

BINDURA UNIVERSITY OF SCIENCE EDUCATION
FACULTY OF COMMERCE
DEPARTMENT OF INTELLIGENCE AND SECURITY STUDIES



TOPIC

**EVALUATING AUDITING AS A TOOL TO DETECT AND PREVENT
FRAUD. A SURVEY OF ECOBANK ZIMBABWE (2012-2015)**

BY

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DECLARATION

I declare that this research project is my own work and has not been copied or lifted from any source without the acknowledgement of the source.

.....

(Signed)

...../...../.....

Date

DEDICATION

This research is dedicated to the researcher's parents, brothers Tinashe and Tawanda, sisters Sandra and Wadzanai for the support they gave throughout the academic life.

ABSTRACT

Fraud has since become a pervasive phenomenon in the financial services sector. This research is a result of the pressing need to explore and understand the role of the audit function in detection and prevention of fraud. The increase in public interest in fraud scandals that continue to occur and absence of one's willingness to take responsibility over such control failures, prompted the researcher into undertaking such a research. The study was aimed at evaluating the effectiveness of internal audit function in combating fraud. The study was a survey of Ecobank Zimbabwe and a descriptive survey design was used. The total population of the study was 55 employees. Questionnaires were used for the senior management, internal auditors and control function members. An interview guide was also used for the senior managers and other five internal auditors. Random stratified sampling techniques were used to arrive at a sample of 30, 10 from each homogeneous sub-group: internal auditors, management and control function from the whole population. The study drew all of the participants from Ecobank Zimbabwe branches in Harare and Chitungwiza. Data collected was analyzed using tables, graphs and pie charts. Findings revealed that the organization is more likely to detect and prevent fraud if it utilizes the internal audit function than completely outsourcing the function. The research reviewed that internal audit function is indeed effective in fraud detection and prevention if afforded chances to discharge its duties without interference from management. The study showed positive relationship between having an internal audit function and the rate of fraud detection. The research concluded that internal audit plays a critical role in fraud issues without which organizations can never effectively prevent and detect fraud. Recommendations were that auditors should consider professional balance in involvement and responsibility for fraud detection and prevention and management should consider having a resident internal audit function in order to maximize on the benefits that arise from having it.

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LIST OF ACRONYMS

ACFE.....	Association of Certified Fraud Examiners
COSO.....	Committee of Sponsoring Organizations
EZW.....	Ecobank Zimbabwe
IAF.....	Internal Audit Function
IAG.....	Internal Audit Guidelines
IFAC.....	International Federation of Accountants Committee
IIA.....	Institute of Internal Auditors
IPPF.....	International Professional Practice Framework
PWC.....	PricewaterhouseCoopers
RBZ.....	Reserve Bank of Zimbabwe

CHAPTER I

INTRODUCTION

1.0 INTRODUCTION

The banking system has for long been praised for reducing transaction costs, conducting efficient asset transformation and facilitating worldwide economic growth. The system has however for a long time been cursed with the satirical feature of bank failure. Some authors are of the opinion that the failures are a direct consequence of poor fraud detection systems in banks. The ravaging effects of fraud have also cascaded to the non-banking sector as evidenced by the folding of several companies. According to Harvey (1995) over the past two decades alone, the Zimbabwean financial system has been plagued by several and persistent bank failures and company closures that continue to haunt and boggle the minds of monetarists, regulators, investors and a plethora of other stakeholders. The burden of bank failure and company closure owing to poor fraud detection systems however, is not a phenomenon limited to Zimbabwe alone but rather a global consequence that seemingly has no readily available panacea. Considering the magnitude of these bank failures it would be prudent to ask where were the control functions such as auditors when these corporate frauds were taking place leading to the failure of the organizations.

This study evaluates the role that the internal audit function plays in fraud detection and prevention and if its ways of tracing frauds are effective and efficient. It also evaluates the effectiveness of fraud detection and prevention between organizations that choose between internal audit approaches such as in-sourcing and outsourcing or a combined approach. Important elements of this chapter such as background to the study, research objectives and questions, defining of the research problem, limitations and significance of the study will be discussed.

1.1 BACKGROUND TO THE STUDY

According to The Institute of Internal Auditors -Practice Guide (2008) high profile corporate scandals and failures have attracted significant public and regulatory interest on corporate fraud; this has raised questions on internal and external auditor's roles in fraud detection and prevention. Wells (2007) defines fraud as any crime that uses deception as means benefitting. Fraud consists of the unlawful making with intent to defraud, a misrepresentation which causes potential or actual prejudice to the person of another. Costs of fraud are far reaching and it is difficult to quantify the cost of fraud. Examples of financial reporting fraud cases whose individual run in many billions that come to mind are the Enron Scandal, the unexpected collapse of Baring Bank and the fall of WorldCom Empire. Enron an American energy giant whose closure (Tsfatsion 2011) in 2001 was mainly as a result of the quest by the chief executive officer to maintain high stock prices and portray a viable entity yet the truth was on the contrary. In the process he ended up manipulating all loopholes that included accounting and poor financial reporting, furthermore he was able to create special fictitious entities that allowed the company to hide debts from failed energy deals. This situation was allowed to continue as the chief financial officer managed to convince the company's board, audit committee and auditors to ignore the otherwise material accounting loopholes and evidence.

The company presented financial statements that were tempting to any potential investor and consequently many invested with Enron. Little did they know that they were being defrauded since what they relied on was merely factious and investors lost nearly eleven billion dollars as Enron's shares fell from over \$80 to less than \$1 when Enron's reality came out in the open. Many of Enron's executives were convicted of financial or securities fraud but this was merely a reactive measure. It was after this particular scandal that the USA government enacted the Sarbanes Oxley Act which among others brought new stringent measures meant to limit the recurrence of such scandals through increasing responsibility of independent oversight bodies such as external auditors and internal auditors (Tsfatsion 2011.)

Additionally, the computer age has brought about several complexities and financial organizations have been finding it difficult to detect and prevent fraud. This is so because of the sophisticated ways the fraudsters use to commit the financial crimes which make it difficult for the law enforcement authorities of organizations like auditors and the internal control to trace. However as technology continues to advance, the law enforcement authorities of organizations are establishing new ways of trying to trace and hence detect these frauds.

On a local scene Zimbabwe has had its own fair share of corporate scandals in the past decade. Cases that come to mind are the demise of banking groups like Trust Bank, Royal Bank and others. RBZ (2006) indicated that the fall of these banks was mainly caused by systematic breach of regulations such as unsecured insider loans and foreign exchange. All this was done to ensure that directors siphon money from their respective banks through unauthorized foreign currency payments or through granting loans to directors' companies.

Generally the Central Bank of Zimbabwe made various initiatives as the regulator through a number of measures to assist banks in managing risks like onsite and offsite monitoring but the challenges continue to persist as noticed recently by the pronouncement of liquidation of Allied and Kingdom Bank. Several studies have been done in Zimbabwe to find out what maybe causing the collapse of the financial services sector and a number of reasons were stated like the issue of failure to abide by good corporate governance and unethical conduct by bank executives.

There is also the need to recount the horrors of the period of interest to reconcile the period's events with the developments that have unfolded hitherto. A significant portion of the Zimbabwean banking populace was prejudiced by the bank failures of the 2003-2008 eras, which were characterized by the collapse of Barbican bank, Royal bank and Trust bank at the back of suspected chronic liquidity challenges and rampant and ill-organized corporate governance structures and also punctuated by several bank regulatory revisions. As if this was not enough, the battered depositors were subjected to yet another

hemorrhage of their savings in the failure of Interfin and Genesis in the 2012 financial year. The identified failures have since transformed the landscape of the financial services sector in Zimbabwe which now has 21 banking institutions down from the 26 reported in 2008 (RBZ Monetary Policy Statement, 2008).

According to the Ecobank's records (Internal Audit records 2010), fraud at Ecobank constituted 89% of all operational losses in the year 2010 alone. One of the cases recorded in October 2010 was when a teller fraudulently withdrew money from a customer's account. The teller debited the account of a customer between June and October frequently with amounts within her teller limits and without any source documents. The total amount withdrawn was USD\$ 456000.

Another case was when a staff member at Ecobank managed to create two profiles for himself that enabled him to do both inputting and authorization. The staff then created dummy fictitious accounts and transferred funds from internal accounts to those accounts. Amount lost was USD\$1 698 000 (Internal Audit records 2010). According to Ecobank's internal control reports, the number of fraud cases has been increasing since 2008 to 2013 and the bank is facing financial costs that could have been avoided had it not been for employee fraud. Employee fraud is on the increase as shown by an increase in court cases dealing with employees misappropriating company held assets.

Considering the magnitude of effects of a single case of financial reporting fraud, it would be prudent to ask where were the oversight bodies such as board of directors, internal and external auditors and regulators when these frauds were taking place. One would also wonder whether these bodies were so daft not to smell a rat in the financial statements and other fraud red flags. International Auditing Guidelines (IAG) issued by the International Federation of Accountants Committee (IFAC) cited in Dandago (2002) gives the definition of auditing by stating that audit is an independent examination of the expression of an opinion on the financial statements of an enterprise by an appointed auditor in accordance with his terms of engagement and the observance of statutory regulation and professional requirements. In this regard the Internal Audit Function is

therefore regarded as a system of internal auditing that wholly utilizes the audit function that is a permanent function of the organization.

Since the internal audit function is always present within an organization they are in a better position to detect fraud and help in preventing fraud. Internal Auditors though employed by the host organization are accorded some degree of independence that should see them being objective than embracing the group think mentality when faced with typical fraud cases. Fraud cases or scandals that highlighted between 2008 and 2011 meant that all stakeholders had to review their roles to cover up for shortcomings that allowed these frauds to go unnoticed so that chances of having such scandals are greatly reduced.

