

FORENSIC AUDIT PRACTICES AND FRAUD DETECTION

ON FINANCIAL INSTITUTIONS IN UGANDA

A CASE STUDY OF ABSA BANK, KAMPALA, JINJA ROAD.

1 Kwagala Victory, 2 Dr. Ariyo Kazaara Gracious, 3 Kamugisha Nelson

1, 2, 3 Metropolitan International University

ABSTRACT

The study aimed at forensic audit practices and fraud detection on financial institutions in Uganda and it was guided by the following objectives; To evaluate the impact of forensic Audit practices in fraud detection in financial institutions in Uganda, to ascertain and recommend corrective measures to be taken to ensure strong and satisfactory fraud detection in financial institutions and to identify the relationship between forensic auditing and fraud risk management. The target population included 1 proprietor, 15 finance officers, 2 managers, 18 workers and this sum up to 36 people from each department or management.

From the findings, 63.5% were in agreement that the company should audit its books of finances on a regular basis. Following this were 33.3% of those who simply agreed, 2.1% of those who disapproved, and 1.0% of those who severely disagreed. The survey also demonstrated that the company typically keeps track of the debts owed to clients, with 60.4% of respondents highly agreeing, 34.4% agreeing, 3.1% disagreeing, and only 2.1% severely disagreeing. This contributed to the demonstration of rigorous bookkeeping during periods of forensic auditing. It is important to encourage various institutions, notably these private educational institutions, to prioritize forensic audits. This could be accomplished by setting up training sessions, conferences, and radio and newspaper advertisements to inform people about the benefits of having an in-house forensic auditing division.

**Key words: forensic audit, practices, fraud detection
and financial institutions**

Background of the study

Using Absa Bank as a case study, the paper explores the function of forensic accounting in identifying fraud in financial organizations. Financial data was used in situations of financial and other crimes. Economic data is used by forensic professionals, and they must comprehend it, understand it, decide what is significant and that which is not, access it, identify it, keep it safe, report it, and provide evidence in court about it (Moses et al., 2023). The impact on jurors is also a relatively recent phenomena in the studies. According to studies (Bodnar and Hopwood 2010), investigators investigating fraud must be familiar with information technology for accounting in addition to the significance of auditors and forensic accounting specialists having training on fraudulent techniques (Innocent et al., 2023). A few investigators have even suggested that legal professionals may want to keep up with AIS and forensic evidence in general (Lowe et al 2015; Neufer, 2016). Studies also highlight the significance of fraud investigators being able to provide testimony as a witness for expertise on evidence developed from an AIS (Innocent et al., 2023).

Statement of the problem

The current business climate and even more severe economic downturn have recently compelled executives in numerous businesses to focus on how to improve the accounting records of the businesses they own in order to draw in shareholders by influencing the numbers in the statements of operations by either raising or lowering the figures depending on what they want to accomplish at this point using forceful or imaginative accounting techniques, also known as financial reporting (Lydia et al., 2023). Recent research has shown that fraud is a major threat to banks and other financial institutions. Due to the way it is now spreading and the ineffectiveness of accountants in preventing and detecting it, traditional auditing and inspections are now pointless (Alex & Kazaara, 2023). Fraud has now become a standard practice in most organizations. Forensic accountants have become a viable option for fraud detection in banking organizations as a result of both an internal and an external audit's inability to avoid and uncover fraud (Alex & Kazaara, 2023).

Only properly applied forensic the auditing process, according to The Center for Forensic Studies (2010), may be used to reverse the trend of leaks that led to failures. 2016's Kassam and Higson noted that reviewing the requirements for audits reveals that, despite audit regulators' evident attempts to combat fraud, only modest emphasis has been given to responsibilities of the external auditors

Objectives of the study

- 1. To evaluate the impact of forensic Audit practices in fraud detection in financial institutions in Uganda.*
- 2. To ascertain and recommend corrective measures to be taken to ensure strong and satisfactory fraud detection in financial institutions*
- 3. To identify the relationship between forensic auditing and fraud risk management.*

Research Questions

- 1. What role did forensic auditing contribute in the detection of frauds in the organization?*
- 2. What recommendations and corrective measures did you suggest to ensure strong and satisfactory fraud detection?*
- 3. Is there any relationship between forensic auditing and fraud control in financial institutions?*

Methodology

Research Design

Descriptive methodology and a design based on correlation were utilized in the study. These were uncontrolled and described the traits of a certain person or group. It addressed the interrelationships between variables, the testing of hypotheses, the creation of generalizations, and the application of ideas with broad applicability. This study methodology was used to describe factors that were qualitatively measured, such as the perspectives, mindsets, and responses of those who participated to working capital procedures.

