

Internal Auditing And Fraud Prevention In Organization. A Case Study Of Nssf Kampala Area

Nakazibwe Halima¹, Mwesigwa Henry²

1, 2 Metropolitan International University

Abstract

The purpose of the study was on internal Auditing and fraud prevention at NSSF Areas in Kampala. The study was based on the results from 50 respondents who presented accurate data to the researcher out of the sample size of 60 respondents. The study was guided by the objectives which were To assess the relationship between recording and fraud prevention at NSSF Kampala Area to find out the relationship between monitoring and fraud prevention at NSSF Kampala Area, to determine the relationship between book keeping and fraud prevention at NSSF Kampala Area, to examine the relationship between internal auditing and fraud prevention at NSSF Kampala Area.

There was a high relationship between recording and fraud prevention followed by a few of the respondents who presented results to the researcher indicating that there was a low relationship between recording and fraud prevention in the organization. Some of the respondents however presented result to the researcher indicating that there was no relationship between recording and recording and fraud prevention and finally one of the respondents however presented results indicating that they were not sure on whether there was a relationship between recording and fraud prevention. The respondents presented results indicating that there was a high relationship between recording and fraud prevention followed by some of the respondents who presented results to the researcher indicating that there was a low relationship between recording and fraud prevention in the organization. Some of the respondents however presented result to the researcher indicating that there was no relationship between recording and recording and fraud prevention and finally a few of the respondents however presented results indicating that they were not sure on whether there was a relationship between recording and fraud prevention.

Keywords: Internal, Auditing, Fraud, Prevention and Organization

Background of the Study

The internal audit system is a critical component of bank management and the basis for the safe and sound functioning of banking organizations (Moses et al., 2023). A strong internal audit system can help ensure that the goals and objectives of the banking organization are met, that the bank achieves long-term profitability goals and maintains reliable financial and managerial reporting (Racheal et al., 2023). Such a system can also help ensure that the bank complies with laws and regulations, as well as policies, plans, internal rules and procedures, and reduce the risk of unexpected losses or damage to the bank's reputation (Alex & Moses, 2024). The Basel Committee, along with banking supervisors around the world, has increasingly focused on the importance of sound internal auditing (Innocent et al., 2023). This increased interest in internal auditing is in part the result of significant losses suffered by several banking organizations. An analysis of the problems associated with these losses suggests that they could probably be avoided if banks maintained effective internal audit systems (Ivan et al., 2023a). Such systems would prevent or enable earlier detection

Received: 16.06.2024

Accepted: 20.06.2024

Published on: 30.06.2024

of problems that led to losses, thereby limiting the damage to the banking organization. An accounting and record keeping system will fail to fully and accurately process all transactions unless an audit known as internal auditing is built into the system (Ivan et al., 2023b).

Internal audit are processes designed to provide reasonable assurance that management is achieving the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with applicable laws and regulations (Musimenta et al., 2017). An internal audit system potentially prevents errors and fraud by monitoring and improving organizational and financial reporting processes as well as ensuring compliance with relevant laws and regulations (David et al., 2023). Reasonable assurance is provided when cost-effective measures are taken to reduce deviations, such as inappropriate or illegal acts, to a tolerable level. Internal audit assesses the effectiveness of the internal audit system to ensure that the system is working as intended (Turyatamba & Turyasingura, 2024)

The internal audit system should emphasize the proper measurement of risk identification and monitoring, audit activities for each level of operation, the creation of reliable information systems that quickly report and detailed reporting of all operations and monitoring of all activities (Okello, 2014). Internal audits are influenced by the board of directors, , management and other employees of the company and are designed to ensure the effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations (Polycarp et al., 2023). Management should evaluate the effectiveness of the institution's internal audit and report on it to its stakeholders (Winny et al., 2023). activities (Ramadhan et al., 2023). These interrelated components of internal audit must be present and functioning properly in order to have an adequate and functioning internal audit system (Alex et al., 2023). Banks play a very important role in the economic development of any country. As an important part of the financial system, banks transfer scarce resources from surplus economic units to deficit units. Thus, to a considerable and reasonable extent, they have a great influence on the pattern and trend of economic development through their lending activities and deposit mobilization (Nicholas & Alex, 2024). Effective mobilization of savings and its allocation of productive investments by financial institutions, thereby supporting economic growth and development, as well as achieving their objectivity, profitability and solvency. All the above benefits that banks can apply to the economy as a whole can be achieved through an effective system of internal control and fraud prevention in the banking sector.

