

**THE EFFECTS OF INTERNAL AUDIT ACTIVITIES ON FRAUD
PREVENTION IN SERVICE ORGANISATIONS. A CASE OF PLATINUM
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DEDICATION

This research report is dedicated to my beloved parents, entire family members and course mates for their moral and financial support throughout my academic career. God reward you abundantly.

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LIST OF ABBREVIATIONS

ACCA	Association of Certified Chartered Accountants
AICPA	American Institute of Certified Public Accountants
IIA	Institute of Internal Auditors
ACFE	Association of Certified Fraud Examiners
CFI	Corporate Finance Institute
ICT	Information and Communication Technology
IA	Internal Audit
SPSS	Statistical Packages for Social Sciences

ABSTRACT

Fraud has become one of the challenges of firms operating in the 21st century both in developing and developed countries. For instance in Uganda , service organizations have continued to record declined financial performance due to high cases of fraud. This study aimed at establishing the effect of internal audit activities on fraud prevention in service organizations using a case of platinum credit ltd Masaka branch . The objectives of the study was to establish the effect of internal controls , audit planning and audit testing on fraud prevention in service organizations . The study adopted a census approach where information was collected from all the 30 respondents. The primary data was collected using a structured questionnaire consisting of close-ended and open-ended questions. The analysis was done using Statistical Packages for Social Sciences (SPSS Version21) . The analyzed data was presented in table. It was established that there was a statistical relationship between internal controls with Pearson correlation of $R=0.789$ (table..) , audit planning with correlation of $R=0.553$ (table..), audit testing with a correlation of $R=0.189$ (table...) and fraud prevention in service organisations . It was concluded that service organizations were likely to gain competitive edge in the changing business environment if only they developed audit planning audit testingand internal control systems .It was recommended by the study that service organizations should recognize the need of sensitizing employees and customers on the consequences of fraud, train employees on fraud prevention , develop risk management systems and review internal control systems to promote the spirit of transparency and accountability.

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

This research intends get a deeper understanding and relationship between internal audit activities and fraud prevention in Service organizations focusing specifically on Platinum Credit Limited.

The various sections in this document serve specific functions both to the researcher and future readers; the general introduction provides the basis of the study, Literature Review evaluates the literature related to the topic, the Methodology focuses on the procedures that are used to answer the research questions, data presentation and analysis and lastly discussion and conclusion of the research providing recommendations.

In this chapter, the researcher provides the basis of the study through the background, statement of the problem, general and specific objectives, research questions, scope of the study, justification and conceptual framework.

1.1 Background

According to Spicer and Pegler (1999), auditing is an examination of books of accounts and vouchers, to enable the auditor to satisfy himself that the balance sheet is properly drawn up, so as to give a true and fair view of the state of affairs of the business and that the profit and loss account gives true and fair view of the profit/loss for the financial period, according to the best of information and explanation given to him and as shown by the books, auditing is therefore based on information so as to draw logical conclusions about the business.

Auditing is an independent examination of, and 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 regulations and professional requirements (Dandago, 2006) and (Mainoma, 2007). This definition clearly stated that there must be someone (auditor) responsible for expressing an opinion on the entire financial statement of an organization.

Again Mainoma, 2007, asserts that the internal audit function is all-embracing and accordingly is structured in the organization as a separate entity responsible only to a high level of management. As Okezie (2004) puts it, the main objective of internal auditing is “to assist management in the effective discharge of their responsibilities by furnishing them with analysis, appraisal, recommendations and pertinent comments concerning the activities reviewed”.

The auditor is an individual or firm carrying out the audit of an enterprise. The auditor should be approved and must have personal and operational independence in order to perform his duty effectively; this person should be free from all kinds of influences that that may affect his work.

Auditors are trained to identify potential risks and propose preventative measures. Their role as consultants, either internally or externally, is focused on providing objective assessments and informed opinions about how existing practices and procedures might be improved (www.accounting.com, 2018), these help ensure quality based on standards both of the organization and codes of conduct.

After the analysis of various audit definitions, Petraşcu D (1997), identifies a general feature can be drawn; she concludes that audit is a process, a set of operations, collection, analysis and evaluation of information (audit trail) to obtain reasonable assurance on compliance of such information or statements with predetermined criteria.

Internal auditing on the other hand is an independent, objective assurance and consultancy activity systematically designed to add value and improve an organizations operations, performance, efficiency and effectiveness. It helps the organization to achieve its objectives and goals by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk control; planning and management control (IIA Report, 2000).

From the first authoritative definition of internal control by the American Institute of Public Accountants in 1949 to current definitions in professional pronouncements, there seems to have been no substantial change of meaning. From all the definitions, it is clear that internal auditing is the centre of integrated activities within an organization, and is best suited for a new role as an agent of change (Cooper etc., 2000).

According to the UK based Chartered Institute of Internal Auditors (2017), the profession of internal audit is fundamentally concerned with evaluating an organisation's management of risk. Internal audit helps the organization to achieve its objectives by evaluating a systematic and methodical approach to its risk management processes, control and management of the entity and making proposals to strengthen their effectiveness.

On the other hand, Fraud has been widely defined in literature by scholars and experts. Horn by (1998) defines it as an action or an instance of checking somebody in order to make money or obtain goods illegally. The same dictionary defines the perpetrators of frauds as fraudsters.