Study Population

The target population included 1 proprietor, 15 finance officers, 2 managers, 18 workers and this sum up to 36 people from each department or management.

Sample Size

In view of the nature of the target population where both managers and appropriator were concerned. A sample was taken from each category. Table showed the distribution of respondents of the study from each category. The Slovenes formula below was used to determine the minimum sample size.

$$n = N / 1 + N (e)^2$$

Where n = sample size

e = margin of error desired

N = population size

Table 1 showing the distribution of sample size

CATEGORY	POPULATION	SAMPLE SIZE
<i>Proprietor</i>	2	1
<i>Managers</i>	2	2
<i>Finance officer</i>	3	1
<i>Workers</i>	80	20
<i>Clients</i>	30	10
<i>Total</i>	117	34

Sampling Procedure

This study employed a non-probability sampling technique in respondent's section. The technic purposive based on different criteria amongst the following; qualifications, area of specialization, duration in service, training acquired and frequency of training.

Data Analysis

The demographic makeup of the people who participated was ascertained using the frequency of percentage distributions. Based on signs of strength and weakness, the amount of the role of fraud detection was assessed using the mean item analysis. The study's suggestions served as its foundation. Using a t-test and multiple

correlation coefficient, the correlation assumption was tested at the 0.05 level of importance using SPSS (Nelson et al., 2022).

RESULTS

Table 1: Showing the manner in which forensic auditing affect fraud detection and how respondents reacted Strongly Disagree (2) Agree (3) Strongly disagree(1) agree (4)

	Strongly disagree (1)		Disagree (2)		Agree (3)		Strongly agree (4)		Total	
	F	%	F	%	F	%	F	%	F	%
The organization regularly audit the books of account	1	1.0	2	2.1	32	33.3	61	63.5	96	100
The organisation usually maintain records of what it owes to the clients	2	2.1	3	3.1	33	34.4	58	60.4	96	100
The organisation usually pays using the payment mode required by majority of the respondents	1	1.0	2	2.1	28	29.2	65	67.7	96	100
The company hire external auditors to prove work done by internal auditors	1	1.0	3	3.1	40	41.7	52	54.2	96	100

<i>The organisation normally keeps stringent book keeping policy.</i>		2.1	2	2.1	53	55.2	40	41.7	96	100
<i>The organisation has put in place an office in charge of environmental accounting.</i>	2	2.1	3	3.1	48	50.0	43	44.8	96	100

Source: Primary data, 2014

According to the above data, 63.5% were in agreement that the company should audit its books of finances on a regular basis. Following this were 33.3% of those who simply agreed, 2.1% of those who disapproved, and 1.0% of those who severely disagreed.

The survey also demonstrated that the company typically keeps track of the debts owed to clients, with 60.4% of respondents highly agreeing, 34.4% agreeing, 3.1% disagreeing, and only 2.1% severely disagreeing. This contributed to the demonstration of rigorous bookkeeping during periods of forensic auditing.

The information showed that the company typically pays its workers using the payment method preferred by the vast majority. This is demonstrated by a 67.7% strong agreement rate, a 29.2% agreement rate, a 2.1% disagreement rate, and a 1.0% severely disagreement rate.

The appointment of outside auditors by the company to verify the work done by internal auditors was another topic on which 54.2% highly agreed, 41.7% agreed, 3.1% disapproved, and 1.0% severely disapproved.

In general, 41.7% strongly agreed, 55.2% agreed, and 2.1% objected while 2.1% were strongly dissatisfied with the organization implementing strict bookkeeping procedures.