In the words of (Ntirandekura et al., 2022): “The internal control system is an independent evaluation function in an organization to review the control system and the quality of performance as a service in the organization. The Institute of Chartered Accountants of England and Wales defines it as a review of operations and records, sometimes carried out continuously with the organization by specially assigned staff. Thus, internal control is the entire system of controls, financial or otherwise, established by management for the purpose of properly and efficiently carrying out the organization of the enterprise, ensuring compliance with management principles, protection of assets and security, if possible completeness and accuracy of the record (Christopher et al., 2022).

Received: 16.06.2024

Accepted: 20.06.2024

Published on: 30.06.2024

Fraud, on the other hand, is defined (Musaibah et al., 2023) as an act of deception deliberately practiced to obtain an illegal or unfair advantage at the expense of another. The International Standard on Auditing (ISA) defines fraud as intentional conduct by one or more of management, those charged with governance, employees or third parties that involves the use of fraud to obtain an unfair or illegal advantage. Fraud can include: manipulating, falsifying or altering documents and records; recording transactions without substance, deliberate misapplication of accounting principles etc. to mention but a few (Innocent et al., 2023).

Therefore, the menace called fraud is a deadly disease that has infected many financial corporations, especially banks, which has led to the recent reform of the banking industry in Nigeria, which involves the process of amalgamation of organizations in the industry such as merger and acquisition. whereby infected banks merge and/or acquire healthy and healthy ones (Polycarp et al., 2023).

Problem Statement

The regularity of fraud and misappropriation of funds creates fear, anxiety and loss of trust in the minds of NSSF customers (Faridah et al., 2023). Since internal audits operate in an environment that affects their functioning, due care must be taken in the implementation of this audit to achieve the highest objective of the financial institution (David et al., 2023). This increased interest in internal auditing is in part a result of the significant losses that can occur in several organizations as a result of fraud. Analysis of the problems related to these losses in financial institutions can only be maintained through effective internal audit (Turyatamba & Turyasingura, 2024).

A proper internal audit is one of the basic means of fraud management. According to Flesher (2019), the internal audit activity should monitor and evaluate the effectiveness of the organization's risk management system (Ntirandekura et al., 2022). The National Social Security Fund (NSSF) has been operating in Uganda for a long time and is known for collecting Pay As You Earn (PAYE) from both government and private sector employees. In 2023, Uganda's 11th Parliament came up with a draft amendment to the NSSF Act so that NSSF customers who have saved with it for more than 10 years are eligible for money, the National Social Security Fund received criticism from local people after officials were informed NSSF that money is not available to cover all responsible customers (Nelson, Christopher, Teddy, et al., 2022). This clearly demonstrated fraud and it was on this basis that the researcher decided to conduct a study on the impact of internal audit on fraud prevention in the Kampala National Social Security Fund area.

Specific Objectives

1. To assess the relationship between recording and fraud prevention at NSSF Kampala Area
2. To find out the relationship between monitoring and fraud prevention at NSSF Kampala Area
3. To determine the relationship between book keeping and fraud prevention at NSSF Kampala Area.
4. To examine the relationship between internal auditing and fraud prevention at NSSF Kampala Area

Methodology

This study included the Quantitative design which was good at describing characteristics of variables in a situation. According to Best and Khan (2019), descriptive survey design was concerned with conditions or relationships that existed, opinions that were held, processes that were going on, effects that were evident, or trends that were developed (Maiga et al., 2021). The descriptive survey design enabled collection of data without manipulating the research variables.

The target population of the study was at the headquarters of National Social Security Fund. The target population was comprising of over 70 Auditors. This target population enabled the researcher to gather concrete information for the study (Rasheed et al., 2022).

Table 1: Target Population

Respondents	Target Population
Auditors	70
Total	70

The study employed Mugenda and Mugenda (2019) who recommended sample size of at least 60% of the target population. The researcher used the above formula to determine the sample size for the 70 respondents (Lu et al., 2013).