According to the ICAN study Pack (2006a, b) Fraud consists of both the use of deception to obtain an unjust or illegal financial advantage and intentional misrepresentations, affecting the financial statements by the one or more individuals among management, employees, or third parties. The definition highlights unfair practices for gains by perpetrators, similar elements raised by Horn by above.

Also, Merriam-Webster (2003) defines “fraud” as deceit, trickery; specifically: intentional perversion of truth in order to induce another to part with something of value or to surrender a legal right, fraud therefore entails getting or denying something wrongfully or illegally.

Again, according to Vasiliu, L, Warren, M & Mackay, D (2003), Fraud is one of the besetting evils of our time. While less dramatic than crimes of violence like murder or rape, fraud can inflict significant damage at organizational or individual level, meaning that fraud like other crimes affects an organization the same way acts of violence do to an individual.

In addition, the Chartered Institute of Public Finance and Accounting (CIPFA) defines fraud as any intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss, according to the institute even releasing inaccurate information for gain is an act of fraud. Related to this, Arjan Reurink (2016) cites the aftermath of the financial crisis of 2007–2008 that revealed a great number of scandals in which financial market participants infected the markets with fraudulent information to gain personal advantage.

According to Matriciani P. (2014), fraud has three essential elements: the perpetrator (as the author of the fraudulent behaviour), the deception (the behaviour or means through which someone misleads) and the victim, as the organization that suffers an undue damage or loss, or the society (broadly intended).

Again Arjan shows worry about the increase in fraud, as financial fraud has moved from the fringes of financial market activity to become a widespread type of behavior throughout the industry and other industries.

Fraud negatively affects an economy as a whole, by causing huge financial losses, weakening social stability, threatening democratic structures, leading to a loss of trust in the economic system,

or corrupting and compromising economic and social institutions (Nicolescu C., 2007, p. 92).

According Griffiths, D. (2006), Internal Audit in United States of America are performed to ascertain the validity and reliability of information; also to provide an assessment of a system's internal control. Audit seeks to provide assurance that the statements are free from material error.

Study TYB.com (2006) cites the companies Act 1913 in India that made audit of company accounts compulsory and with the increase in the size of the companies and the volume of transactions, the main objective of audit shifted to ascertaining whether the accounts were true and fair rather than true and correct. Hence the emphasis was not on arithmetical accuracy but on a fair representation of the financial efforts, the Act also prescribed for the first time the qualification of auditors, hence formalizing the auditing activity.

According to Petraşcu D (2009), audit, generally comes from the Latin word “audire”, meaning to listen and inform others. While in Anglo-Saxon countries today, in agreement with Dandago, 2006) and (Mainoma, 2007, the term signifies an overhaul of accounting and other information, performed by an independent professional in order to express an opinion on the regularity and sincerity audited information.

According to Jacques Renard (2000), the occurrence of internal audit is linked to the economic crisis of 1929 in the United States; businesses were fully affected by the economic secession. Employers were interested in reducing taxes and fees so that all accounts containing transactions generating taxes and fees are thoroughly analyzed in order to find the possibility of reducing the taxable transactions for which fees were paid improperly. This situation called for auditors to account for and advise in order to maintain proper business performance.

In the past, auditors complained of fraud and theft as an objective of auditing and it was their duty to report to shareholders of all the dishonest acts that affecting the financial statements and by early 1930's, it was recognized that the auditing objective was for the verification of accounts (Carey, P., 2000).

By 1993, the statement of responsibilities of internal auditing noted that it encompasses the examination and evaluation of the effectiveness of organizations' system of internal control and the quality of performance in carrying out the assigned responsibilities (IIA Report, 2002). It led to reduction in corruption cases in many organizations that was uncovered and had a big impact on the company's sales and profitability. Auditors had to explain to the shareholders what those effects would have on the organizations growth (www.deloitte.com).

Many organizations have now employed the use of internal auditing since it is today's major factor in establishing the quality of the organizations internal control system. Organizations are also struggling to implement more effective governance structures and processes.

In such a climate, it is no surprise that the internal audit function is viewed as the most effective solution to improved governance as well as support key governance processes for monitoring the controls over and for evaluating the operational effectiveness of management strategies and initiatives.

The theoretical basis for this study will be guided by the agency model which suggests that, as a result of information asymmetries and self-interest, principals lack reasons to trust their agents and will seek to resolve these concerns by putting in place mechanisms to align the interests of agents with principals and to reduce the scope for information asymmetries and opportunistic behaviour.

According to the theory, agents are likely to have different motives to principals. They may be influenced by factors such as financial rewards, labour market opportunities, and relationships with other parties that are not directly relevant to principals. Agents may also be more risk averse than principals. As a result of these differing interests, agents may have an incentive to bias information flows. Principals may also express concerns about information asymmetries where agents are in possession of information to which principals do not have access.

The theory asserts that the differing motivations and information asymmetries lead to concern about the reliability of information, which impacts on the level of trust that principals will have in their agents.

The theory devises various mechanisms that may be used to try to align the interests of agents with principals and to allow principals to measure and control the behaviour of their agents and reinforce trust in agents.

Among the mechanisms is the audit, which the theory says it provides an independent check on the work of agents and of the information provided by an agent, which helps to maintain confidence and trust.

