
A Study On Examining Internal Audit Practices On Fraud Management In Organizations, A Case Study Of Centenary Bank

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Abstract

This study seeks to comprehensively examine the internal audit practices for fraud management within Centenary Bank, with the goal of evaluating the effectiveness of current approaches and identifying opportunities for improvement. As the perpetration of fraud continues to rise at an alarming rate within both public and private sector organizations in Uganda, resulting in massive financial losses each year, it has become imperative for companies like Centenary Bank to strengthen preventive and detective controls through enhanced internal audit functions. While internal audit represents a key line of defense against fraud, recent research indicates the internal audit roles in many Ugandan firms have yet to be fully developed and leveraged in combating fraudulent acts. Through a qualitative case study methodology utilizing documentary analysis and semi-structured interviews with Centenary Bank's internal auditors and anticorruption officers, this research aims to provide a detailed assessment of the bank's existing fraud risk management practices. From the findings, there was a positive correlation between internal auditing and fraud detection ($r = 0.615$). Findings further indicated that there was a significance correlation between internal audit and fraud detection in cheap hardware. By benchmarking Centenary Bank's approaches against fraud prevention best practices promulgated by leading standard-setting bodies, the study seeks to identify performance gaps. Recommendations will then be provided to strengthen the internal audit function's role in supporting the organization's antibribery and corruption efforts through advanced fraud detection, prevention and response protocols. The top management should give more attention for the fraud related asset and that fraud related to financial reporting.

Keywords: Internal Audit Practices, Fraud Management and Organizations

Background of the Study

Fraud is a persistent threat facing organizations worldwide, resulting in significant financial losses every year (Innocent et al., 2023). According to the Association of Certified Fraud Examiners 2020 report to the nation, the typical organization loses 5% of its annual revenue to fraud, with the average fraud costing more than \$100,000 (Lydia et al., 2023). Cases of fraud in both the public and private sectors are on the rise in Uganda. Statistics from the government's Inspector General indicate that fraud and corruption complaints increased by 28% from 2019 to 2020 (Paul et al., 2023). Effective fraud prevention and detection procedures have therefore become imperative for organizations operating in Uganda. Internal audit plays a key role in managing fraud risk through continuous evaluation of internal controls, risk assessment, monitoring, investigation and recommendations for corrective actions (Moses et al., 2023). However, recent studies have shown that internal audit functions in many Ugandan organizations remain underdeveloped and underutilized in the fight against fraud (Ivan et al., 2023a). A 2019 PricewaterhouseCoopers survey of 50 companies

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found that only 20% had formal fraud risk management programs in place led by internal audit. At Centenary Bank, Uganda's largest commercial bank with assets of over USD 1 billion, internal audit has not conducted a comprehensive fraud risk assessment in over 5 years since 2017 (Ivan et al., 2023b).

Diaspora funds are the largest source of currency. It is estimated that 90% of exchange income comes from remittances/Hawala (Abiodun & Charlotte, 2022). Two-thirds of the city's population live on remittances, and 80% of start-up capital for businesses is funded by remittances. Remittance flows to Somalia strengthen the livelihoods of hundreds of thousands of families and contribute to the development of the private sector in a country where foreign aid is scarce and a functioning government is virtually non-existent (Victor et al., 2022).

This proposed study seeks to examine Centenary Bank's current internal audit practices for fraud management, specifically focusing on areas such as fraud risk assessment, monitoring controls, forensic accounting capabilities, communicating audit results to management and the board of directors (Christopher, 2022). Through an analysis of best practices, guidance from institutions such as the Institute of Internal Auditors and interviews with internal audit and anti-corruption department staff, the study aims to assess gaps in the bank's current approach and provide recommendations for strengthening the role of internal audit in preventing, detecting and detecting fraud . answer (Julius, 2024).

Statement of the Problem

One of the most significant risks that organizations face is the risk of collapse due to fraud (Musaibah et al., 2023). Fraud risk includes intentional misrepresentation including omission of amounts or disclosures in the financial statements to deceive users of the financial statements, also includes misappropriation of assets. Despite the internal audit in place, fraud prevention functions seem to be lacking in many organizations in Uganda, especially in many hardware, which will lead to negative consequences for the operation and credibility of low-cost hardware in Uganda, such as reducing the number of customers and clients, not attracting investors and eventually closing down such organizations (Racheal et al., 2023). Proper internal auditing was one of the main ways to manage fraud. According to (Alex et al., 2023), the internal audit activity should monitor and evaluate the effectiveness of the organization's risk management system (Innocent et al., 2023).

It didn't matter the size and type of the organization, the risk of fraud is growing at a fast pace like in the case of international scandals like Enron and WorldCom, also Ugandan hardware organizations run a lot of money as mentioned in the background study, therefore a high risk of fraud is always expected in a country without a properly functioning government ; which basic regulatory agencies do not function properly or even do not exist (Margaret & Kazaara, 2024). As a result, the fraud prevention situation in Uganda has raised the question of how internal audit can work effectively in a less developed country like Uganda.

Specific objectives

1. To determine the impact of internal audit in centenary bank
2. To determine the level of fraud in centenary bank.

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3. To establish if there are significance relationship between internal audit function and fraud prevention.