Table 2: Sample Size

Respondents	Target Population	Sample Size
Auditors	70	60
Total	70	60

Sampling was the process of selecting a number of individuals for a study in such a way that the individuals selected represented the large pressure from which they were selected (Nafiu et al., 2013). The researcher used random sampling technique to select the sample size from individuals. A sampling frame was designed by the researcher and distributed to the target population. This enabled every member of the accessible population to have equal chance of participating in the study (Jallow et al., 2021). The researcher used questionnaires as a means of collecting data from the respondents because the questionnaire helped the respondents to give out well thought out answers to the questions that were being asked and a questionnaire also gave the respondents time to respond to questions in their free time when they were not in a hurry (Nafiu et al., 2013).

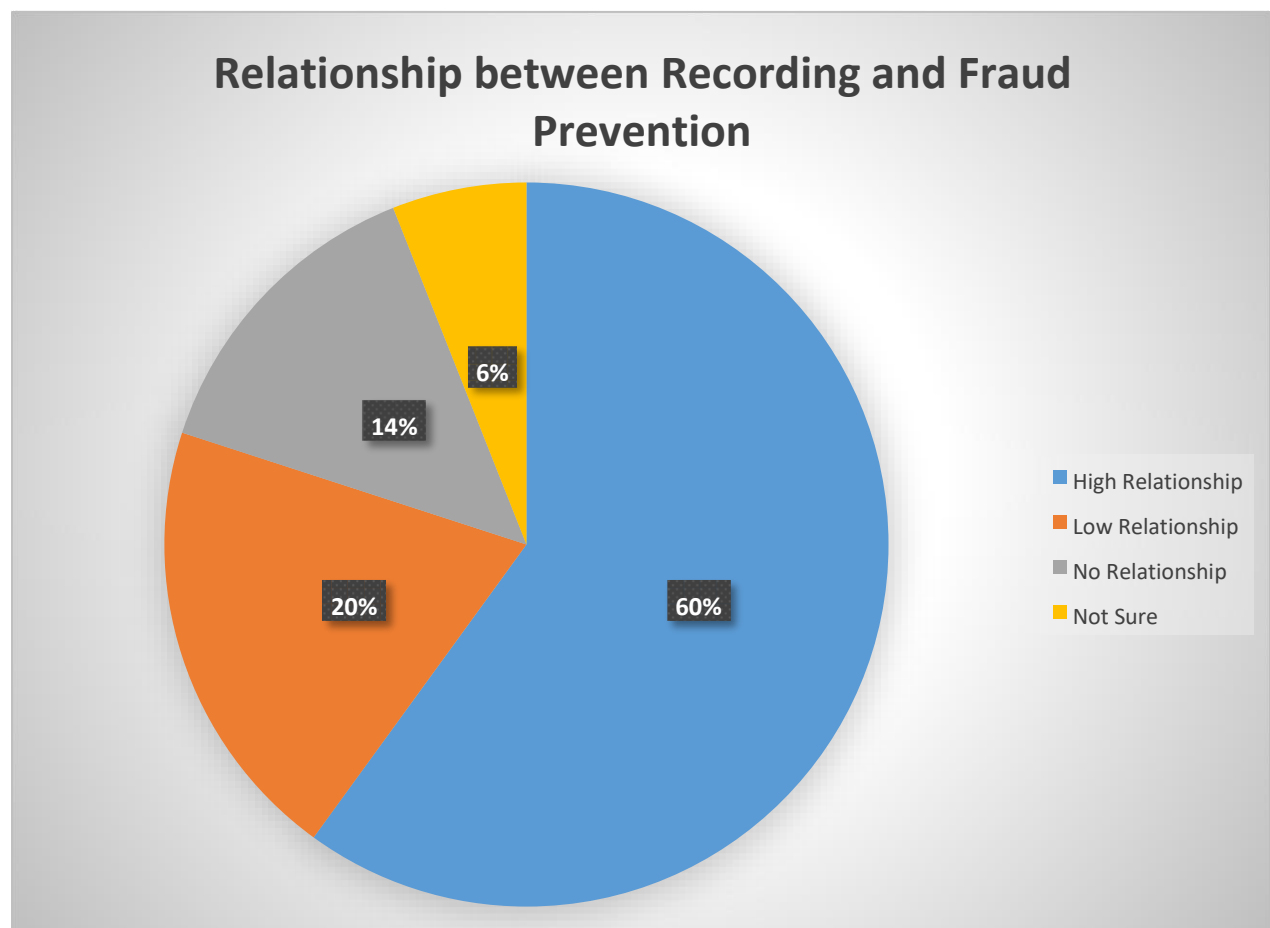
Received: 16.06.2024**Accepted: 20.06.2024****Published on: 30.06.2024**