1.2 Problem statement

According to Petraşcua D and Tieanu A., (2014), investors have become more sensitive to the problem of fraud risk; this is because the collateral losses of fraud can end up exceeding the financial losses. Collateral losses include negative publicity that can seriously affect the reputation of an organization.

However, companies are seen to have poor management of resources, mainly funds due to fraud. For example, on 25th January 2013 a sum of shs 3,150,000,000/= was transferred from the MTN Dispute Account in seven equal installments of shs 450,000,000/= each to MTN Agent lines

employing fraudulent means. (Uganda v Sserunkuma ,27 April 2015).

A few years ago, PricewaterhouseCoopers (PwC) reported that, “...risks have shifted, and expectations have risen, calling for a rise in internal audit functions to this new floor, while staying in alignment with stakeholder expectations.” This calls for updated and proactive auditing to match the risks, the same report recommends dynamic audit planning using up-to-date technologies to monitor and identify changes in existing risks.

To the same concern, Norman M. and Kristen G. (2015), advises internal auditors to start aiming higher – to keep pace with the changes, to deliver timely insights that matter, and to address the needs of boards and executives. This values them as true assets to organizations.

All in all, Matriciani P. (2014) asserts that auditing should act as a bridge between who knows where the risks of fraud are, but has no power to prevent them, and who doesn't know where the risk of fraud are, but has the power to prevent them, appropriately tuning the internal control system.

1.3 General Objective

The Purpose of this study is to establish the effects internal audit activities on fraud prevention in Service Organizations.

1.4 Specific Objectives

The objectives of this study are;

- i. To establish the effect of audit planning on prevention of fraud in service organizations.
- ii. To determine how internal controls can be exercised to prevent fraud in service organizations.
- iii. To determine the contribution of audit testing towards fraud prevention in service organizations.

1.5 Research questions

- i. Does audit planning affect fraud prevention in service organizations?
- ii. How does internal controls affect service organizations in preventing fraud in their day to day operations?.
- iii. Does audit testing contribute towards fraud prevention in service organizations?

1.6. The Scope of the Study

This study on audit activities in relation to fraud in Platinum Credit Limited – Masaka Branch will be conducted between July 2017 to June 2018 through cross-sectional survey design. The study will be conducted in one service organisation, data being collected by the researcher and two research assistants using questionnaires, and document analysis. The study will specifically seek to study the varying levels of audit control, audit planning, audit testing, sampling and analytical procedures and how these help reduce fraud among service organizations.

1.7. Significance of the study

According to Vasiliu L, Warren, M & Mackay, D (2003), in order to be involved in the protection function, people at all levels of an organization must be knowledgeable about fraud. They also assert that clearly defining fraud is a step toward sharing information concerning the same, in this study, vital information will be available to readers concerning fraud. The same information will facilitate devising solutions to the same for effective performance of various entities. The sources and different forms of fraud will also be made known to the readers.

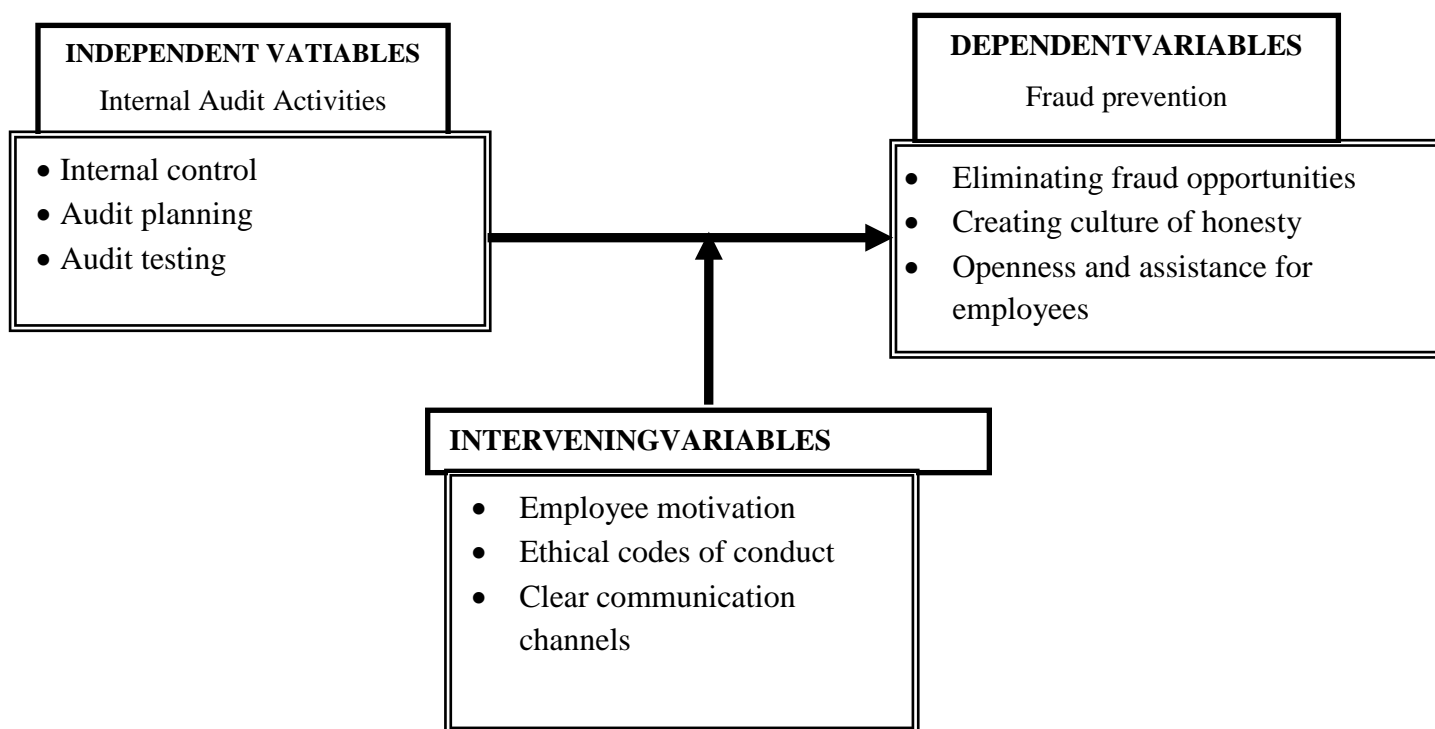
Through studying internal audit activities of audit control, planning, testing, sampling and procedures, beneficiaries of this study will be in position to appreciate their relevance towards the reduction of fraud in all entities as these help foresee and mitigate risks, store and avail information whenever needed, ensure compliance to recommendations, improve organization performance and