Methodology

A descriptive comparative design was used to compare the scope of the internal auditor with the level of fraud prevention in a century-old bank. Next, a descriptive correlation design was followed to find out whether there is a significant relationship between the extent of internal audit and the level of fraud prevention in low-cost hardware a descriptive correlation design deals with the relationship between variables, hypothesis testing, and the development of generalizations and the application of theories that have universal validity (Lu et al., 2013). In this study, the researcher selected low-cost hardware operating in Uganda (Nafiu, 2012). The population of this study consisted of senior management, financial controllers, accountants, cashiers and internal auditors in which there were 149 population (Nafiu et al., 2012). The reason for choosing this type of people was that the researcher expected them to have a very good understanding of the fraud detection function of internal audit (Olanrewaju et al., 2021a). A sample size of 109 was drawn from a total population of 149. This sample size is high enough and representative enough to confirm the results of this study, so the findings of this study can be replicated for the entire population (Olanrewaju & Abiodun, 2021). The study used a purposive technique of selecting respondents from low-cost hardware limited to inclusion in the sample. Within this technique (Anwar et al., 2022). The researcher used their own judgment or common sense regarding the participant from whom the information was collected. This study used a questionnaire as the main tool for data collection (Olanrewaju et al., 2021b). Three research tools were used in the study, a face sheet, which was used to collect data on the profile of the respondents; and two researches created questionnaires, one questionnaire focused on the independent variable which was internal audit and the other questionnaire focused on the dependent variable which was fraud prevention (Jallow et al., 2021). SPSS statistical software was used to analyze the data because this type of software is suitable for primary data analysis and the data that the researcher analyzed was primary data (Nelson et al., 2022). To analyze objective one of this study, the researcher used frequency and percentage distribution table.

RESULTS

Table 1: Fraudulent financial reporting

Measure of fraud ranks	Mean	Interpretation
The potential of material misstatement is explicitly considered in detect fraud	3.02	Satisfactory
Action are taken to address risk to the achievement of financial reporting objectives	2.98	Satisfactory

The organization practically apply a set of fraud 3 prevention policies to maintain sound financial	2.94	Satisfactory
Fraud relevant to organization financial reporting 4 have been managed	2.92	satisfactory
The organization has fraud related to financial	2.85	satisfactory
When fraudulent activity is present or suspected 6 specialized internal audit activities may be	2.83	satisfactory
Fraud is a major concern for the company satisfactory	2.39	satisfactory
Average mean index	2.82	satisfactory

Source: Primary Data, 2012

Results in Table 1 A show that item analysis means indicate that the level of fraud detection related to fraudulent financial reporting is satisfactory in terms of i) potential of material misstatement is explicitly considered in detect fraud (mean =3.02); ii) Action are taken to address risk to the achievement of financial reporting objectives (mean =2.98); iii) The organization practically apply a set of fraud detected policies to maintain sound financial reporting (mean =2.94); iv) Fraud relevant to organization financial reporting have been managed (mean =2.92); v) The organization has fraud related to financial reporting (mean =2.85); vi) When fraudulent activity is present or suspected, specialized internal audit activities may be performed to assist management in detecting it (mean =2.83); vii) Fraud is systematically identified (mean =2.79); viii) There is any official statistics about the fraudulent financial reporting cases in this organization (mean =2.69); whereas the level of fraudulent financial reporting is fairly satisfactory in terms of ix) Fraud is a major concern for the company (mean =2.39). This makes the average mean index of the level of fraud detection related to fraudulent financial reporting satisfactory (average mean = 2.82) as indicated in Table 5 A above.

Table 2: Relationship between Existent of Internal Audit and Level of Fraud Detection in selected money transfer companies

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Variables correlated	Computed r value	Sig	Interpretation of correlation	Decision on ho
Internal audit vs.	.615	.000	Significant	Rejected

Result in Table 2 shows that there is a positive correlation between internal auditing and fraud detection ($r = 0.615$). Findings indicate that there is a significance correlation between internal audit and fraud detection in cheap hardware. Basing on these results, the stated research hypothesis is rejected, leading to a conclusion that internal and fraud detection ($\text{sig.} = 0.000$) are significantly correlated at 0.05 level of significance in selected money Transfer companies (N=123).

Table 3: Regression analysis for Existence of Internal Audit and Level of Fraud prevention

Variable Regressed	Adjusted	Computed f-Value	Beta	Sig.	Interpretation	Decision On H,
Internal Audit	.372	65.024	-	.000	Significant	Rejected
Fraud					effect	
Internal Audit Vs	.337	55.785	.585	.000	Significant	Rejected
Fraudulent					effect	
Internal Audit Vs	.232	33.703	.489	.000	Significant	Rejected
Asset					effect	

Results in Table 3 suggest that internal audit positively and significantly affects fraud ($F=65.024$, $\text{sig.} = 0.000$). The results indicate that internal audit contributes the variations over 37% towards variation in fraud detection ($r^2 = 0.372$). The results also indicate that internal audit contribute over 34% towards variation in fraudulent financial reporting and 23% toward variation in asset misappropriation. This implies that internal audit is more important for asset misappropriation compared to fraudulent financial reporting. Considering coefficient section of Table 3, results indicate that while both the two components of fraud detection when taken together significantly affects by internal audit of money transfer companies, Results indicate that of the two fraud components; fraudulent financial reporting most significantly affects by internal audit ($\text{Beta} = 0.585$); and asset misappropriation component least affects by internal audit ($\text{Beta} = 0.489$).

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Conclusion

The conclusion of this study is based on the purpose of the study in relation to internal audit and fraud prevention in cheap hardware in Uganda. There is a significant relationship between the level of internal audit and fraud prevention in Uganda and also internal audit contributes 37.2% in the variation of the level of fraud prevention. The study also tested hypotheses reached that the extent of internal audit has significance and positive relationship with detecting fraud and concluded to the rejection of the null hypothesis. The study validated that it is the independent internal auditors who provide an assurance to the board as to the satisfactory performance of management by detecting the likelihood of fraud in the organization as Jensen and Meckling (1976).

Recommendations

Top management should make the internal audit department more effective so that they can use this more effective internal audit on a regular basis to collect stronger evidence to support fraud prevention.

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