The reliability of the questionnaire was determined through initially carrying out a pilot test. The pilot testing or study was conducted on different administrators and auditors before the real data collection exercise took place to ensure consistency in its findings (Jallow et al., 2022). The study design adopted the single method and therefore quantitative data collection techniques. The deductive- approach was used in data analysis. Under this method, hypothesis was generated from the study objectives which was expressed in operational terms and tested (Olanrewaju et al., 2021). Computer software such as SPSS & STATA was used to analyze the data, table and charts were generated to explain the quantitative data (Nelson, Christopher, & Milton, 2022). Tables and charts were also used to display the result of the study to ensure maximum clarity and objectivity. Furthermore, will analyze descriptive information from the field group discussion which will obtain further confirmation of the findings made.

RESULTS

Relationship between recording and fraud prevention

Figure 1: Relationship between recording and fraud prevention



Received: 16.06.2024

Accepted: 20.06.2024

Published on: 30.06.2024

Research Data: 2022

According to the figure above, the findings of the study presented results indicating that 60% of the respondents presented results indicating that there was a high relationship between recording and fraud prevention followed by 20% of the respondents who presented results to the researcher indicating that there was a low relationship between recording and fraud prevention in the organization. 14% of the respondents however presented result to the researcher indicating that there was no relationship between recording and recording and fraud prevention and finally 6% of the respondents however presented results indicating that they were not sure on whether there was a relationship between recording and fraud prevention (Ivan et al., 2023a).

Table 1: Relationship between recording and fraud prevention

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.573	.357	.345	.66021
a. Predictors: (Constant), fraud prevention				

Coefficients					
Model		Unstandardized Coefficients		Standardized Coefficients	t
		B	Std. Error	Beta	
1	(Constant)	1.4455	.167		4.656
	recording	.523	.072	.582	6.821
a. Dependent Variable: fraud prevention					

Source: Primary Data 2024

This table presents the findings of a simple linear regression analysis that was conducted to understand the relationship between recording and fraud prevention. Recording was used as the single independent predictor variable, while fraud prevention was specified as the dependent variable. The moderate positive correlation coefficient value of 0.573 indicates that there is a moderately strong linear association between higher levels of recording and increased levels of fraud prevention (Nelson et al., 2023). Approximately 35.7% of the variance in fraud prevention scores can be accounted for by its linear relationship with recording, as evidenced by the R square value. After adjusting for the fact that only