also put to good use of organizational assets.

The study will expose the effects of fraud to individuals and organizations. Yet, while less dramatic than crimes of violence like murder or rape, many now believe that fraud can be as serious as or even more serious than other crimes (Rebovich & Kane 2002). By availing this information, these will be seen as the driving force to establish internal auditors; their independence will also be appreciated by the stakeholders.

1.8. Conceptual framework

Figure 1: Conceptual Framework



From the figure above, the relationship between the independent variables (Internal Audit Activities) and dependent variable (Fraud prevention) is the mediating variables.

The independent variable (Internal Audit Activities) had an impact on the dependent variable (Fraud prevention) this implied that whatever happens under the dependent variable depends on what is under the independent variable, for example audit planning in organizations, reduces

financial statements fraud in the organization.

And the mediating variables like employee motivation, ethical codes of conduct, clear communication channels intervene between dependent and independent variables by hindering the success of independent variables this clearly indicates that the three variables are interrelated.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses the effects of fraud activities on fraud from various scholars; it provides this discussion based on research questions. Here, literature relating to the various audit activities are discussed, the intention is to establish how the activities mitigate effects of fraud presented as the dependent variables in the conceptual framework. The chapter later discusses other measures that can be implemented to improve activities aimed at reducing fraud among service organizations.

2.2 Theoretical Literature Review

This study was anchored on Fraud Triangle Theory Fraud Scale Theory and Agency theory as discussed:

2.2.1 Fraud Triangle Theory by ACFE (2016)

Association of Certified Fraud Examiners (ACFE) presents the fraud triangle(2016) that the theory argues that to commit fraud an ordinary person must be present with three factors pressure , opportunity and rationalization . Vona (2008) argues that each element should be identified , this is because at least one of them has the strength to make the defrauder commit the act and make him or her not worry about detection . Below is a figure of the fraud triangle.

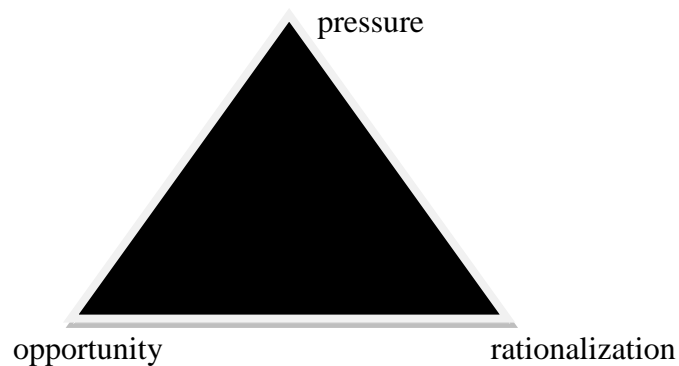


Figure 2: The fraud triangle

Pressure is the first leg that motivates the crime. The individual might be in a situation where he / she has a financial problem and this leads to the consideration of committing illegal act. These problems can be divided to personal (for instance debt) or professional (for example Job or business is in jeopardy)

Opportunity is the second leg , it means that a person has the potential to take advantage of her / his position of trust . There should be opportunity to do it in secret

The third leg is rationalization, fraudsters might make the act more acceptable for themselves by thinking that fraud is done only because of bad set of circumstances and also a person who has not had any criminal background can see fraudulent act as morally acceptable . They might try to justify the act in many ways . It is based on this research gaps that this study will be undertaken to bridge the gap as fraud has continued to exist even with the existence of previous studies as gathered in this literature review (Gramling, 2004).

This theory is applicable to this study based on the assumption that platinum credit ltd can establish internal audit functions like internal controls, audit planning and audit testing to detect fraudulent activities among their clients and employees thus enhancing their profitability.