1.2 STATEMENT OF THE PROBLEM

There has been a surge in corporate scandals triggered by fraudulent tendencies by both management and employees at Ecobank Zimbabwe. This increase in fraud has led to a number of legal, regulatory and standards changes that require all players in the financial reporting process; directors, management, and internal auditors to step up their efforts to combat corporate fraud and misconduct. Of all the players in the financial reporting process internal audit is the group that has been most affected by the new emphasis on fraud prevention and detection. When incidents of fraud occur other players in the financial reporting process place much of the responsibilities on the internal audit function. According to the bank's records (Internal Audit records 2010), fraud at Ecobank constituted 89% of all operational losses in the year 2010 alone which shows the high rate of fraud at the organization. It is from this background that the study seeks to evaluate the effectiveness of internal audit function in fraud detection and prevention.

1.3 RESEARCH OBJECTIVES

Objectives of a study define in specific terms the aims to be achieved by the research (Saunders et al, 2008). Leedy and Ormrod (2010) support the importance of research objectives reiterating that they catalyze the development of appropriate methodology and

guide information collection. It is against this backdrop that the following objectives of this study were developed:

- a) To evaluate internal auditors role in fraud detection and prevention at Ecobank Zimbabwe.
- b) To compare and contrast in-sourcing and outsourcing in light of fraud detection and prevention
- c) To examine the role of management and other stakeholders in the financial reporting process in their complementary roles with the auditing tool.
- d) To establish challenges or hindrances encountered by internal auditors when executing their role in fraud detection and prevention at Ecobank Zimbabwe.

1.4 RESEARCH QUESTIONS

According to Saunders et al (2008), a research question refers to a statement of inquiry into the goal of a particular research topic. Leedy and Ormrod (2010) also suggest that a research question aids the researcher to keep focus on the chosen area of study. Adams (2007) further asserts that, a research question is a fundamentally important element of any research. Hence for purposes of this study, the following research questions were derived:

- a) What are the roles of internal auditors in fraud detection at Ecobank Zimbabwe?
- b) What are the merits and demerits of insourcing and outsourcing at Ecobank Zimbabwe?
- c) What role does management play in internal audit function at Ecobank Zimbabwe?
- d) What challenges are faced by internal auditors when carrying out their duties in light of fraud detection and prevention at Ecobank Zimbabwe?

1.5 ASSUMPTIONS

The assumptions of a study are factors that are beyond the control or influence of the researcher but absence of which would render the research as invalid (Adams, 2007). Leedy and Ormrod (2010) further assert that without assumptions, the research problem

in its very self would be non-existent. A consideration of these facts led to the recognition of the following assumptions:

1. Participants in the research will offer truthful and honest responses to the questions posed in the questionnaire and interviews to avoid biases.
2. Subjects that are to be issued with questionnaires and or interviewed are well versed with the research topic and will respond to all questions
3. The methodology is ethically acceptable and instruments are valid
4. The researcher will get enough support and cooperation from all respondents' authorities.

1.6 SIGNIFICANCE OF THE STUDY

- **. To Management**

The study is basically to generate literature that will lead to the appreciation of internal auditing. The research if successful will afford management to fully understand the role of internal auditing in fraud detection and prevention. Having understood the role, management will be able to fully utilize the function and enhance fraud prevention and detection.

- **To Internal Auditing Fraternity**

The study will afford those in the auditing profession a way of refining their charter or engagement in line with their roles if they had been lagging behind in adopting their new roles. The research will either lessen or burden the internal audit function as its role will be clearly understood by all parties concerned. The research if successful will afford the local chapter of the Institute of Internal Auditors platform for measuring the adoption and implementation changes and updates of standards. The study will also afford a chance for them to evaluate the suitability of standards to the Zimbabwean set up.

- **To the University**

The study will allow the University a chance to adjust current curriculum that will help it churn out suitably qualified graduates who fully deal with fraud.

- **To the Researcher**

Since the researcher is doing a white collar driven degree she will benefit from the research in that she will get an understanding of fraud and the roles of all stakeholders in fraud detection and prevention.

1.7 DELIMITATIONS OF THE STUDY

The research activities were confined to Ecobank Zimbabwe branches in Harare and Chitungwiza who responded positively to the request for participation in the research. The branches approached for participation had the service of Internal Auditing, be it in form of outsourcing or in-sourcing the function. Members of the control function who include all internal auditors affiliated with the bank who provide internal auditing services to the company, compliance department members, internal control members and risk management department members of the institute of internal auditors; senior management outside the control function who utilize the services of internal auditors and finance department members who prepare the financial statements of the bank were the segments under investigations. The sample population was of experienced personnel because they are better placed to give a more detailed and informed analysis on the status quo of auditing tools for detecting and preventing fraud at Ecobank Zimbabwe. The period from which statistics were used in the research was from 2012 to 2015. The research was focused on corporate fraud. The research was an evaluation of auditing as a tool on the effective and efficient detection and prevention of fraud.

1.8 LIMITATIONS

Due to limited resources such as funds, the researcher only carried the research at EZW branches in Harare and Chitungwiza. The researcher had limited access to some resources from participants due to confidentiality of certain information. Considering the sensitivity

of fraud issues some respondents chose to ignore or avoid questionnaires and also some respondents were not willing to give information due to fear of victimization. Furthermore, after consideration of factors such as the number of registered banking institutions in Zimbabwe, the researcher realized that it would be impossible to carry out the research on all the banks hence the decision to focus on only one registered institution. Although there were several means to carry out the study for instance through telephone interviews, it would be too costly to execute the study in this manner, thus the researcher developed a questionnaire and interview approach to capture the opinions of the sample population.

1.9 DEFINITIONS OF KEY TERMS

- Fraud: According to KPMG Forensics (2008) fraud is any intentional act committed to secure unfair or unlawful gain.
- The Institute of Internal Auditors is the mother body for all internal auditors throughout the world.
- Fraud detection; KPMG Forensics, (2008) define fraud detection as controls designed to decide to discover fraud and misconduct when it occurs.
- Fraud Prevention, ACFE defines fraud prevention as controls designed to avoid fraud to occur in the first place.

1.10 SUMMARY

The chapter introduced the research topic, giving the background to the study and a summary of the present state of the Zimbabwean financial system so as to give the reader a brief knowledge of the area to be studied. Also included in the chapter are the research objectives with the main objective being an evaluation of auditors' role in fraud detection and prevention at EZW, research questions as well as defining of the research problem arising from a surge in corporate scandals, triggered by fraudulent tendencies by employees and management. Limitations beyond the control of the researcher and their

possible mitigations were also discussed. Assumptions were made for the study and the significance of the study were also presented and the definition of critical terms.

The framework of the research project follows that chapter two will present an inquisitive and exhaustive review of literature focusing on past and relevant theoretical and empirical studies and surveys. Chapter 3 is the research methodology. It describes the data collection methods, instruments used and sampling criteria and population assessed. The findings and data are presented, discussed and analyzed in chapter 4 as well as their interpretations. Finally chapter 5 summarizes the research study in its entirety and brings to a close as well as put forward guiding principles and action recommendations in light of the research findings.

CHAPTER II

LITERATURE REVIEW

2.0 INTRODUCTION

This section will look at what other researchers and authorities said about fraud. It also highlights theoretical and empirical evidence on fraud prevention and control with regards to the internal audit function. Literature review helps in developing research ideas. It acts as a foundation to the study. “It establishes the need for the research and indicates that the researcher is knowledgeable about the area of study” (Wiersma, 1995:406). Literature review provides a framework for establishing the importance of the study with other findings. The first section of the chapter will deal with the theoretical framework of fraud. The second section will deal with the empirical evidence; this is information acquired by observation or experimentation and the data is recorded and analyzed by scientists.

2.1 THEORETICAL LITERATURE

The concepts of fraud, detection and prevention

As stated by the Institute of Internal Auditors (2009), fraud is characterized by deceit, concealment and violation of trust. Fraudulent acts are not dependent upon the threat of violence or any physical force, instead they are committed in privacy by mostly entrusted individuals. Frauds are committed by individuals or organizations whose main objective is to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage. There are basically four elements of fraud; material false

statement, knowledge that the statement was false when it was issued, reliance on the false statement by the victim and consequent damages to the victim.

According to The IIA's IPPF-Practice Guide (2006), fraud prevention is or part of policies that organizations adopt to avoid them falling prey to fraudsters and or limit fraud exposure in the event that it occurs. Having a strong ethical culture and correct tone at the upper most management is one of the key elements in fraud prevention. Effective and efficient internal control procedures are key to fraud prevention since effective internal controls deter would be fraudsters from the temptation to commit fraud. The Committee of Sponsoring Organizations (COSO) of the Treadway Commission (1999) identified five components that are necessary to have a robust internal control system that can prevent fraud. The components are control environment, risk assessment, control activities, information and communication and monitoring.

These are also controls meant to discover fraud when it occurs in the organization. This involves controls designed to provide red flags or indications that fraud has occurred or is occurring within the organization. If properly instituted internal controls are one of the strongest ways of detecting fraud. There are numerous ways of detecting fraud which include whistle blowing, exit interviews, proactive employee survey, surprise audits by either internal auditing or external auditing and continuous monitoring of vital data and trends to identify anomalies and or variances.

Humphery (2014) provides the most notable distinctions between views of auditing: as a socially oriented function in which the auditors are portrayed as ethical, socially responsible individuals and auditing as a monopolistic business. He brings out the fact that the role of the auditor is essential for verifying the accuracy and correctness of the information provided by corporations which means that the auditor acts as an intermediary between the management and the users of this financial information. To reduce the information asymmetry, the auditor has also to communicate with those using the information he provides. Thus it is important that the groups involved have an understanding of the audit's meaning. However in this case the opinions are divided.

Several attitudes do exist concerning the expectations of the purpose and operation of the audit.

Theories of Auditing

Information Theory

According to the Information Theory by Buchanan and Gibb (1998) financial reporting is central to monitoring purposes. An alternative or complement to the monitoring principle is the information principle, focusing on the provision of information to enable users to take economic decisions. Investors require audited financial information on behalf of their investment decision-making and assessing of expected returns and risks. Investors value the audit as a means of improving the quality of financial information. An audit is also valued as a means of improving the financial data used in internal decision-making. Data that are more accurate will improve the internal decision-making. In summary this theory identifies the auditors' role as improving the quality of financial information to put confidence in the stake holders so that they will not be misled in their decision making processes. Buchanan and Gibb go on to state that the auditors have to meet objectives like identifying the organization's information resource and information needs.