Received: 16.06.2024

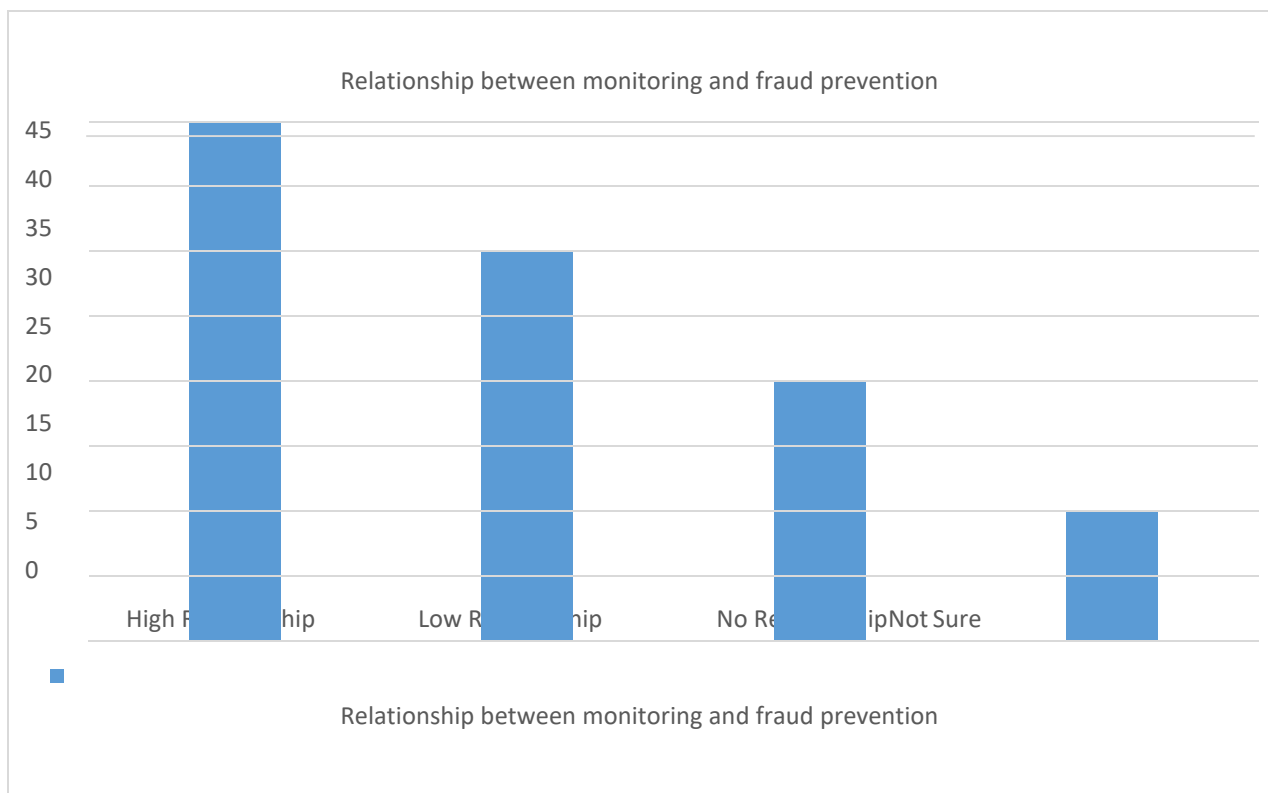
Accepted: 20.06.2024

Published on: 30.06.2024

one predictor was included in the model, the adjusted R square statistic tells us that 34.5% of the variance in fraud prevention is linearly explained by recording. The standard error of the estimate provides an indication of the precision of the model's predictions by giving the standard deviation of residuals from the regression line. Examination of the coefficients table shows that the unstandardized regression coefficient for recording has a value of 0.523. This informs us that for every one-unit increase in the value of recording, the model predicts an average increase of 0.523 units in fraud prevention, holding all other variables constant. In addition, the results demonstrate that recording makes a statistically significant contribution to explaining fraud prevention with a p-value of less than 0.001 (Ivan et al., 2023a).

Relationship between monitoring and fraud Prevention

Figure 2: Relationship between monitoring and fraud prevention



Research Data: 2023

According to the figure above, the findings of the study presented results indicating that 40% of the respondents presented results indicating that there was a high relationship between recording and fraud prevention followed by 30% of the respondents who presented results to the researcher indicating that there was a low relationship between recording and fraud prevention in the organization (Faith et al., 2023). 20% of the respondents however presented result to the researcher indicating that there was no relationship between recording and recording and fraud prevention and finally

Received: 16.06.2024

Accepted: 20.06.2024

Published on: 30.06.2024

10% of the respondents however presented results indicating that they were not sure on whether there was a relationship between recording and fraud prevention.

Conclusions

In conclusion, the findings of the study presented results indicating that majority of the respondents at NSSF Kampala informed the researcher the following:

The results indicated that majority of the respondents presented results indicating that there was a high relationship between recording and fraud prevention followed by a few of the respondents who presented results to the researcher indicating that there was a low relationship between recording and fraud prevention in the organization. Some of the respondents however presented result to the researcher indicating that there was no relationship between recording and recording and fraud prevention and finally one of the respondents however presented results indicating that they were not sure on whether there was a relationship between recording and fraud prevention.

The findings of the study also presented results indicating that that majority of the respondents presented results indicating that there was a high relationship between recording and fraud prevention followed by some of the respondents who presented results to the researcher indicating that there was a low relationship between recording and fraud prevention in the organization. Some of the respondents however presented result to the researcher indicating that there was no relationship between recording and recording and fraud prevention and finally a few of the respondents however presented results indicating that they were not sure on whether there was a relationship between recording and fraud prevention.

Majority of the respondents presented results indicating that there was a high relationship between book keeping and fraud prevention followed by, some of the respondents who presented results to the researcher indicating that there was a low relationship between recording and fraud prevention in the organization. of the respondents however presented result to the researcher indicating that there was no relationship between recording and recording and fraud prevention and finally a few of the respondents however presented results indicating that they were not sure on whether there was a relationship between recording and fraud prevention.