2.2.2 Fraud Scale Theory

Fraud Scale Theory was established by Steve Albrecht (1986). The theory suggest that the nine

causes of fraud include: Living past means, overpowering craving for individual increase, high individual obligation, and close relationship with clients, pay not equivalent with employment, and wheeler-managing, solid test to beat framework, inordinate betting and family/peer weight. He built up the fraud scale which had Situational weights (Prompt issues with environment and generally obligations/misfortunes caused by individuals), saw openings (achieved by poor controls), Individual respectability (which is affected by individual code of conduct) (Fish, 2012).

This theory is material in this study based on the assumption that service organizations can experience losses through fraud due to number of motives that include; customers leaving beyond their financial mean, desire for personal gain, personal debts, peer pressure, poor compensation, corrupt culture and strong drive to achieve personal goals.

2.2.3 Agency Theory

Agency Theory was established by Ross and Stephen (1973). The theory was founded on the notion that there must be two parties for any contract to be successful (Adams, 1994). In their case, the employer and employee are the two parties who represent a firm to attain its long range objectives (Clarke, 1990). The relationship between the principal (employer) and agent (employee) determines the performance of any organization in the dynamic business environment. It reveals how to best make connections in which one social occasion chooses the work while another get together makes the fundamental strides (Ewa and Udoayang, 2012).

Chen and Container (2012) contend that money related administration is about hazard, and every speculator gets together with an alternate resilience for hazard. In an office relationship, odds are high that principals and specialists have distinctive hazard resistances, which can prompt to mistaken assumptions and an inability to concede to contributing choices. Notwithstanding when operators act toward principals' objectives, their method for doing as such may struggle with principals' hazard resiliences. For instance, in a shareholder-official relationship, an official may wish to gain battling organizations to accomplish the mutual objective of expanding piece of the pie

at a rebate, yet this arrangement might be regarded excessively unsafe by a lion's share of shareholders (Cole, 2000).

The relationship of the theory to this research is based on the premise that agents of service organisations are supposed to develop appropriate internal audit practices to will help their firms to mitigate fraudulent activities of internal and external customers. Service organizations on the other hand should review their internal controls to enable their agents to meet individual goals using ethical ways rather than fraudulent means. Improving the working conditions and building good relations with employees will contribute to financial performance of insurance firms.

2.3 Internal control and fraud prevention

According to Cahill (2006) quoted by Omonyemen, Mary & Godwin (2017), internal control is a system of internal administrative and financial checks and balances designed by management, to ensure that the goals and responsibilities of the organization are achieved, it ensures that organization activities remain on track in relation to its goals and objectives.

With particular emphasis on banks, strong internal control systems have long been identified as really important due to the nature of financial business and also because of their susceptibility to fraud (Cahill, 2006). Also globalization of business, technological advancements, increasing business failures, and widely publicized fraud demand that entities place more emphasis on their internal control systems functions (Zabihollah & Rezaee, 1995).

According to Omonyemen, Mary & Godwin (2017), the most effective way of reducing frauds is to establish an effective internal control system, the trio also asserts that internal control is the basis for prevention, detection and eradication of frauds in banks, internal control also ensures smooth and economic functioning of business entity. Kumar, R. & Sharma, V. (2005) define internal control as a whole system of controls for the businesses established by the management in the

conduct of a business including internal check, internal audit and other forms of control, it's therefore a system of supervision within the organization.

Jubb C. (2008) asserts that internal control is designed and implemented to address identified business risks that threaten the achievement of organizational objectives, Peterson, B. K., and P.E. Zikmund (2004) add that internal control mitigates the risk of fraud by increasing employee perception of detection. Therefore, internal control system not only ensures that assets and records are safeguarded but also creates an environment in which efficiency and effectiveness is encouraged and monitored.

According to Jaya S., Hassan H.& Azwadi A. (2012), effective internal controls are essential, they cite that fraud prevention, embezzlement detection, and accurate financials are all reasons to justify for good internal control practices; this means that efficient internal controls facilitate positive results in the operations of the entity's' progress.

Although most companies will not readily admit that their organizations may be vulnerable to fraud, according to the 2014 Report to the Nations published by the Association of Certified Fraud Examiners ("ACFE"), it is estimated that the typical organization loses 5 percent of its revenue to fraud each year. Based on the fraud cases reported as part of the ACFE's study, the median loss caused by frauds was \$145,000, while more than one-fifth of the cases involved losses of at least \$1 million.

According to the ACFE, because fraud inherently involves efforts of concealment, many cases will never be detected. Therefore, organizations are encouraged to implement certain anti-fraud internal controls, in order to lessen the opportunities to commit fraud. Understanding how occupational fraud is executed is the first step in determining which internal controls to implement.

Based on the ACFE's study, occupational fraud schemes are typically classified into three categories: asset misappropriation (theft of cash, data, property, etc.), corruption and financial

statement fraud schemes (deliberate misstatement, misrepresentation, or omission of financial statement data). Historically, although theft of assets has produced the lowest average losses, these schemes have accounted for the vast majority of reported fraud activity. Within this category, there are various techniques which an employee may utilize to steal company assets and resources, including theft of cash receipts and fraudulent disbursements of cash such as through billing schemes, fictitious vendors, fraudulent expense reimbursements, or check tampering. Understanding and analyzing each of these categories is a critical first step in designing an effective control environment throughout the organization which may aid in preventing and detecting fraudulent activity.