Agency Theory

Eisenhardt (1989) in the Agency Theory describes auditors as monitoring mechanisms acquired by the principal and are engaged as agents under contract but they are expected to be independent from the directors who manage the operations of the business. Audit provides an independent check on the work of directors and of the information provided by the directors, which helps to maintain confidence and trust. The theory brings out that on behalf of the principal, the auditor assesses whether the financial statements prepared by the directors present a true and fair view of the company and are prepared in accordance with general accepted accounting principles. The financial statement audit

makes management accountable to shareholders for its stewardship of the company. According to this theory, the primary purpose of audit is of accountability and to reinforce trust and promote stability.

Assurance Theory

The Assurance Theory by Elder et al (2010) reveals that individuals responsible for making business decisions seek assurance services to help improve the reliability and relevance of the information used as the basis for their decisions. An assurance service is a service in which a public accountant expresses a conclusion about the reliability of a written assertion that is the responsibility of another party. The Assurance Theory identifies the auditor as the assurance service provider which is required by the organization to authenticate its financial statements which clearly brings out the role of auditors in an organization. One category of assurance services provided by the auditors is attestation services. When performing the attestation services, the auditor issues a report about the reliability of an assertion used by another party and these attestation services include audit of historical financial statements, audit of internal control over financial reporting and review of historical financial statements.

Policemen Theory

The Policeman Theory by Hayes et al (2005) claims that the auditor is responsible for searching, discovering and preventing fraud. Recently the main focus of auditor has been to provide reasonable assurance and verify the truth and fairness of the financial statements. The detection of fraud is however still a hot topic in the debate on the auditor's responsibilities and typically after events where financial statement frauds have been revealed. In a summary the policeman theory reveals that the auditor's job is to focus on arithmetical accuracy and on the prevention and detection of fraud.

The Theory of Inspired Confidence

The Theory of Inspired Confidence Limperg (1932) addresses both the demand and the supply for audit services. The demand for audit services is the direct consequence of the participation of outside stakeholders in the company. These stakeholders demand accountability from the management in return for their investments in the company. Accountability is realized through the issuance of periodic financial reports. However since this information provided by the management may be biased, and outside parties have no direct means of monitoring, an audit is required to assure the reliability of this information. With regard to the supply of audit assurance, Limperg suggests that the auditor should always strive to meet the public expectations. In describing the auditors responsibilities the author stated that the auditor/ confidential agent derives his general function in society from the need for expert and independent examination and the need for an expert and independent opinion based on that examination. The function is rooted in the confidence that society places in the effectiveness of the audit and in the opinion of the accountant. This confidence is consequently a condition for the existence of that function thus if the confidence is betrayed the function too is destroyed since it becomes useless. This means that when the confidence that society has in the effectiveness of the audit and the opinion of the audit is lost, the social usefulness of the audit is also destroyed. An assessment of this theory brings out the fact that the touchstone for the auditor is always to perform the work and obtain the evidence necessary to provide the assurance that society needs and reasonably expects.

Lending Credibility Theory

The Lending Credibility Theory Hayes et al (2005) suggests that the primary function of the audit is to add credibility to the financial statements. In this view the service that the auditors are selling to the clients is credibility. Audited financial statements are seen to have elements that increase the financial statement users' confidence in the figures presented by the management in the statements. The users are perceived to gain benefits from the increased credibility, these benefits are typically considered to be that the quality of investment decisions improve when they are based on reliable information.

Welch, et al. (1996) surveyed the membership of the Association of Certified Fraud

Examiners (ACFE) regarding actual incidences of fraud with which they were familiar. They collected a total of 2,573 cases of known fraud, and found that organizations with internal audit functions were significantly more effective in detecting fraud than those without internal audit functions. Additionally, they found that frauds in entities with internal audit functions had significantly shorter duration than those in entities without internal audit functions.

2.2 EMPIRICAL EVIDENCE

In a study on the importance of Internal Audit in fraud detection, Coram and Ferguson (2008) found out that for most organizations that have an IAF stand a better chance of detecting fraud in its earliest stages thus minimizing losses. It was also in this study that internal audit was found to be beneficial to the host organization in light of fraud detection and prevention. For example it was also found that self-reported fraud was high in organizations with IAF than those that do not host any IAF let alone utilize internal audit services.

In an almost similar study to the above entitled Concept of Audit Expectation Gap in Nigeria banking sector, Ebimobowei and Kereotu (2011) indicated that it is better to prevent fraud rather than detecting it. In explaining this fact the authors argue that in the banking sector if fraud is allowed to be committed before detecting it, the overall effect will merely be a postmortem exercise which may hardly result to complete recovery of the loss. The study reviewed the audit expectation gap and the role of auditors in the prevention of fraud. The role of internal auditors in fraud detection and prevention was identified as follows: auditors take responsibility for detecting material misstatements in financial statements, but they are very cautious about taking responsibility for detecting all manners of fraud thus auditors are viewed as that arm of management that is responsible to prevent fraud in an organization which is in line with the users of audit reports expectation.

In a study entitled Audit Committee Effectiveness and Internal Audit Outsourcing, Abbott et al (2012) reviewed the merits and demerits of outsourcing and insourcing of the IAF in

banks. The study reviewed that external auditors have economies of scale that allow them to specialize in certain areas and such expertise would be difficult and cost prohibitive to replicate in-house for small internal audit departments for instance in small developing banks thus showing a major advantage of outsourcing. Other merits of outsourcing indicated include scheduling flexibility and reduction in redundant audit procedures.

However the major disadvantage of outsourcing was indicated that using a vendor unfamiliar with the organization's culture creates inefficiencies in the production of such services as well as increasing coordination efforts on the part of the chief internal auditor. Pelfrey and Peacock (1995) also found the two most prevalent motivations for outsourcing which are cost savings and expertise on the part of the external auditors. The study by Abbott also indicated that retention of the existing internal audit department is related to management's desire to reduce costs and increase internal control effectiveness thus the advantages of insourcing to the organization.

Ruud (2001) revealed the relationship between internal auditors and other external stakeholders in organizations including financial institutions in a study entitled Internal Audit Function. The study reviewed how different stakeholders work hand in hand with the IAF. To the investors the internal audit offers assurance on information and operational processes. It also contributes in analyzing the need for capital and liquidity, reduce the probability of a capital and liquidity squeeze as well as providing assured information as to the standing of the organization. The study also indicated that different stakeholders like customers, creditors, directors among others have different needs for information and assurance that is provided by the internal auditors. The role of the stakeholders is to cooperate with the internal auditors in the course of their duty. The managers' role was revealed that they should exercise their duties in good faith so that the financial information which they give to the internal auditors for scrutiny shows a true view of the activities which actually took place at the organization.

Alktani and Ghareb (2014) in Saudi Arabia conducted a research study on the Evaluation of the quality of the Internal Auditing Position in the financial Sector. Part of their study

focused on the challenges or hindrance encountered by internal auditors when executing their role in fraud detection and prevention in the banking sector of Saudi Arabia. The study a qualitative research had a sample size of 42 internal auditors from across the banking sector of Saudi Arabia. The author made reference to the Internal Audit Criterion number 1130 of the internal auditing professional practice which tackles on the threats that affect the independence and objectivity of auditors some of which are conflicts of interest, restriction on work scope, restriction imposed on examining records and limited resources. The study reviewed that any of the above mentioned threats if any exists must be informed in favor of the appropriate side. Other general challenges faced by internal auditors were arranged in descending order according to their importance as follows; shortage of qualified human resources, lack of training, absence of scales to judge performance, constant changes in law and restrictions and constraints on the financial budget allocated to the internal audit activity. The author believed that the poor quality of internal auditing in banks of Saudi Arabia may be attributed to the major challenges listed above. The study then reviewed some of the possible solutions to the mentioned challenges by stating that the internal auditing manager and employees have to cooperate with the external auditor and they should be neutral to avoid conflicts of interest. It was revealed that internal auditors must not disclose any information that might weaken the objectivity of their work course and they must stop examining any work that may strip them of their independence when auditing that work.

Coram and Ferguson (2006) give a similar view to the study by Alktani and Ghareb in their study on the importance of internal audit in fraud detection. Their study found out that major factors that limit the IAF in fraud detection and prevention are mainly to do with the organization rather the IAF itself. Challenges that this study revealed are inadequate resources, skills and qualifications and underfunding.

In relation to the above study PricewaterhouseCoopers (PWC) (2009) also reviewed the challenges and limitation of the IAF in fraud detection and prevention. It was revealed that since many activities of the internal auditing are determined by the host organization the work of the function is largely affected by the actions of the entity's management.

According to PWC management's commitment in fraud detection is largely measured by the amount of resources that they commit towards the internal audit function. The more the resources at the internal audit's disposal will imply a better equipped function to deal with fraud.

DeZoort and Harrison (2008) in Florida, USA conducted a research on the evaluation of Internal Auditor responsibility for fraud detection. The study a quantitative research that had a sample size of 783 internal auditors, revealed that perceived auditor responsibility for fraud detection vary from country to country. An example given was that of Belgium and Mexico where Mexico placed higher responsibility than Belgium, the reason being that in developed countries most companies have the financial base to meet the cost of hiring specially trained personnel for their respective IAFs. The study also revealed that there is a higher auditor responsibility for frauds as misappropriation of assets than it is with cases of fraudulent financial reporting. The study also reported positive relationship between internal audit fraud materiality assessment and perceived auditor responsibility. The study also showed that in terms of fraud detection responsibility internal auditors are allocated a whopping 19% overall responsibility.

2.3 GAP ANALYSIS

Many of published researches on the subject were carried out in developed countries and it would be plausible for us in third world countries to take the studies as reflective of our situation. The segments being studied were mainly drawn from internal auditing profession ignoring other stakeholders in fraud prevention and detection such as board members, audit committee members, management and regulators. This study will try to close the gap by including other stakeholders in fraud detection and prevention like audit committee members and directors with main thrust in third world countries that is Zimbabwe in particular.

2.4SUMMARY

This section focused on the review of relevant related literature on fraud detection and prevention i.e. key contributions of other writers and researchers as well as other supporting theoretical and empirical evidence. Discussed were fraud detection, fraud prevention, fraud risks assessment, perceived role of internal auditing and findings of other researchers concerning fraud and internal auditors.