Recommendations

The study recommends that NSSF should fully reconcile their accounts more frequently in order to reduce the cases of more incidences of frauds. The study also recommends that NSSF should put in place stronger financial governance control measures through more frequent meetings among the members of the risk management committee and also finance and investment committee.

Another recommendation made by the study is that NSSF should reduce the variances in budgets through better reporting and budgetary control measures as it will reduce cases of frauds.

Top management should give input for internal audit planning in money transfer companies in Uganda.

Internal audit function of the money transfer companies should be independent in order to detect fraud fairly.

Received: 16.06.2024

Accepted: 20.06.2024

Published on: 30.06.2024

The top management should give more attention for the fraud related asset and that fraud related to financial reporting. 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 detection.

References

- Alex, I., Ariyo, D., & Kazaara, G. (2023). Internal Controls and Financial Performance of Saccos in Wakiso District. In *International Journal of Academic Multidisciplinary Research* (Vol. 7). www.ijeais.org/ijamr
- Alex, I., & Moses, N. (2024). *Interest Rates and its Impact on Stock Prices among Small Scale Enterprises : An Empirical Evidence of Kampala District*. 8(4), 43–46.
- Christopher, F., Muhindo, M. E., & Nakalema, F. (2022). *Decentralization and Social Service Delivery in Uganda : Acrritical Analysis of the Decentralization and Social Service Delivery in Uganda : Acrritical Analysis of the literature review*. November.
- David, M., Julius, A., Ariyo, D., & Kazaara, G. (2023). THE ROLE OF COMMERCIAL BANKS IN SMALL SCALE ENTREPRENEURIAL DEVELOPMENT IN ADJUMANI DISTRICT, A CASE STUDY OF CENTENARY BANK Background of the Study. *METROPOLITAN JOURNAL OF BUSINESS & ECONOMICS (MJB E*, 2(3), 1490–1505.
- Faith, K., Kalikola, J., Kazaara, A. G., Catherine, M., & Ismail, L. (2023). *The Effects of Public Sector Monitoring and Evaluation on Promoting Good Governance in Uganda : A Case Study of the Ministry Of Local Government*. 7(3), 71–83.
- Faridah, N., Kazaara, A. G., & Kazaara, A. I. (2023). *An Evaluation of the Effects of Advertising on Consumer Brand Awareness in an Organization , a Case Study of Mukwano Group of Companies*. 7(3), 206–212.
- Innocent, A., Kazaara, A. G., Nelson, K., Catherine, M., Micheal, T., & Deus, T. (2023). *Internal Auditing and Fraud Prevention in Organizations a Case Study of Nssf Kampala Area*. 7(2), 150–157.
- Ivan, M., Alex, I., & Deus, T. (2023a). Internal Auditing and Financial Performance Commercial Banks in Uganda: a Case Study of Centenary Bank Nansana Branch. *Metropolitan Journal of Business & Economics (Mjbe*, 2(6), 34–49.
- Ivan, M., Alex, I., & Deus, T. (2023b). INTERNAL AUDITING AND FINANCIAL PERFORMANCE COMMERCIAL BANKS IN UGANDA: A CASE STUDY OF CENTENARY BANK NANSANA BRANCH. In *METROPOLITAN JOURNAL OF BUSINESS & ECONOMICS (MJB E* (Vol. 2, Issue 6).
- Jallow, M. A., Abiodun, N. L., & Weke, P. (2022). *Stochastic Forecasting of Stock Prices of Capital Assets Using Semi-Markov Model*.
- Jallow, M. A., Weke, P., Nafiu, L. A., & Ogutu, C. (2021). *APPLICATION OF A DISCRETE-TIME SEMI-MARKOV MODEL TO THE STOCHASTIC FORECASTING OF CAPITAL ASSETS AS STOCK*

Received: 16.06.2024

Accepted: 20.06.2024

Published on: 30.06.2024

Department of Mathematics School of Mathematics University of Nairobi Department of Mathematics and Statistics. 63(1), 1–18.

