent fraud in Kiruhura district					
3. To what extent is the auditor's level of sensitivity to ethical situations and conduct of Local government staff as a possible indicator of fraud in the district?					
4. To what extent are district internal auditors exhibit a high level of professionalism while conducting audit practices in the district?					

Thank you for your participation

Appendix 2: SPSS Output Results

Qn3. Sex of the Respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	24	80.0	80.0	80.0
Female	6	20.0	20.0	100.0
Total	30	100.0	100.0	

Qn4. How long have you been employed in this organization

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Less tha 1 year	6	20.0	20.0	20.0
1 to 5 years	24	80.0	80.0	100.0
Total	30	100.0	100.0	

Qn5. Number of Auditors in Internal Audit Department

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1 to 5 employees	30	100.0	100.0	100.0

1. To what extent are you acquainted with the practice of auditing and accounting in the fight of fraudulent practices in organizations?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Neutral	5	16.7	16.7	16.7
Agree	15	50.0	50.0	66.7
Strongly Agree	10	33.3	33.3	100.0
Total	30	100.0	100.0	

2. To what extent does the establishment of internal control system help to curb fraud in your organization

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Disagree	5	16.7	16.7	16.7
Neutral	7	23.3	23.3	40.0
Agree	16	53.3	53.3	93.3
Strongly Agree	2	6.7	6.7	100.0
Total	30	100.0	100.0	

3. To what extent does the application of relevant authorization of transactions prevent the occurrences of irregularities in your company

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	5	16.7	16.7	16.7
	Agree	15	50.0	50.0	66.7
	Strongly Agree	10	33.3	33.3	100.0
	Total	30	100.0	100.0	

. To what extent does the physical safeguard over assets aid in fraud mitigation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	4	13.3	13.3	13.3
	Neutral	12	40.0	40.0	53.3
	Agree	14	46.7	46.7	100.0
	Total	30	100.0	100.0	

5. To what extent does proper documentation reduce the manipulations of financial records

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	5	16.7	16.7	16.7
	Neutral	7	23.3	23.3	40.0
	Agree	16	53.3	53.3	93.3
	Strongly Agree	2	6.7	6.7	100.0
	Total	30	100.0	100.0	

6. To what extent does adequate supervision of transaction help to curb fraud

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	5	16.7	16.7	16.7
	Neutral	7	23.3	23.3	40.0
	Agree	16	53.3	53.3	93.3
	Strongly Agree	2	6.7	6.7	100.0
	Total	30	100.0	100.0	

7. To what extent does the separation of duties help to curb fraud

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	2	6.7	6.7	6.7
	Agree	14	46.7	46.7	53.3
	Strongly Agree	14	46.7	46.7	100.0
	Total	30	100.0	100.0	

8. To what extent does your company use internal auditing to independently validate the accuracy of her transaction

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	5	16.7	16.7	16.7
	Neutral	7	23.3	23.3	40.0
	Agree	16	53.3	53.3	93.3
	Strongly Agree	2	6.7	6.7	100.0
	Total	30	100.0	100.0	

9. To what extent is whistle blowing used to prevent fraud in your company

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	4	13.3	13.3	13.3
	Agree	18	60.0	60.0	73.3
	Strongly Agree	8	26.7	26.7	100.0
	Total	30	100.0	100.0	

10. To what extent has external auditing been used to detect fraud in your firm

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	5	16.7	16.7	16.7
	Neutral	8	26.7	26.7	43.3
	Agree	11	36.7	36.7	80.0
	Strongly Agree	6	20.0	20.0	100.0
	Total	30	100.0	100.0	

11. To what extent are computer programs helping internal auditors in Kiruhura district to detect and prevent fraud

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	4	13.3	13.3	13.3
	Disagree	7	23.3	23.3	36.7
	Neutral	6	20.0	20.0	56.7
	Agree	13	43.3	43.3	100.0
	Total	30	100.0	100.0	

To what extent does your current financial prediction model help internal auditors in the district to detect and prevent fraud

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	4	13.3	13.3	13.3
	Disagree	7	23.3	23.3	36.7
	Neutral	6	20.0	20.0	56.7
	Agree	13	43.3	43.3	100.0
	Total	30	100.0	100.0	

To what extent are computer based audit techniques help internal auditors in performing analytical procedures aimed at detecting and preventing fraud in financial reporting?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	4	13.3	13.3	13.3
	Disagree	7	23.3	23.3	36.7
	Neutral	6	20.0	20.0	56.7
	Agree	13	43.3	43.3	100.0
	Total	30	100.0	100.0	

To what extent are checklists help internal auditors in detecting and preventing fraudulent financial reporting

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	4	13.3	13.3	13.3
	Agree	18	60.0	60.0	73.3
	Strongly Agree	8	26.7	26.7	100.0
	Total	30	100.0	100.0	

To what extent are Internal auditors taken a career growth path by undertaking professional courses such as ACCA and CPA in Kiruhura district to better equip themselves with antifraud skills

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	5	16.7	16.7	16.7
	Agree	15	50.0	50.0	66.7
	Strongly Agree	10	33.3	33.3	100.0
	Total	30	100.0	100.0	

To what extent is the minimum level of 5 years experience of your internal auditors contribute to detect and prevent fraud in Kiruhura district

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	5	16.7	16.7	16.7
	Neutral	8	26.7	26.7	43.3
	Agree	11	36.7	36.7	80.0
	Strongly Agree	6	20.0	20.0	100.0
	Total	30	100.0	100.0	

To what extent is the auditor's level of sensitivity to ethical situations and conduct of Local government staff as a possible indicator of fraud in the district

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	4	13.3	13.3	13.3
	Disagree	7	23.3	23.3	36.7
	Neutral	8	26.7	26.7	63.3
	Agree	11	36.7	36.7	100.0
	Total	30	100.0	100.0	

To what extent are district internal auditors exhibit a high level of professionalism while conducting audit practices in the district?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	5	16.7	16.7	16.7
	Neutral	7	23.3	23.3	40.0
	Agree	16	53.3	53.3	93.3
	Strongly Agree	2	6.7	6.7	100.0
	Total	30	100.0	100.0	