CHAPTER III

RESEARCH METHODOLOGY

3.0INTRODUCTION

The research methodology focuses on how the research data was collected, the analysis and presentation of data and information necessary to address the research objectives and questions. This chapter outlines the research design, population, sample size and sampling procedures. It also explains the reliability and validity of instruments that were used in the research, and the data collection and data presentation and analysis procedures. It specifies the various stages that followed from data collection to analysis of data collected. This chapter will also look at various methods the researcher used to present the gathered data in a way that make clear the findings. It will also look at the analysis of the presented data and interpretation of the same data. The explanation of the methods and steps used and procedures taken to arrive at conclusions are also done.

3.1 RESEARCH DESIGN JUSTIFICATION

Research design is a total plan showing how the researcher gathered the data. The researcher used descriptive survey design. The design was chosen for this research because it has the ability to generate data describing the composition and characteristics of the relevant groups. In this case descriptive survey helped the researcher to scrutinize the influence of audit in fraud detections and prevention through the responses which were given from the different groups from the target population.

Central Africa Correspondence College, (2009) defined descriptive research design as all types of field and library studies as well as comparative studies. It is a rendering of present circumstances and relationships. Mc Nabb, (2010) also referred descriptive research as involving gathering data that describe events and tabulates, depicts and describes the data. The researcher used descriptive survey because it allows the researcher to collect data in which techniques such as comparisons, measurement, classification and evaluation can be employed. This means human judgment can be used by the researcher to reach conclusions on the influence of audit in fraud prevention and detections. The researcher adopted descriptive survey research design in a way to provide analysis and interpretation of the research findings.

Descriptive survey allows for the collection of both qualitative and quantitative data and some statistical techniques to analyze the information. Through descriptive research, the researcher is able to use both primary and secondary data, which cannot be utilized if exploratory research is used.

3.2 TARGET POPULATION

The target population was fifty five employees consisting those from Chitungwiza and Harare branches. It comprised of twenty members from the control function which includes compliance department members and internal control members, twenty senior managers outside the control function who utilize the services of internal auditors and fifteen internal audit department members who provide internal auditing services to the

bank. The three subgroups are the selected stratum because they are the departments which are strongly affiliated with the audit department which is the major concern of this research topic, so they will be able to give the required information.

3.3 SAMPLING TECHNIQUES

Stratified Random Sampling

The researcher used stratified sampling because her data was in different groups. There were three stratum which comprised of 20 members of the control function, 20 senior managers and 15 members of the internal audit. The stratum were selected in such a way that the departments involved are the ones which mostly work hand in hand with the audit department which was the major concern of this research. Stratified sampling was found to be useful because it focused on relevant and important sub populations that had the information required by the researcher for example in this case the control function works hand in hand with the audit department so it knows some information about how the audit department operates. In this regard since the selected stratum were relevant, it helped to improve the accuracy of information gathered.

Simple Random Sampling

Simple random sampling is one of the probability sampling methods, which means that each element in the population has an equal chance of being selected, Dobler (2000). Simple random sampling involves a random selection of elements from the target population. Simple random sampling was used to select members from the targeted departments which are the control function, senior managers and internal audit. The selection was done by selecting every second member in the list of the target population to come up with the sample size. Ten members were selected from each target department that is ten members from the control function, ten members from the internal audit and ten members from the senior managers. The researcher had access to the employees' data base because she was employed as an attachment student at EZW so it was easy to select the representative sample. In this case, the major advantage of this

method is that each member in the population of the selected group had an equal chance of being selected for the study therefore it is free from bias. Also the technique was easy to apply and less time consumption was involved since the researcher just selected any person from the employees' database.

3.4 SAMPLE SIZE

The researcher came up with a representative sample of thirty people as follows:

Table 3.1 Sample size

Department	Target population	Sample size
Control function	20 (simple random)	10 (questionnaires)
Senior management	20 (simple random)	10 (questionnaires and interviews)
Internal audit	15 (simple random)	10 (5 questionnaires and 5 interviews)
TOTAL	55	30

3.5 RESEARCH INSTRUMENTS

The researcher used questionnaires and interviews to elicit information.

QUESTIONNAIRES

Saunders et al (2009) defined questionnaires as all techniques of data collection in which a person is asked to respond to the same set of questions in a predetermined order. A questionnaire consists of a series of written questions that are given to respondents in order to obtain and elicit information that is not available in documented record about a given topic. A list of versatile questions will be given to the respondents allowing the collection of both subjective and objective data through the use of open or closed format questions. Questions were drawn from the frame work used by the control function in light of fraud such as the International Auditing Standards and also the framework used by the local chapter of the Institute of Internal Auditors who provide internal auditing services to companies in the financial services sector of Zimbabwe. One set of questionnaire was drawn for all ten members from the control function, ten members from senior management and five members from the internal audit. These members were given questionnaires because most of the information required had to be checked in the bank's records and reports so they needed time to fill in accurate answers by verifying the information first before responding. Questionnaires were hand delivered to the responsible people and then collected after a week. Questionnaires were given to these groups because of the sensitivity of fraud and auditing information which is regarded as confidential and the respondents might be scared to tell it orally in interviews due to fear of victimization, so for this reason the use of questionnaires had an advantage of freedom to the respondents as they were free to answer whatever they know about the subject matter. The use of questionnaires helped the researcher because they were administered to all the people scattered all over the EZW branches at the same time which allowed the researcher to collect more information in a short space of time there by saving time.

However, the researcher thinks that questionnaires may not have been properly understood by some of the respondents and this would not yield best results as there was no room for asking questions for clarification. Also they might have been completed in a hurry because the respondents may not have had time to concentrate since they will be busy with their work. To counter these inherent weaknesses in questionnaires the

researcher utilized interviews. Interviews were used to ensure that the questions that the researcher feels were too contextual were further explained and understood in interviews.

INTERVIEWS

Interviewing is a technique that is primarily used to gain an understanding of the underlying reasons and motivations for people's attitudes, views and suggestions. In this research, the researcher conducted interviews on a one-to-one basis. This exercise attempted to tap the knowledge and experience of those familiar with the general subject being investigated. One interview guide was prepared for the ten senior managers and other five members from the internal audit department. The researcher interviewed the senior managers because she wanted them to clearly elaborate on some of the issues which they could not explain fully in the questionnaire. The other five members from the internal audit were selected for interviews because they was some sensitive information which could not be disclosed in questionnaires. The researcher was helped by one of the internal auditors to set the structure of the interviews and conduct them. The questions on the interview guide were almost similar to those on the questionnaires. The researcher used interviews because they were some matters which needed clarification for example the trends of fraud in the organization. Interviews proved to be the most reliable instrument to collect data from the senior management because they could explain and clarify easily. Also there was some information which the control function did not know and other information which they might have been afraid to tell, so the senior managers addressed such matters and clarified them. Conducting of interviews also increased the response rate in the sense that it was a question and answer session which is different from the issuing of questionnaires which people may just ignore. In the interviews, the researcher had full control of the data collection process and also she had the chance to explain unclear questions. However interviews were a bit costly to the researcher as she had to call each respondent to place and confirm appointments.

3.6 DATA COLLECTION PROCEDURES

This takes into account various ways and steps to be taken in administering instruments and data collection from the subjects under study. This procedure involved three steps; firstly, seeking permission from authorities and superiors of EZW was appropriate, secondly making appointments with respondents and lastly distribution and administration of instruments on the subjects of the sample. The researcher distributed questionnaires to the respondents by hand delivery and they were collected after a week. Appointments for interviews were booked by telephone. During the interviews the researcher recorded all important facts in her note book. A header on each copy of the questionnaires had a clause that clarified the role of the research and assured the respondents to the confidentiality of their responses.

3.7 VALIDITY AND RELIABILITY

Validity refers to the accuracy of value of interpretation. According to Borg (1975) validity is the degree to which a test measures what it purports to measure. Reliability refers to the stability of measure that is the degree of consistency of a measuring instrument, where reliable instrument yields the same results for the same individual regardless of the time it is administered. To ensure reliability of the instruments, internal consistency was used to evaluate the reliability of the instruments. Internal consistency refers to the use of different questions demanding the same answer in the same questionnaire to test truthfulness of information provided by respondents. Reliability was established by asking the same questions but in different phrases to the respondents. The researcher tried to increase reliability and validity by conducting a pilot test. Basically pilot testing means finding out if your survey, key informant interview guide or observation form will work in the real world by trying it out first on a few people. Pilot testing helped to make sure that everyone in the sample not only understands the questions, but understands them in the same way. Inevitably in the answering and reviewing of the pilot questionnaires, some unanticipated problems were highlighted from minor issues such as duplication of question numbers to misinterpretation of question

wording and issues requiring modification of question wording, new response options and or additional questions.

3.8 DATA PRESENTATION AND ANALYSIS

After the collection of data, the researcher presented the data in the form of tables, graphs and pie charts where necessary, highlighting the description of that data presented. This gave the researcher an opportunity to scrutinize and discover the influence of internal auditing in fraud detection and fraud prevention at EZW. Tables were used to show the response rate for questionnaires and interviews. Data collected from questionnaires for example the level of auditor involvement in fraud detection and prevention was presented on pie charts. From the interviews, the value and frequency of fraud cases at the organization was presented on graphs.

3.9 ETHICAL CONSIDERATIONS

The research was conducted with extreme caution regarding the sensitivity of some of the information which was obtained from the respondents. The researcher sort consent to conduct her research from EZW authorities and from the respondents and sort also to use the company's reports and have access to the employees' data base for the sake of choosing the representative sample. The respondents were assured that their information was strictly for academic use and it was to be treated confidentially and professionally and that the researcher had no intentions to damage the image of the company by obtaining such information.

3.10 SUMMARY

This chapter discussed the methodology of the research .In response to the researcher's aims and objectives, the survey research design was adopted .A brief synopsis of population characteristics and selection of the sample frame, based on a stated criterion was given .Data collection methods and instruments were discussed as well as their advantages and potential disadvantages. The importance of conducting a pilot test to

cover issues of reliability and validity was also reviewed and discussed and also the data presentation plan.