Lu, A. F. O. G., Abubakar, U. Y., Isah, A., Nafiu, L. A., & Rauf, K. (2013). *On inequality to generate some statistical distributions. 2013, 1–14.*

Maiga, I. H., Abiodun, N. L., & Mageto, T. (2021). *Analyzing the Effects of Flexible Exchange Rate Regime on the Malian Economy Using a Dynamic Stochastic General Equilibrium Model. 67(12), 9–20.* <https://doi.org/10.14445/22315373/IJMTT-V67I12P502>

Moses, K., Kazaara, A. G., Kazaara, A. I., & Ismail, L. (2023). *External Auditing and the Financial Performance of Marianum Press Limited , Kisubi. 7(3), 258–266.*

Musaibah, N., Kazaara, A. G., Kazaara, A. I., & Deus, T. (2023). *The Organizational Factors Affecting Employee Performance in Non-Governmental Organizations in Uganda . A Case Study of the Uganda Women Parliamentary Association. 7(3), 221–231.*

Musimenta, D., Nkundabanyanga, S. K., Muhwezi, M., Akankunda, B., & Nalukenge, I. (2017). Tax compliance of small and medium enterprises: a developing country perspective. *Journal of Financial Regulation and Compliance, 25(2), 149–175.* <https://doi.org/10.1108/JFRC-08-2016-0065>

Nafiu, L. A., Oshungade, I. O., & Adewara, A. A. (2013). *GENERALIZATION OF MULTISTAGE CLUSTER SAMPLING USING FINITE POPULATION. 3(1), 17–20.*

Nelson, K., Christopher, F., & Milton, N. (2022). *Teach Yourself Spss and Stata. 6(7), 84–122.*

Nelson, K., Christopher, F., Teddy, A., & Alex, A. (2022). *Customer Care and Sales Volume of Miami Hotel in Kabale District , South Western Uganda. 6(6), 26–33.*

Nelson, K., Kazaara, A. G., & Kazaara, A. I. (2023). *Teach Yourself E-Views. 7(3), 124–145.*

Nicholas, K., & Alex, I. (2024). *Electronic Banking and its Impact on Financial Performance : An Empirical Evidence of Centenary Bank. 8(4), 38–42.*

Ntirandekura, M., Friday, C., & Muhammad, M. (2022). Rewards and Staff Retention in Public Sector in Uganda: An Empirical Study from Kabale District Local Government. *International Journal of Academic Management Science Research, 6(7), 165–170.*

Okello, A. (2014). Managing Income Tax Compliance through Self-Assessment. *IMF Working Papers.* <https://doi.org/10.5089/9781475515237.001>

Olanrewaju, R. O., Waititu, A. G., & Abiodun, N. L. (2021). *On the Estimation of k-Regimes Switching of Mixture Autoregressive Model via Weibull Distributional Random Noise. 10(1), 1–8.* <https://doi.org/10.5923/j.ijps.20211001.01>

Polycarp, K., Kazaara, A. G., Kazaara, A. I., Prudence, K., & Nicholas, K. (2023). *The effect of loan defaults on profitability of financial institutions in Uganda : a case study of post bank , Anaka branch , Nwoya*

Received: 16.06.2024

Accepted: 20.06.2024

Published on: 30.06.2024

district. 7(3), 172–178.

Racheal, N., Kazaara, A. G., & Kazaara, A. I. (2023). *Impact Of Quality Financial Reporting On An Organization Resource Management : A Case Study Of Humuza Holding Limited Kampala Uganda. 7(3), 335–343.*

Ramadhan, B., Alex, I., Kazaara, A. G., Nelson, K., Deus, T., & Pascal, T. (2023). *Taxation and the Development of Small Businesses in Uganda , a Case Study of Iganga District. 7(2), 136–149.*

Rasheed, Z., Khan, M., Abiodun, N. L., Anwar, S. M., Khalaf, G., & Abbasi, S. A. (2022). *Improved Nonparametric Control Chart Based on Ranked Set Sampling with Application of Chemical Data Modelling. 2022.*

Turyatamba, C., & Turyasingura, B. (2024). *Factors affecting the use of digital payments among Smallholder Tea Farmer in Kanungu District , Uganda. 8(4), 23–31.*

Winny, N. D., Ariyo, D., Kazaara, G., Kazaara, A. I., & Deus, T. (2023). *Effect Of Motivation On Employee Performance In Non-Government Organizations (NGOS): A Case Of Mbale City. In International Journal of Academic Multidisciplinary Research (Vol. 7). www.ijeais.org/ijamr*