44.8% overwhelmingly supported, 5.0% agreed, 3.1% agreed, and 2.1% were strongly dissatisfied with the idea of the organization setting up an office in charge of the

environment. The impact of forensic audit on the identification of fraud is shown in the figure above. This was demonstrated by examining the primary data while paying close attention to those who were completely in agreement, and the findings were as follows: 67.7% of organizations pay their staff members in the required way, 63.5% audit their books of is responsible on a regular basis, 60.4% maintain records, 54.2% strongly recommend hiring independent auditors to verify internal auditors' findings, 44.8% practice environmental accounting, and 41.7% have strict accounts payable policies. Therefore, those who mentioned that the organization will curb fraudulent activities through forensic auditing. Responses to this question were given as it's clearly indicated in table 5 below;

Table 2: Showing Recommendations and measures that were taken to ensure

	Strongly disagree (1)		Disagree (2)		Agree (3)		Strongly agree (4)		Total	
	F	%	F	%	F	%	F	%	F	%
The organization carries out careful planning and monitoring of cash flows over time so as to determine the optimal cash to hold	2	21	2	2.1	32	33.3	61	63.5	96	100
The organisation always ensures that its debtors keep to their payment schedule through regular follow-up	2	2.1	3	3.1	33	34.4	58	60.4	96	100

<i>The company has efficient cash management systems</i>	1	1.0	2	2.1	28	29.2	65	67.7	96	100
<i>The organisation regularly registers expenses as they are occurred.</i>	1	1.0	3	3.1	40	41.7	52	54.2	96	100
<i>Usually, cash payment are preferred in the organisation</i>	3	2.1	2	2.1	53	55.2	40	41.7	96	100
<i>The company regularly delivers more relevant cautions and high value to customers</i>	3	23.1	3	3.1	48	50.0	43	44.8	96	100
<i>The organization's asset are put into their best use</i>	1	1.0	6	6.3	42	43.8	47	49.0	96	100

The table above, which was taken directly from the underlying data, demonstrates how forensic auditing can be used to stop fraud. This was demonstrated by the primary data source, which showed that 54.2% of the firm carefully plans and monitors its cash flow, whereas only 39.6% merely agreed, 4.2% disapproved, and 2.1% strongly disapproved.

In regards to the idea of following up with creditors on a frequent basis to ensure that they stick to their payment schedule, 44.8% were in agreement, 43.8% agreed, 8.3% disapproved, and 3.1% very disagreed.

52.1% strongly agreed, 41.7% agreed, and 3.1% disapproved as 3.1% strongly disapproved on the essence of effective cash flow administration. This demonstrates how forensic auditing may effectively deter fraud. 50.0% highly agreed, 41.7% agreed, 5.2% disapproved, and 3.1% had strong disagreements

regarding the regular recording of expenses as they occur. 49.0% highly agreed, 43.8% agreed, 6.3% disapproved, and 1.0% very disapproved with the way the company was using its resources to the best of its ability.

As seen in the above figure, forensic accounting can aid in the suppression of fraudulent activity. As we follow those who strongly concur, the following primary data was used to demonstrate this: 54.2% of respondents strongly agreed that the firm should record expenses as they happen, followed by 52.1% for effective cash flow administration, 50.0% for assets are placed into best use and 44.8% for debtors keep their payment schedules.

Conclusion

The study found that Kampala International University's forensic audit department had a significant impact on reviewing the institution's accounting files, eradicating fraud and reducing misuse of funds. As a result of the debate; it is recommended that clear bookkeeping be given more focus in order to address the issues that these colleges face and to help these institutions benefit from comprehensive audit. These tactics include things like stronger governmental legislation and widespread awareness and knowledge. If all private institutions are to gain from forensic audits, all of these oughts to be done.

Recommendations

In order to promote these businesses' independence and prevent corruption in any manner, government agencies should assist auditing firms. This could take the form of giving existing businesses subsidies.

It is important to encourage various institutions, notably these private educational institutions, to prioritize forensic audits. This could be accomplished by setting up training sessions, conferences, and radio and newspaper advertisements to inform people about the benefits of having an in-house forensic auditing division.

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