CHAPTER IV

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction

This chapter focuses on the presentation, interpretation, analysis and discussion of the data gathered during the research process through questionnaires and interviews. The answered research questions provide a sound meaning to the findings of the research leading to the drawing of conclusions.

4.1 Response rate

Table 4.1 below shows the response rate for the questionnaire:

Table 4.1: Questionnaire response

Department	Questionnaires issued	Response received	Percentage response
Control function	10	9	90%
Senior management	10	7	70%
Internal Audit	5	5	100%
TOTAL	25	21	84%

Source: Raw data

The high response rates are attributable to the follow ups that the researcher made to the subjects where the questionnaires had been left.

Table 4.2: Interview Response Rate

Meetings Planned	Meetings held	%
15	12	80

Source: Raw Data

The tight work schedule that the respondents were subjected to resulted in less than anticipated meetings to be held. However both response rates were high and this meant that the results obtained represented a true picture of the whole population since a large part of the sample responded giving their opinion.

4.2 Demographic information of the respondents

The demographic information represents the respondents' information in respect of gender, educational qualifications and length of service within the organisation.

4.2.1 GENDER

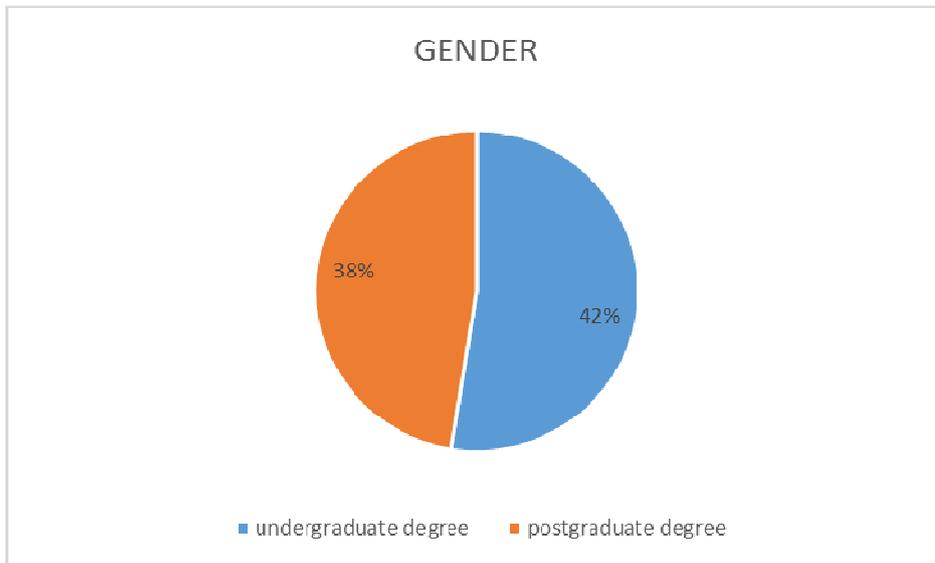


Figure 1 Gender of the respondent

Figure 1 shows that the majority of the respondents were males, comprising 64% of the total respondents' population and females comprising 36% of the respondents' population. According to the Zimbabwe Statistics generally there are more males employed than females in the country and that is the reason why the male respondents are more than the females.

4.2.2 Respondents academic qualifications

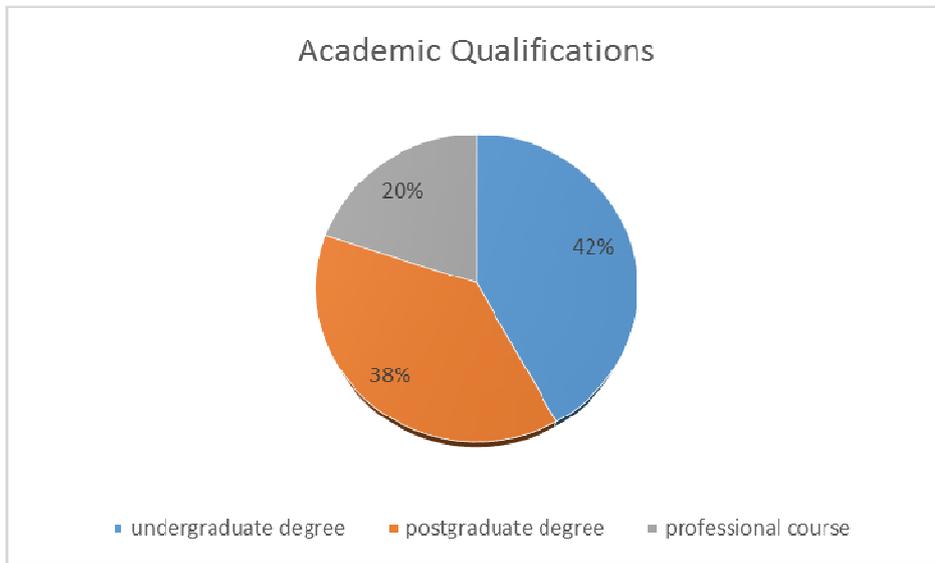


Figure 2 Respondents academic qualifications

Of all the respondents 42% had an undergraduate degree, 38% had a postgraduate degree and 20% had a professional course. Professional courses included accounting and auditing courses. Since all of the respondents had a tertiary education qualification this implies that the literacy of respondents was high enough to make reasonable and reliable responses.

4.2.3 Respondents length of service

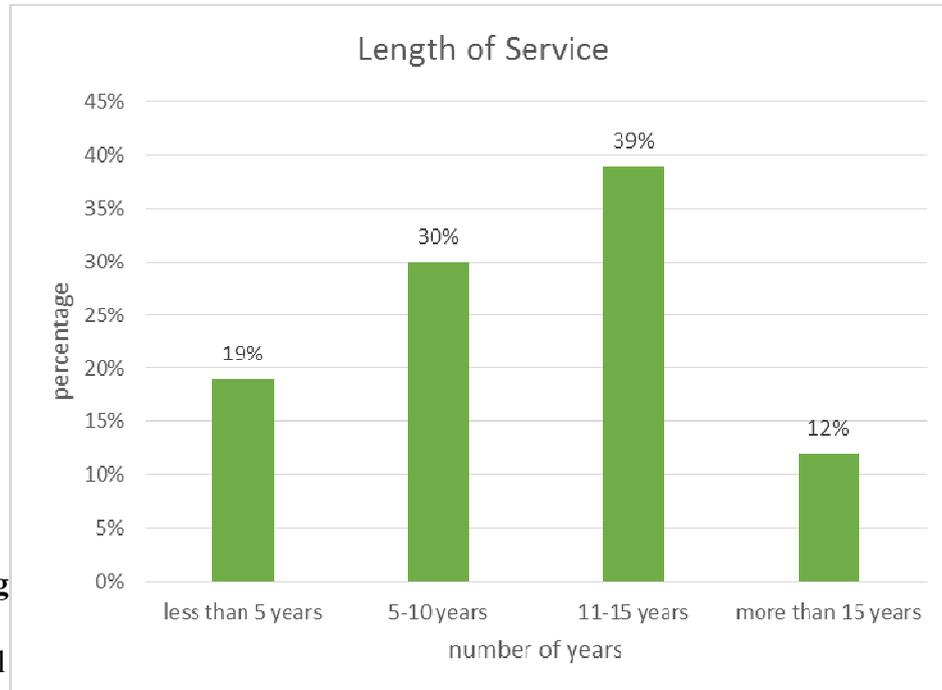


Fig A total between 5-10 years and 39% had served for a period between 11-15 years. 19% and 12% of the respondents had served in the organisation for less than 5 years and more than 15 years respectively. The majority of the respondents had served for more than 5 years in the organisation which makes them familiar with the bank's activities and this entails a greater degree of validity.

4.3 Defining and explaining the role of Internal Auditing in Fraud detection and prevention

4.3.1 The role of IAF

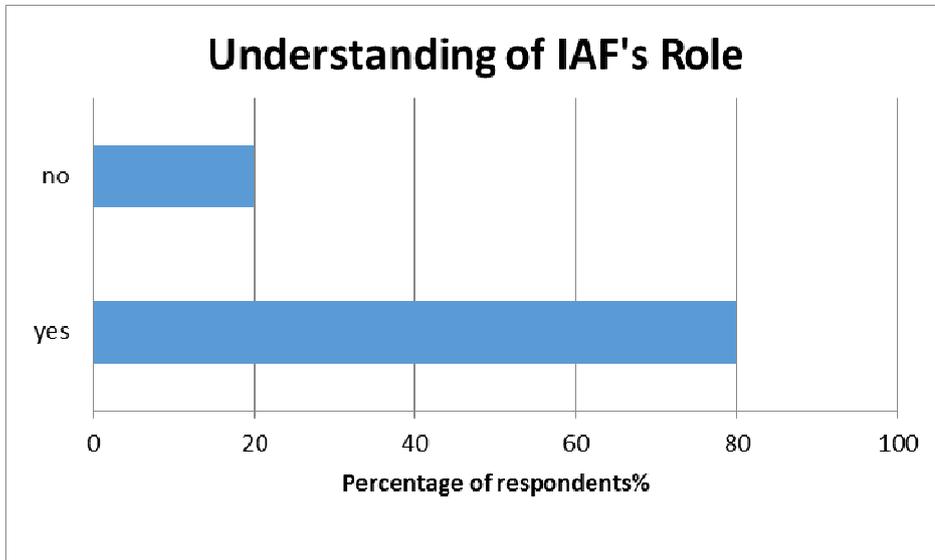


Figure 4 understanding of IAF's role

Majority of the questionnaire and interview respondents managed to define and explain the role of internal auditing in context of their own understanding in particular reference to Ecobank Zimbabwe. The 80% constituted all internal auditors, some control function members and management who were explaining the role in line with their expectations on what the IAF is supposed to do in light of fraud issues. They managed also to explain the role as advised by the Institute of Internal Auditors. In the interviews the senior managers explained the IAF's role mainly in the context of issues around fraud auditing and investigation and issues that have to do with setting of internal controls and evaluation thereof. Also in the interviews internal auditors were of the view that their role and duties were mainly defined by the host organisation and most qualified internal auditors are often tempted by the rewards and consequences as they delve into fields that they are not trained. This mismatch in understanding of the role has led to challenges for the IAF, the challenges involve a strained IAF that fails to perform other duties as assigned. The majority of the respondents both in the questionnaires and interviews were of the view that the role of the audit is to scrutinise the financial statements of the organization so as

to add credibility to them, provide assurance to all stakeholders about the true financial position of the organization as well as to discover any errors which might be done deliberately by managers to commit fraud and by so doing any fraud cases can be detected and therefore anti-fraud efforts are implemented.

