

Internal Audit Practices And Fraud Detect On Financial Institutions In Uganda A Case Study Of Absa Bank, Kampala, Jinja Road.

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ABSTRACT

The study was carried out to find out the impact of Internal Audit practices on fraud detection in financial institutions in Uganda, taking a case study of ABSA BANK, Kampala town Jinja road. The study aimed at detecting fraud in financial institutions in Uganda, finding out its causes, impacts and how to overcome it and make sure it doesn't appear even in future.

The study applied both quantitative research designs where questionnaires was used as primary sources of data. Data was processed and analyzed using formal tables, pie charts, narrative text, and correlation to find out the impact of Internal Audit practices. A total of 10 respondents were considered out of the entire population of employees in the bank. Also, in the issue of the organization hiring external auditors to prove the work done by the internal auditors, 54.2% strongly agreed, 41.7% agreed, 3.1 % disagreed as 1.0% strongly disagreed. In the essence of the organization putting stringent book keeping policies, 41.7% strongly agreed, 55.2% agreed, and 2.1 % disagreed as 2.1 % strongly disagreed. In things concerning the organization putting in place an office in charge of environment, 44.8% strongly agreed, 5.0.0% agreed, 3.1 % agreed, as 2.1 % strongly disagreed. Organizations should come up with better skills and knowledge to impact in the beneficiaries so that they can learn how to overcome the typical risks that are associated with auditing for example fraud, misappropriation of funds. However, there is a need to provide for a productive design feature to remove the challenges faced by the organizations in making use of the Internal audit services

Key words: internal audit practices, fraud detect and financial institutions

Background of the study.

The study about the role of Internal auditing of fraud detection in financial institutions learning using Absa Bank as a case study (Innocent et al., 2023). Incidents of fraud can be noted in the media by a weekly if not daily basis. Long firms of creation of false companies, embezzlement false adverting or billing, health fraud, bankrupts' fraud use of tax have been written for Illegal activities etc (Alex & Kazaara, 2023). Financial and other fraud cases involved accounting information. Internal investigators utilize financial information and will need to understand, interpret, discern what is important or what is not important, retrieve, identify, safe guard, report and testify in court financial information retrieved in fraud investigation (Gracious, 2023). A fairly new phenomenon in the research deals with the effect on Jurors as well. Researchers discussed the importance of auditors and Internal accountants receiving training on fraudulent methods but also indicate the importance of fraud investigators knowing accounting information systems (Innocent et al., 2023). In addition, studies also indicate the importance of fraud examiners being able to testify as an expert witness on evidence derived from an AIS (Ramadhan et al., 2023) and a few researchers even suggest that even judges and attorneys might wish to be updated in AIS and Internal evidence (Faridah et al., 2023). Accounting information systems; Accounting information systems can be defined as a collection of resources utilized to transform financial and other data into usable information (Moses

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et al., 2023). The process of acquisition, restoration and analysis of digital data which could include restoring corrupted or lost data, resurrecting outdated systems and software environment or to simply analyze common security breach activities (Alex et al., 2023).

Statement of the problem

The current business environment and the more recent economic recession has made the top management of many organizations pay attention to how to make their company's financial statements look better to attract investors by manipulating the data in their financial statements by either increasing or decreasing the numbers depending on what they want to achieve at any given moment through aggressive or creative accounting, otherwise known as financial statement fraud (T. Christopher, 2022). Recently, fraud has been identified as a major threat to financial institutions. Nowadays, fraud has become a habit in most institutions because of the way it spreads, and the inability of auditors to prevent and detect it has made conventional audits and investigations fruitless (Moses et al., 2023). The failure of both internal and external audit to prevent and detect fraud in financial institutions has led to the use of internal auditors as a fraud detection option. The Center for Internal Studies (Lydia et al., 2023) hypothesized that only a well-applied internal audit could possibly be used to reverse the trend of leaks that led to failure (Moses et al., 2023), stating that passing audit It was found that although the efforts of audit regulators to combat fraud are undeniable, less attention has been paid to the accountability of external auditors.