Based on the ACFE's study, victim organizations that had implemented certain common anti-fraud controls such as the following experienced considerably lower losses than organizations lacking these controls;

Implementation of a fraud hotline or web-based portal. Whereby internal and external sources may anonymously and confidentially report fraudulent or suspicious behavior. Policies and procedures related to the hotline should be well-publicized by management in an effort to promote and encourage its use. Implementation of a fraud hotline, especially when accompanied with an anti-retaliation policy and/or whistleblower reward program, will effectively improve an organization's overall control environment through increasing the perception of detection. Historically, the receipt of internal or external tips has represented the most common detection method for each of the three categories of fraud schemes listed above.

Separation of duties. Involving the custody of assets, authorization of transactions affecting those assets and recording/reporting of related transactions. The underlying theory of separation of duties is that a single employee should not be in a position to both commit and then conceal fraudulent activities. For example, the Institute of Internal Auditors^[ii] suggests there needs to be an adequate division of responsibilities among those who perform accounting procedures or control activities

(authorization/recording) and those who handle the assets (custody). In general, the flow of internal processes should be designed in such a manner that one individual's roles and responsibilities serve, in part, as a check and balance of another individual's work. Such a system would serve to reduce the risk of undetected errors and limit opportunities to misappropriate assets or conceal intentional misstatements in the financial statements.

Reconciliation of bank accounts and management. Review of periodic account reconciliations (bank reconciliations, petty cash, etc.) and bank statements. Bank reconciliations provide insight into the differences between an organization's cash balance per the balance sheet and per the bank statement, while also proving the completeness and accuracy of the data recorded in the organization's cash ledger. Depending on the size of the organization and the volume of cash transactions, bank reconciliations may be performed anywhere from a daily to monthly basis. Adequate separation of duties should also be implemented in the bank reconciliation process, in that the cash bookkeeping, bank reconciliation and check signer functions should be separated.

Review and authorization of expense reimbursements. By supervisors and management in a timely fashion. Per the ACFE's study, a significant portion of asset misappropriation schemes involve situations in which an employee makes a claim for reimbursement of fictitious or inflated business expenses. Management should first ensure all policies and procedures, including those related to expense and travel reimbursements, are communicated to all employees, along with timely notifications of any relevant updates. Furthermore, expense reports submitted by employees, including any underlying support, such as credit card bills, receipts, telephone bills, etc., should be reviewed and signed-off by the employee's immediate supervisor and the organization's payroll department. Expense reports submitted by members of management should be reviewed by other members of management.

Safeguarding and reconciliation of petty cash. Funds on a periodic basis by authorized employees. Although petty cash funds typically represent an insignificant amount of cash held by

an organization, primarily used for small day-to-day expenses, petty cash improprieties may be a signal of broader issues regarding management's approach to internal controls and the organization's control environment. To help strengthen the processes surrounding petty cash, sequentially numbered vouchers should be kept as well as disbursement receipts with the disbursement date, amount, purpose, and employee name. Further, the petty cash custodian should maintain a reconciliation of the petty cash fund, reconciling total cash on hand plus outstanding receipts to the total petty cash maximum. Access to the petty cash fund should also be limited to a small number of employees, with the funds kept in a locked box. Lastly, to test compliance with organizational policies and further increase the perception of detection, management may order an independent audit of the petty cash fund on a periodic basis.

Management should maintain a proactive approach to identifying vulnerabilities unique to their organization and implement effective and efficient internal controls to help prevent and detect fraudulent activities. Demonstrating a genuine interest and concern in the implementation of sound internal controls will aid management in establishing an ethical organizational culture.

2.4 Audit planning and fraud prevention

According to Anne B. (2010) Audit planning is the process of forming the specific procedures to be carried out to implement an overall audit strategy to completion, she goes ahead to define an overall "audit strategy" in general terms as the way the audit is to be carried out. This involves the process through which auditing is to be done. It therefore requires the interrogation of all organization stakeholders especially internally from top management to low level employees.

Audit planning is a vital area of the audit primarily conducted at the beginning of audit process to ensure that appropriate attention is devoted to important areas, potential problems are promptly identified, work is completed expeditiously and work is properly coordinated.(Omonyemen, Mary & Godwin (2017). It means developing a general strategy and a detailed approach for the expected

nature, timing and extent of the audit and auditors plan to perform the audit in efficient and timely manner.

There are three main benefits from planning audits that's to say it helps the auditor obtain sufficient appropriate evidence for the circumstances, helps keep audit costs at a reasonable level, and helps avoid misunderstandings with the client (Anne B. - 2010). It is the role of external auditors to plan and perform the audit to detect material misstatements in financial statements caused by fraud (AICPA, 2002).

According to Roger CPA Review audit text book(2009), there are ten steps followed in planning an audit and these include the following;

Basic discussions with the client, this is about the nature of the engagement and the clients business and industry are performed first and the auditor meets the key employees of a continuing client . the overall strategy or the timing may be discussed but don't discuss specific audit procedures.

Review of audit documentation, from the previous audits performed by the accounting firm or a predecessor auditor (if the latter makes these audit documentation available) will assist in developing an outline of the audit program.

Ask about recent developments, in the organization such as mergers and new product lines which will cause the audit to differ from earlier years.