The findings of this study on the role of internal auditors are similar to the Lending Credibility Theory by Hayes et al (2005) who suggests that the primary function of the audit is to add credibility to the financial statements and this is essential in implementing anti-fraud efforts at an organisation. The Policemen theory by Hayes et al (2005) also argues that the auditor is responsible for searching, discovering and preventing fraud which is in agreement to the findings of this study. Also in consensus with the findings of this research is the Assurance theory by Elder et al (2010) which identifies the auditor as the assurance provider which is required by the organisation to authenticate its financial statements which clearly brings out the role of auditors in an organization. Similarly the Information theory identifies the auditors' role as improving the quality of financial information to put confidence in the stakeholders so that they will not be misled in their decision making processes.

4.3.2 Auditor responsibility



Figure 5 level of auditor responsibility and involvement in anti-fraud efforts

The majority of the questionnaire respondents revealed that as part of their audit charter, auditors are expected to deal with fraud issues. This was mainly revealed by the internal auditors and the control function members who showed the level of auditor responsibility in anti-fraud efforts at 57%. They cited that the Ecobank's internal audit charter gives internal auditors full jurisdiction over anti-fraud activities within the organization. The auditors reviewed that as part of the charter they are expected to assist management in setting anti-fraud controls, take full responsibility of controls evaluations, fraud risk assessment, fraud investigation and auditing, and assisting in remediation in such scenarios within their respective organisations. 27% of the respondents were of the view that the respective internal audit charter does not require much of internal audit's effort in setting up of controls though fraud risk assessment, and control environment evaluation fall within the function's arms. A smaller fraction of participants, 19%, were of the view that internal audit functions are in away obligated only to evaluation and assistance in fraud investigations. Although the respondents' views were different the overall assertion was that auditors do have a high responsibility and should be highly involved in anti-fraud efforts.

Similar to the findings of this study, DeZoort and Harrison (2008) indicated that there is a higher auditor responsibility for frauds. They also revealed that auditor responsibility in the developing world is high as shown by the high perceived responsibility of countries like Mexico and conversely low to moderate ratings for countries like Belgium. In contrast Coram et al (2006) indicated that auditor responsibility vary from organisation to another especially in Australian and New Zealand economies. Interestingly Coram et al also indicated that organisations with IAF that have high or more responsibilities are effective in fraud detection and prevention.

4.3.3 Auditors' success in detecting and preventing fraud

The researcher managed to take note of some of the mentioned procedures of fraud detection in the interviews. These include:

- Follow up of leads from informants, hotlines and whistle blowers.

- Detailed substantive audit tests.
- Internal control, compliance and policy reviews
- Computer assisted audit techniques and continuous monitoring.
- Analytical procedures.

4.3.3.1 Policies and procedures adopted by EZW IAF to prevent fraud

As part of their role the IAF also assist in implementing policies and procedures for detecting and preventing fraud. The researcher managed to take note of some of the preventive measures of fraud adopted by the internal audit and control function as reviewed by the interview respondents.

Table 4.3 Policies and procedures for preventing fraud

Policy or Procedures	Frequency
Corporate code of conduct	76.41%
Reference checks on new employees	74.36%
Effective communication with operating departments	73.33%
Improved information technology (IT) controls	66.15%
Education, training, ethics programs, prosecuting offenders	61.54%
Computer assisted audit techniques (CAAT)	59.49%
Detailed and analytical audit procedures	58.46%
Internal control review, risk assessments, management control review	52.31%

Three major procedures include adopting a corporate code of conduct which is against the act of fraud by employees, effective communication with operating departments and reference checks on new employees. One of the respondents reviewed that reference

checks with new employees is done so as to trace for any criminal record of the person joining the organization. The process involves taking finger prints of the person and proceeding with them to the police for clearance. This is a very important aspect as it prevents the employing of criminals in the first place so it is a major preventive measure for fraud.

4.4 The role of management and other stakeholders in internal audit and control function

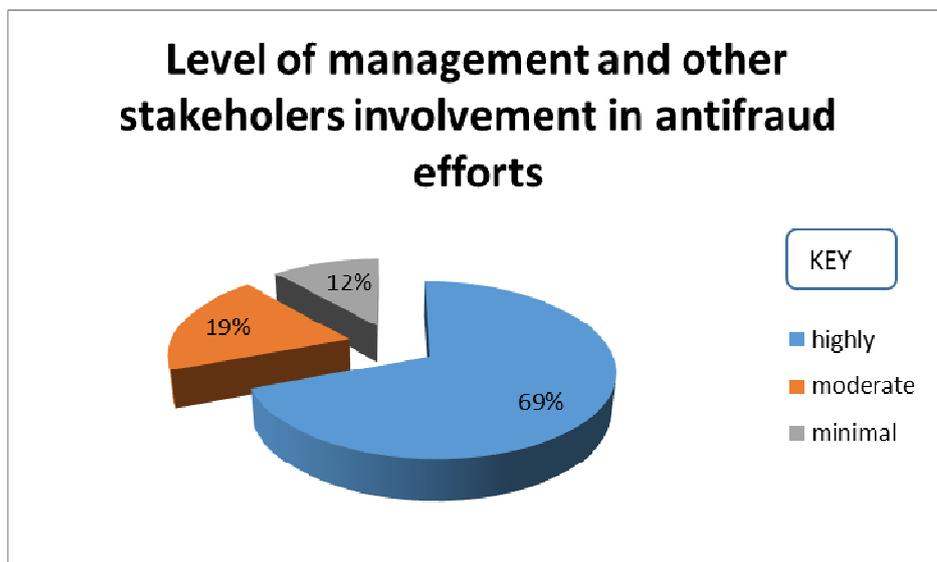


Figure 6 level of management involvement in anti-fraud efforts

The pie chart above depicts the varying level of involvement of the management in anti-fraud detection and prevention efforts. From the similar question in the questionnaire and interview guide 69% of respondents indicated that the management is heavily involved in fraud detection and prevention. These were senior managers and internal auditors who revealed that in the organisation the management was involved in the setting of antifraud controls, evaluating the said controls, fraud auditing, fraud investigation and remediation. The managers also indicated that it was a preserve of management and board to set antifraud controls and remediate any fraud situations. This role was mainly explained by the managers in terms of the Institute of Internal Auditors framework of 2006 which states that it is managerial role to set controls and the IAF will only come in to assist the

management in executing its role. The challenges come in when management comes up with weaker controls or the management itself circumvent or override the controls. From this finding the researcher understood that if management set the wrong tone for fraud tolerance internal auditors will be misled into believing something on the contrary and good examples that came into mind were the Enron scandal and WorldCom where audit staff was misled into ignoring otherwise material red flags at the behest of management who knew what was going on.

The study revealed that the main managers' role is that they should exercise their duties in good faith, transparently with integrity so that the financial information which they give to the auditors for scrutiny shows a true view of the activities which actually take place at the organisation. This finding is similar to that of Ruud (2001) who revealed that the management's role includes exercising their duties in good faith so that they present the true financial information.

19% of the population under study revealed that apart from management other stakeholders such as investors are indirectly involved in anti-fraud efforts at the bank. They indicated that investors are concerned with getting back their return so they require assurance from the internal auditors regarding the financial status of the bank. This view is supported by Elder et al (2010) in the Assurance Theory who identified the auditor as the assurance service provider which is required by an entity to authenticate its financial statements. Managers revealed that investors give zero tolerance to fraud as this may cause the bank not to maximise the shareholders wealth. In this regard they give the management and the directors much pressure on the exercise of good faith during the discharge of their duties in an effort to combat fraud. 12% of the respondents indicated that employees also play an important part in an effort to combat fraud. It was revealed that employees should work with integrity and they should have respect for their work in order to avoid fraud cases. As indicated earlier on in the background to this study that most fraud cases at Ecobank involved general employees not even occupying higher posts at work. This study has revealed that general employees should also be involved in anti-fraud awareness campaigns. Overall it was revealed that all stakeholders play different vital roles in anti-fraud efforts whether directly or indirectly as supported by Ruud (2001).

From a different point of view some managers were of the idea that management’s attitude towards fraud detection and prevention will greatly influence the internal audit function’s ability to effectively assist in fraud detection and prevention. In support of this idea PWC (2008) postulated that the work of the IAF is largely affected by the actions of the entity’s management and the management’s commitment in fraud detection is largely measured by the amount of resources that they commit towards the IAF.