Specific Objectives

1. To evaluate the impact of Internal 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 Internal auditing and fraud risk management.

Methodology

The study used descriptive approach with correlation design. These were non-experimental that described the characteristics of particular individual or of a group. It dealt with the relationship between variables, testing of hypothesis and development of generalization and use of theories that have universal validity. This research approach was used in describing variables that was measured in qualitative terms like the respondents' opinions, attitudes and reactions to working capital practices. 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. 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.

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

Where n= sample size

e= margin of error desired

N= population size

Table showing the distribution of sample size

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

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. The study tools used includes (I) face sheet to gather data on respondents' demographic characteristics were of specialization (ii) researcher devised questionnaires to determine the level of working capital management and the level of financial performance (III) items concerning the level of working capital management and levels of financial performance. The frequency of percentage distribution was used to determine the demographic characteristics of respondents. The mean item analysis was used to evaluate the level of the role of fraud detection based on indicators of strength and weakness. A multiple correlation coefficient to test the hypothesis on correlation at 0.05 level of significance using t-test was employed. Data was analysed inform of tables, frequencies and percentages using SPSS and STATA (Nelson et al., 2022).

RESULTS

Table 2: Showing the manner in which Internal 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
The organisation normally keeps stringent book keeping policy.		2.1	2	2.1	53	55.2	40	41.7	96	100
The organisation has put in place an office in charge of environmental accounting.	2	2.1	3	3.1	48	50.0	43	44.8	96	100

Source: Primary data, 2014

From the table above it is indicated that 63.5% strongly agreed that the organization regularly audit the books of accounts. This was followed by 33.3% who just agreed for those who disagreed it were 2.1% and 1.0% was for those that strongly disagreed. This questionnaire also proved that the organization usually maintains the records of those that it owes to the clients following a percentage of 60.4% as those who strongly agreed, 34.4% agreed, 3.1 % disagreed and only 2.1 % strongly disagreed. This helped to prove a high level of follow up of the books in times when Internal auditing is taking place (Isaac et al., 2023).

The data also presented that the organization usually pays its employees using the payment mode required by the majority. This is proved by a 67.7% as those who strongly agreed, 29.2% agreed, 2.1 % disagreed and a 1.0% strongly disagreed (F. Christopher, Muhindo, et al., 2022).

Also in the issue of the organization hiring external auditors to prove the work done by the internal auditors, 54.2% strongly agreed, 41.7% agreed, 3.1 % disagreed as 1.0% strongly disagreed. In the essence of the organization putting stringent book keeping policies, 41.7% strongly agreed, 55.2% agreed, and 2.1 % disagreed as 2.1 % strongly disagreed. In things concerning the organization putting in place an office in charge of environment, 44.8% strongly agreed, 50.0% agreed, 3.1 % agreed, as 2.1 % strongly disagreed (Wegulo et al., 2023). In the figure above it is indicated that Internal audit can strongly affect fraud detection. This was proved by looking at the primary data as we follow those who strongly agreed and the results were as follows: the organization pays its employees using the required mode was 67.7%, 63.5% the organization regularly audit the books of accounts, 60.4% for maintenance of records, 54.2% strongly says that the organization hire external auditors to prove the work of the internal auditors and 44.8% for environmental accounting as 41.7% for stringent book keeping policy (F. Christopher, Moses, Muhindo, & Muhammad, 2022). Therefore, those who mentioned that the organization will curb fraudulent activities through Internal auditing. Responses to this question were given as it's clearly indicated in table 5 below;

Table 3: Showing Recommendations and measures that were taken to ensure

	Strongly disagree (1)	Disagree(2)	Agree(3)	Strongly agree(4)	Total
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	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
The company has efficient cash management systems	1	1.0	2	2.1	28	29.2	65	67.7	96	100
The organisation regularly register expenses as they are occurred.	1	1.0	3	3.1	40	41.7	52	54.2	96	100
Usually cash payment are preferred in the organisation	3	2.1	2	2.1	53	55.2	40	41.7	96	100
The company regularly delivers more relevant cautions and high value to customers	3	23.1	3	3.1	48	50.0	43	44.8	96	100
The organisation's asset are put into their best use	1	1.0	6	6.3	42	43.8	47	49.0	96	100