Interim financial statements, these are analyzed to identify accounts and the transactions that differ from expectations (based on factors such as budgets or prior periods) . The performance of such analytical procedures is mandatory in the planning of an audit to identify accounts that may be misstated and that deserve special emphasis in the audit program.

Non – audit personnel ,these of the accounting firm who have provided services (such as tax preparation) to the client should be identified and consulted to learn more about the client.

Staffing , for the audit staffing should be determined and a meeting held to discuss the engagement.

Timing , on the various audit procedures should be determined . for example internal control testing needs to be performed early in the engagement , inventory counts need to be performed at or near the balance sheet date and the client representation letter cannot be obtained until the end of the audit field work.

Outside assistance , needs should be determined , including the use of a specialist as required (a tax practitioner or an information technology (IT) professional) and the determination of the extent of involvement of the auditors of the client.

Pronouncements , on accounting principles and audit guides should be read or reviewed to assist in the development of complete audit programs fitting the unique needs of clients' business and industry.

Scheduling with the client , is needed to coordinate activities , for example client prepared schedules need to be ready when the auditor is expected to examine them , and the client needs to be informed of dates when they will be prohibited from accessing bank safe , deposit boxes to ensure the integrity of counts of securities held at banks.

Audit Plan Activities

According to the Information Systems Audit and Control Association – ISACA (2016), an audit plan is the first step in creating an audit program. The association highlights five steps of coming up with an audit plan.

Determine audit subject, this involves identifying the area to be audited (e.g., business function, system, physical location).

Determine audit subject, this involves identifying the area to be audited (e.g., business function, system, physical location).

Define audit objective, stipulates the purpose of the audit.

Set audit scope, Identify the specific systems, function or unit of the organization to be included in the review.

Perform pre-audit planning.

- **Conduct a risk assessment,** which is critical in setting the final scope of a risk-based audit. It is a good practice because the results can help the audit team to justify the engagement and further refine the scope and preplanning focus.

- **Interview the auditee** to inquire about activities or areas of concern that should be included in the scope of the engagement.

- Identify regulatory compliance requirements.

- Once the subject, objective and scope are defined, the audit team can identify the resources that will be needed to perform the audit work.

Determine steps for data gathering.

At this stage of the audit process, the audit team should have enough information to identify and select the audit approach or strategy and start developing the audit program.

2.5 Audit testing

Audit testing is all about ensuring that key controls you rely on are operating properly and making sure that the underlying risk is effectively managed. Testing can look for fraud or errors, like analyzing expenses paid on the same date to see if a claim has been split due to authorization levels.

The purpose of audit testing is to allow the auditor to collect sufficient appropriate evidence to be able to conclude with reasonable assurance that financial statements are free of material misstatements.

According to K. Mills (2014), Audit testing helps Internal auditors to base conclusions and engagement results on appropriate analyses and evaluations . He further stipulates the different types of tests to include;

Test of Control. Is an audit procedure to test the effectiveness of a control used by a client or entity to prevent or detect material misstatements . it also consists of procedures directed toward the evaluation of the effectiveness of the design and implementation of internal controls. Tests of control can be grouped into:

Inspection. Auditors may examine business documents for approval signature , stamps or review check marks which indicate that controls have been made. For example, the credit references or notes made by the credit controller of conversations.

Observation. Auditors may observe a business process in action and in particular the control elements of the process. For example, observing the credit controller at work.

Recalculation and re performance. Auditors may initiate a new transaction to see which controls are used by the client and the effectiveness of those controls. For example, ensuring that the aged

receivables analysis seems to be accurate

Enquiry and confirmation. For example, ask the credit controller about the way in which customers are encouraged to pay and ask how these customers are identified and how often they are followed up. This is a relatively weak source of evidence because the credit controller might exaggerate his or her efforts.

Substantive Tests are those activities performed by the auditor to detect material misstatement or fraud related to transactions or account balances at assertion level . There are two categories of substantive tests; analytical procedures and tests of detail.

Analytical procedures generally provide less reliable evidence than the tests of detail. They are also applied in several different audit stages and tests of detail are only applied in the substantive testing stage .

Audit testing does not exhaustively test a product to uncover every potential issue and detect and so does incur the cost in time and personnel that such a test would suggest , instead , audit testing aims to examine a testing process already in place for coverage and accuracy of the process.

Audit testing is most commonly implemented towards the end of , or just after a testing cycle . it can and in many cases be implemented during any or all phases of a cycle that's to say before, during and after the audit work.

In a conclusion , audit testing is a progeny of expanding IT industry necessitated by the expansion of its toolbox and scope. It is not intended to completely replace a full test cycle , instead aiming to supplement and confirm the delivery of the testing process, the impact of audit testing is dependent on when it is implemented and on a thorough follow up .

2.6 Conclusion.

The above literature has indicated how central and important the notions of contributions and effects are to the professional practice. Various scholars and authors have written about the two variables by clearly bringing out the effect of internal audit activities on fraud prevention in service organizations . Therefore, a strong relationship exists between the two variables as discussed above.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the research design, area of study, study population, sample size, sampling procedures, methods and instruments of data collection, data analysis and presentation.

3.1 Research design

The study adopted a case study. Qualitative data collection method and management were used. Case study methodology is defined by Zucker (2001) as a systematic inquiry into an event or a set of related events which aims to describe and explain the phenomenon of interest. A case study methodology was used since it has particular method of qualitative research that involves in-depth examination of a single instance or event.