4.5 Value and frequency of fraud cases that the organisation has fallen prey to

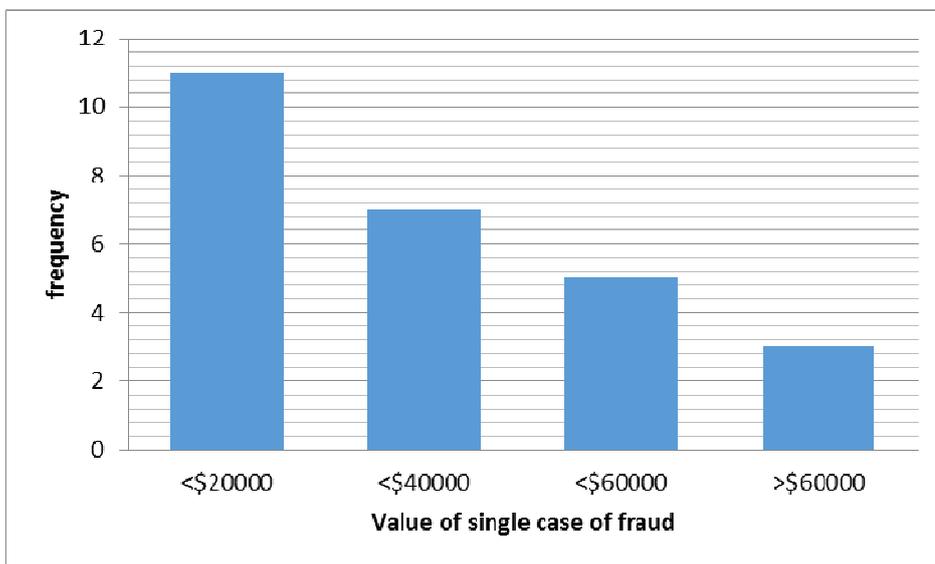


Figure 7 value and frequency of fraud cases at Ecobank Zimbabwe

The senior managers admitted that their organisation was at the mercy of fraudsters within and outside the organisation. They indicated that the bank has in some way been hit by several fraud sagas or cases. Questionnaire respondents as indicated by the table above revealed that the banks’ different branches have suffered fraud but what differs is mainly the frequency and value of respective fraud cases. As shown by the graph figure 4.7 above the respondents indicated that the bank has suffered frauds of varying values and magnitude in monetary terms. Forty percent of the respondents revealed that the mean value of fraud encountered by their respective branch ranges between usd20000 and usd40000.

The findings on this topic indicated that branches with IAF are more likely to suffer less devastating frauds in terms of cost. This agrees with the studies by Coram and Ferguson (2006) which showed that organisations with internal audit function tend to have low mean fraud values than those that do not have a resident function let. The findings of this topic are also in agreement with Welch et al (1996) who found out that organizations with internal audit functions were significantly more effective in detecting fraud than those without internal audit functions and frauds in entities with internal audit functions had significantly shorter duration than those in entities without internal audit functions.

4.6 Approach to Internal Audit in use

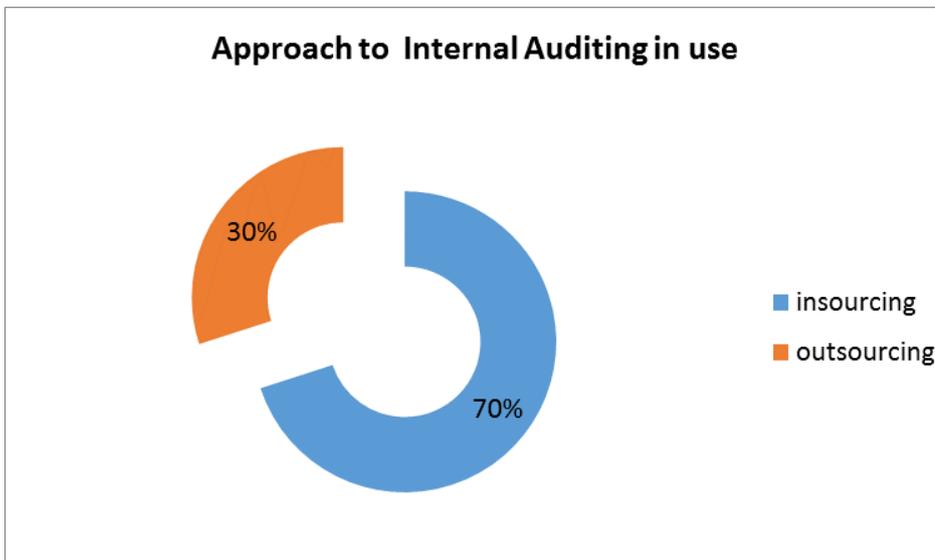


Figure 8 comparing and contrasting in-sourcing and outsourcing

Questionnaire respondents reviewed that the bank uses an in-house IAF which is insourcing. However at the end of the year when the bank publishes its financial statements, external auditors are consulted so that they give an independent opinion of the true view of the financial statements.

In the interviews most of the managers and the internal auditors were in support of the in-house approach adopted by the bank. Respondents who favoured the insourcing approach constituted 70% of the total interview respondents. The auditors reviewed the benefits of using an in-house approach which included the following: less expensive, internal

auditors are well knowledgeable about the organization's systems and therefore they give solutions that are much more relevant to the organization, improves the internal auditors' motivation and internal control effectiveness. Their assertion was that having an internal audit department or function that stands as a permanent arm of the organisation positively influences the organisation's ability to detect and prevent fraud. The study by Abbott et al (2012) is in support with the responses of this study as it reviewed the same merits for insourcing in banks which include low costs and effectiveness of the internal control. Also in support Coram et al, (2006) affirmed that organisations with a resident IAF detect and prevent fraud effectively than those that do not have. In other words Coram found that organisations that outsource the IAF are likely more to suffer from fraud that is unlikely to be detected.

However 30% of the interview respondents who were some of the managers were in favour of the outsourcing approach saying that the bank should use an outsourcing approach. They reviewed the major merits of outsourcing as follows: high level of objectivity which makes the external auditors to give an independent opinion, high level of expertise associated with external auditors and outsourcing often brings in new insights. These findings support the study by Pelfrey and Peacock (1995) who reviewed similar advantages of outsourcing. Managers in support of the outsourcing approach clarified that external auditors do not have an interest in the company therefore they work independently and are highly objective so the opinion that they give is reliable. On the other hand the managers also highlighted some demerits of outsourcing which include high costs and high level of unfamiliarity with the organization by external auditors which creates inefficiencies in the production of such services.

4.7 Limitations and challenges faced by the IAF in fraud detection and prevention.

The questionnaire and interview respondents presented a variety of problems and challenges that the respective IAF of Ecobank faces in the course of their work. Some of the challenges reviewed include underfunding, conflict of interest, operating environment, lack of fraud skills and qualifications and restrictions on examining records. On the questionnaires most respondents just listed the challenges however in the interviews the

managers and the internal auditors clearly explained the challenges and how they affect the anti-fraud efforts and they also gave some possible solutions to some of the challenges highlighted. Some of the major challenges are explained below.

4.7.1 Lack of special fraud skills and qualifications

The major challenge to the function as shown in the data gathered is the lack of special fraud skills and qualifications in respective internal audit functions. The internal audit function as shown by the data gathered does not have other qualifications that have been proven to be critical in enhancing the function's ability to help in the detection and prevention of fraud.

In the interviews the majority of the respondents affirmed that these skills and qualifications aid the internal audit function in discharging effective service in fraud detection and prevention and that their absence adversely affect the delivery thereto. One of the senior managers under study concluded that lack of these skills is a major problem or challenge to the IAF in fraud detection and prevention. The senior manager of the internal audit department recommended that IAFs should rope in new fraud skills and qualifications to enhance fraud detection and prevention. This recommendation was in response to the findings that revealed that most internal auditors do not have such qualifications and their absence was a cause of concern for both management and the IAFs themselves. The findings of this topic are similar to those of Alktani and Ghareb (2014) who revealed the hindrances of the IAF including shortage of qualified human resources and lack of training which results in lack of skills and qualifications. Similarly Coram and Ferguson (2006) also found out the same challenges that the IAF face in the discharge of anti-fraud efforts duties.

4.7.2 Operating Environment

Operating environment as a challenge was explained as the nature of the working conditions that the internal audit function is subjected to within the organization. Auditors

in the interviews indicated that their environment renders them weak if not powerless as managers may deliberately override some controls. They stressed the fact that their respective IAF face ever increasing expectations from both management and other stakeholders. They also indicated that these expectations have led respective auditors into disregarding internal auditing standards in order to please their paymasters. In theory the IAF is supposed to report to the audit committee but in practice this has been found as otherwise. This alone, weakens the reporting structures, leaves the IAF in quandary over next move as their fate is often in the hands of management. In event of such cases some of the auditors indicated that they are forced to ignore otherwise material issues when discharging anti -fraud duties. In support of this finding Ernst and Young, (2008) found that most impeding factors in the operating environment are as a result of high management expectations that do not tally with their commitment

4.7.3 Underfunding

The majority of the interview respondents reviewed that Ecobank's IAF often faces funding challenges, this challenge was cited as critical as it affect the function's effective discharge of duties. The findings highlighted that it is funding that allows the function to hire fraud expert skills that are also critical in fraud detection and prevention and so inadequate funds are indeed a major problem. Similarly Alktani and Ghareb (2014) findings also reviewed that restrictions and constraints on the financial budget allocated to the internal audit activity is a major challenge in the discharge of their duties. PWC, (2008) also found out that the major limitation on IAF's efforts has much to do with funding and management. They reviewed that management's commitment in fraud detection is largely measured by the amount of resources that they commit towards the IAF. Eighty percent of respondents in the KPMG Internal Audit Fraud Survey, (2008) cited management commitment and funding (or the lack thereof) as the major reasons why many IAFs fail to discharge their duties effectively.

4.7.4 The complex nature of fraud

The majority of the interview respondents reviewed another major challenge which is the complex nature of white collar crimes such as fraud. In trying to explain this problem they reviewed that because of the ever increasing technological advances today most fraudsters use sophisticated ways of committing fraud and this makes it difficult for anyone with basic accounting knowledge to fully understand fraud to effectively effect fraud detective and preventive measures. One of the managers gave an example of the Enron scandal that was triggered by losses emanating from complex derivatives. These losses were concealed using extremely complex modus operandi. As a solution to this problem the manager recommended that the IAF should seek fraud training to enhance fraud detection and prevention and such training is obtainable from the local chapter of the Association of Certified Fraud Examiners.

4.8 Chapter summary

This chapter presented the research findings obtained basing on the research objectives whilst using the research method presented in chapter three. The findings from this study indicated that the role audit is to scrutinise the financial statements to add credibility to them and check for material errors which may be associated with fraud. It was found that managers should be highly involved in anti-fraud issues by setting controls and evaluating them. Ecobank uses the in-house approach to auditing which has proved to be more advantageous than the outsourcing approach. The challenges faced by the IAF during its discharge of anti-fraud duties were also discussed and solutions were given to some of the challenges.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Summary

This chapter meets the final objective of the study to draw conclusions from findings on individual responses to the questionnaire and interview responses and present recommendations relating to the effectiveness of audit as a tool to detect and prevent fraud. It is hoped that the recommendations would assist the bank in promoting the use of the IAF as a tool to detect and prevent fraud.