The table above as it was extracted from the primary data proves that there Internal audit can help to curb down fraudulent activities. This was proved from the primary data source that; 54.2% the organization carries out careful planning and monitoring of cash flows, 39.6% just agreed, 4.2% disagreed as only 2.1 % strongly disagreed. In the issue of debtors keeping their payment schedule through regular follow up, 44.8% strongly agreed, 43.8% agreed, and 8.3% disagreed as 3.1 % strongly disagreed (F. Christopher, Moses, Muhindo, & Nturanabo, 2022).

In the essence of efficient cash flow management, 52.1 % strongly agreed, 41.7% agreed, and 3.1% disagreed as 3.1% strongly disagreed. This shows that Internal audit can strongly curb fraudulent activities. In things concerning regular registering of expenses as they occur, 50.0% strongly agreed, 41. 7% agreed, 5.2% disagreed, as 3.1% strongly disagreed (Musaibah et al., 2023).

For the organization putting assets into best use, 49.0% strongly agreed, 43.8% agreed, 6.3% disagreed, as 1.0% strongly disagreed. In the figure above it is indicated that Internal auditing can help to curb down fraudulent activities. This was proved by looking in the primary data as we follow those who strongly agreed and the results were as follows: careful planning and monitoring of cash flows was 54.2%, 52.1 % for efficient cash flow management, 50.0% for those who strongly agreed that the organization register expenses as they occur, 49.0% for assets are put into best use and 44.8% for debtors keep their payment schedules (Ramadhan et al., 2023)

Discussion

The main problem of this study as indicated in chapter one was about Internal auditing and fraud detection in private universities in Uganda particularly Kampala International University. The subsequent discussion in this chapter is based on the results presented in chapter four of this report as given by the respondents (Winny et al., 2023). From the socio-economic demographic characteristics respondents that is, sex, age and level of education attained, majority of them were male, 18 -27 years of age and those with bachelors' degree respectively. These characteristics were very important in the study because it gives a background where one can build to critically to assess the phenomenon and suggest for possible suggestions.

From the field study, majority of the respondents strongly agreed that Internal audit can affect fraud detection. It was mentioned that, the organization makes payments using the required payment mode this was 67 .7%, 63.4% regularly audit the books of accounts, 60.4% usually maintains records (Pdu et al., 2023), 54.2% hires external auditors to prove the work of the internal auditors, environmental accounting was 44.8% and stringent book keeping policies was 41. 7%. From the study, in reference to the research question two, it was strongly agreed by the majority of the respondents that there is careful planning and monitoring of cash flows which was at 54.2%, 52.1 % for efficient cash flow management, 50.0% register expenses as they occur, 49.0% assets are into best and 44.8% debtors keep their payment schedules.

Conclusion

The study concluded that Internal audit department in Kampala International University has played an important role in checking the financial records of Kampala International University, that is to say fraud eradication, reduction in misappropriation of funds. From the discussion, use of forward strategies to up lift these Universities benefit from Internal audit, more attention should be put on clear book keeping so as to address the problems that they face. Such strategies include; mass sensitization and awareness, better government policies among others. All these should be done if all private universities are to benefit from Internal auditing.

Recommendations

The government should give support to audit companies so as to encourage the independence of such companies and avoid being corrupted in one way or the other. This can be in form of subsidizing the existing firms.

Different organizations especially these private universities should be encouraged to put more emphasis on Internal auditing. This should be done through putting up workshops, seminars and putting advertising in newspapers and radios so that to make them discover the advantages of having Internal auditing department. Organizations should come up with better skills and knowledge to impact in the beneficiaries so that they can learn how to overcome the typical risks that are associated with auditing for example fraud, misappropriation of funds. However, there is a need to provide for a productive design feature to remove the challenges faced by the organizations in making use of the Internal audit services

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