5.1 Summary of findings

This research study sought to evaluate auditing as a tool to detect and prevent fraud, being a survey of Ecobank Zimbabwe. In order to have a strong analysis base, both theoretical and empirical literature was used. After the literature review the researcher went on to collect data from the field. Primary data collection methods were used with the use of questionnaires and interviews for data gathering. The researcher used a descriptive research survey and this was compatible with the nature of the phenomenon that was being studied to facilitate meaningful interpretation and analysis of the data. The study was premised on the following objectives:

1. To evaluate internal auditors role in fraud detection and prevention at Ecobank Zimbabwe.
2. To compare and contrast in-sourcing and outsourcing in light of fraud detection and prevention.
3. To examine the role of management and other stakeholders in the financial reporting process in their complementary roles with the auditing tool.

4. To establish challenges or hindrances encountered by internal auditors when executing their role in fraud detection and prevention at Ecobank Zimbabwe.

The research established that:

Internal auditors are highly involved in antifraud efforts of the host organization. Involvement was found to be the efforts that internal auditors devote towards fraud detection and prevention such as assisting management in setting anti -fraud (internal controls), anti -fraud control evaluation fraud risk assessment, fraud auditing and investigation.

Internal auditors' responsibilities were found to be moderately responsible for anti-fraud activities in their respective organizations. The responsibilities were said to be enshrined in respective internal audit charters and this makes the auditor perform regardless of the management's position.

Ecobank Zimbabwe utilizes the in-house/insourcing function to internal auditing and it is less likely to suffer from continued fraud as the reporting regime allows timely detection of any malfeasance that may escape the deterrence and prevention controls. The in-house approach was found to be advantageous in terms of cost savings and knowledge about the organization's systems however the advantages of outsourcing such as high level of independence and high degree of expertise were also reviewed.

Management is highly involved in fraud detection and prevention and it is a preserve of management and the board to set anti-fraud controls and remediate any fraud situations. Apart from managers, other stakeholders of the bank such as investors are concerned with the activities of the bank because they expect high returns on their investments so they are also indirectly involved in the anti-fraud efforts of the organization.

The IAF faces challenges emanating from special anti-fraud skills and qualification or their lack and operating environment. It was revealed that special fraud skills are known to enhance fraud detection in this ever dynamic business environment were fraud's modus

operandi is always evolving. Management poses a challenge in cases where some managers are part of the fraud schemes, explained overrides makes it difficult for internal auditors to effectively deal with fraud. Other challenges revealed in the study include underfunding, conflict of interest and restrictions on examining records.

There is a positive relationship between having a resident IAF that has the necessary skilled and qualified personnel and frequency of fraud detected. It is from the study that we find a negative relationship between fraud values or costs of fraud and having an adequately qualified, funded and resourced IAF.

5.2 Conclusions

In this research it was concluded that

- Internal auditing plays a critical role in fraud detection without which organizations can never effectively prevent and detect fraud. The higher the level of auditor involvement and responsibility for fraud detection and prevention, the higher the chance for effective fraud detection and prevention.
- The IAF can be an effective tool that an organization can utilize in fraud detection and prevention, the function can only be such if it is accorded with necessary requirements such as appropriate management assurance and commitment, enough funding, continuous training on fraud skills and access to all information which they require when carrying out fraud investigations.
- For effective fraud detection and prevention the internal audit function should not assume the role of setting anti-fraud controls but rather assist management in setting controls after reviewing and evaluating these controls. To have effective detective and preventive regime the internal control should assist in detection and finally prevention by proposing improvement and change to the regime.
- For effective fraud detection and prevention the IAF should be equipped with relevant anti-fraud skills and qualifications.

- Utilization of the in-house internal audit approach is effective in fraud detection and prevention than using an outsourced approach. Solely relying on the resident IAF approach is more likely to reduce fraud cases and costs than those that primarily rely on outsourcing IAF.
- Major challenges of the IAF in fraud detection and prevention lie in the environment that they operate in. Issues of resources, skills, qualifications and management commitment pose challenges to IAFs in their endeavors to detect and prevent fraud. If these challenges are not taken care of, they will erode the function's effectiveness in fraud detection and prevention.

5.3 Recommendations

- Internal auditors and management should strive to maintain a balance in auditor involvement and responsibility so as to maintain objectivity and independence to ensure effectiveness of controls designed. In this endeavor management should strive not to burden the IAF but at the same utilizing the IAF's expertise to ensure auditable and effective fraud controls.
- Management should consider having a resident IAF as an approach to internal auditing since the approach is endowed with merits over a fully outsourced approach. Advantages such as reduced cost for fraud and low frequency of cases of fraud should entice organizations into adopting the resident IAF approach.
- Organizations should ensure that IAFs are adequately funded and resourced such they can hire any expertise they feel that they require for effective fraud detection and prevention. Management should ensure that the operating environment is always conducive for auditors to discharge duties that enhance their effectiveness in fraud detection and prevention
- Though it is a primary responsibility management to prevent and detect fraud the IIA should consider making it mandatory for internal auditors to have special anti-fraud skills to enhance fraud detection. The IIA should also consider assisting internal auditors in areas of fraud detection and prevention by continuously

updating standards that deal with fraud to enhance their understanding of the procedures.

- All stakeholders in the financial reporting framework should understand the IAF to ensure that maximum benefits are derived from the function.

5.4 Future Research

This research has been on the effectiveness of internal auditing in fraud detection and prevention. The future researchers should therefore focus on studying other stakeholders in financial reporting framework on how are they in fraud detection and prevention. These researches will help indicate the strengths and weaknesses of the whole financial reporting line in relation to fraud deterrence and detection.

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APPENDIX A: COVER LETTER

Dear Sir/ Madam

Ref: Request for Research Project Assistance

My name is Tariro Rwenhamo (B1233694) a fourth year student at Bindura University of Science Education. Currently I am undertaking a research project titled: **Evaluating Auditing as a Tool to Detect and Prevent Fraud a survey study of Ecobank Zimbabwe.** This is in partial fulfilment of the Bachelor of Commerce (honors) in Financial Intelligence.

You are therefore being kindly requested to give a hand in this research through truthfully completing the questions in the questionnaire below. Your assistance in this regard will be greatly appreciated.

The researcher assures you that all the information provided will only be used for scholarly, research purposes only and will be treated with confidentiality it deserves. For any information please do not hesitate to contact the University or Faculty of Commerce at Bindura University of Science Education.

Thank you in advance for your cooperation

Yours faithfully

Tariro Rwenhamo

Cell: 0778456614

E-mail tarirowendy@gmail.com

Bindura University of Science Education

P. Bag 2010

Bindura

APPENDIX B: QUESTIONNAIRE

Instructions

Kindly tick or fill in your response in the appropriate box or space provided to each of the questions below;

Please respond by putting in the appropriate box and writing in the spaces provided

1 Please indicate your age group

25-30	30-35	35-40	40-45	45-50	above 50
<input type="checkbox"/>					

2 Position (occupational)

.....

.....

3 Number of years in the industry

<5	10	15	20	25	above 30
<input type="checkbox"/>					

4 Approach to internal auditing in use

In sourcing

Outsourcing

5 Do you understand the function of the internal audit function in fraud detection and prevention?

Yes

No

If yes can you explain the role of the of internal auditors in fraud detection and prevention.....

.....
.....
.....
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.....
.....
.....
.....

6 What are your expectations on the internal audit function with special emphasis on fraud detection and prevention?

.....
.....
.....
.....

7 Is the internal Auditing Function meeting your expectations?

Yes No

If your answer is no explain the areas where how the function is failing to meet your expectations.....

.....
.....
.....
.....
.....

8 Level of involvement of the Internal Audit function in antifraud efforts within the organization

A) Highly (assisting in setting up of controls to investigations)

B) Moderate (evaluation of controls to fraud investment and remediation)

C) Low/minimal (evaluation of controls) as advised by IIA

9 What are some of the policies or procedures for fraud prevention are implemented by the IAF?

.....
.....
.....
.....

10 Level of organizational responsibilities and obligations bestowed on the internal audit function with regards to fraud issues

High moderate low

11 Has EZW ever encountered fraud?

Yes No

If your response is yes explain the course of action taken by the internal audit function

12 Frequency of fraud cases within a year

0 0-5 5-10 above 10

13 Range of Average value of frauds encountered

<\$20000 <\$40000 <\$60000 >\$6000

14 Any areas of internal auditing in fraud detection and prevention you feel the function need to improve or remedy for the organization to effectively deter, detect and prevent fraud at all levels

.....
.....
.....

15 Does the management assist in setting fraud controls at Ecobank Zimbabwe

Yes No

<input type="checkbox"/>	<input type="checkbox"/>
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16 May you give a brief explanation of the role of management in the internal audit and control function

.....
.....
.....
.....

17 Can you list any challenges faced by the internal auditors when carrying out their duties on fraud issues

.....
.....
.....
.....

Thank you very much for completing my questionnaire.

APPENDIX C: INTERVIEW GUIDE

My name is Tariro Rwenhamo (Reg No. B1233694). I am a Bindura University student studying a Bachelor of commerce honors degree in Financial Intelligence. I would appreciate your assistance in answering the following questions that seek to evaluate the effectiveness of internal auditing in fraud detection and prevention.

- 1) Can you explain the role of internal auditors in fraud detection and prevention issues at Ecobank Zimbabwe.
- 2) What assistance is given by the management in setting fraud controls at Ecobank Zimbabwe?
- 3) What are the advantages of insourcing the audit function?
- 4) What are the demerits of outsourcing the audit function?
- 5) What are the merits and demerits of outsourcing the audit function?
- 6) Can you briefly explain any problems that the Internal Audit faces in discharging anti-fraud duties at Ecobank Zimbabwe.
- 7) What efforts have been made by the IAF to deal with issues concerning the complex nature of fraud?
- 8) Can you briefly explain some of the fraud prevention policies and procedures that have been adopted by the IAF to combat fraud at Ecobank Zimbabwe?

THANK YOU FOR TAKING YOUR VALUABLE TIME TO PARTICIPATE IN THIS INTERVIEW.