3.2 Population of study

Platinum credit organization-Masaka has over 25 staff members (Human resource department ,2017) and 1000 clients. The study population will involve the Regional collections officer, Manager, Field officers, the Internal Auditor and Clients of Platinum Credit.

3.3 Sample size

Sampling is the selection of a part to represent the whole, also it a process of selecting your participants (Sarantokos, 2005). The researcher used a sample size of 30 out of 36 respondents. The sample size was determined by the help of the following formulae according to Agatha (2009). The sample size of the respondents was determined as in the formulae below;

$P = F/N \times n$. Where; F= Number in the category

N = Total population.

P = Number of respondents in the category to be obtained from the group

n = Total number of the respondents needed by the study.

3.4 Sampling techniques

The researcher employed the following techniques

3.4.1 Purposive sampling technique

It is referred as judgmental sampling which means respondents are selected purposively to fit the study and to answer the research to meet the objectives of the study (Sarantokos, 2005). It is also applied when the study requires specific information. This was done because respondents with purposive information were selected to be interviewed.

The purposive sampling technique was used because the study requires a small population sample with purposive information to fit the objectives of the study. This means that only those individuals who are actively involved in the administration and evaluation, the field officers and clients who access the services of the organization.

3.5 Data sources

Concerning data sources, both primary and secondary data was the main sources of data used in the study.

3.5.1 Primary data

Primary data involved use of a questionnaire and interview guide method. During the collection of this data, the researcher was approach the study area with the research tools as he gets responses as

per the study respondents. Such data was used to analyze the problem that is at hand.

3.5.2 Secondary data

The researcher collected secondary data from different sources like; text books, internet, news paper, magazines, and journals that was found at platinum credit ltd – Masaka branch. This information was reviewed by visiting places like libraries and internet cafes and this type of information was used to supplement collected data from different categories of the respondents during data collection

3.6 Data collection and instruments

3.5.1 Questionnaires

A questioner is a list of questions that is used to obtain information from the respondents (Amin, 2005). A self-administered questionnaire was used respective to the responsibility and position held in Platinum credit in reference to the intentions of the researcher. Open ended questionnaires were used to allow response to individual questions to prevent time wastage. This was very important for the study because it gave a room for privacy to the respondent to fill in at their own free time and respondents were allowed to make comparisons with the records and friends. All this enabled the researcher to get detailed information because of the open ended nature of the questionnaire.

3.6.2 Document review

Document review is where materials containing the information about phenomenon were studied (Sarantokos, 2005). Secondary data collection method was used to review documents of previous auditing reports, the clients' comments from the suggestion box and previous organizational achievements. These documents were compared with primary data that was collected from the

respondents in order to verify and show correspondence or discrepancy of the information.

3.7 Validity and Reliability

Validity is the extent to which an item accurately measures or describes what it is intended to measure or describe. Data collected from the field was considered valid by designing a good and understandable data collection tools to enable the respondent adhere to them by giving relevant information which was not divergent.

Reliability is the extent to which the data collection method produces similar or consistent results under a condition on all occasions. Data collected from the field was considered reliable by using different data collections tools and these helped to make sure whether the information got from the field was reliable because they produced similar data but from different data collections tools. Also the data collections tools were pretested on 5 people to give the right information which is reliable.

3.8 Procedure for data collection

Upon approval of the proposal, the researcher received a letter of introduction to the management of Platinum credit ltd in Masaka Municipality. This was probably a secure permission for the researcher to carry out the study. The letter of consent was then presented to the manager of Platinum credit ltd. Once the researcher received permission for data collection, questionnaires was be distributed to their respective respondents. The respondents were given time of convenience within which the questionnaires were picked from them.

3.9 Data analysis and presentation

3.9.1 Qualitative data analysis

Data analysis is the process of bringing order, structure and meaning to the mass of information collected (Mugenda and Mugenda, 1999). Data was generated from the observations, document

reviews, and questionnaires which was transcribed, grouped and categorized into coding frames. These were linked to the objectives of the study, generalized and later argued out in a detailed research report.

3.9.2 Quantitative data analysis

Simple calculation of addition and subtraction was used since the study was highly qualitative and this was generated from the questionnaires. The data was presented in tabulation form for easy understanding and interpretation.

3.9.3 Data presentation

Data was tailed using SPSS to develop figures in order to give more visual understanding of the findings to the reader. Data was converted into frequencies and percentages and then presented in tables for clear presentation.

3.10 Study Variables and their measurements

The study constitutes of two variables as; Internal Audit functions as an independent variable while service delivery of public sector organizations as a dependent variable. Internal Audit function was measured by the internal controls used in at platinum credit ltd Masaka branch that may include; preventative controls, detective controls, corrective controls, control environment, risk assessment, control activities, information and communication as well as monitoring. However during the study, performance was commonly be measured by the amount of revenue collection, service delivery, expenditure performance, value for money among other measures that may be thought of during the process of undertaking the study.

3.11 Ethical considerations

The researcher in study adhered to the relevant professional code of conduct. The researcher took into account seriously the research ethics when carrying out research and made sure that the

information given is confidential and not to be aired out to anyone without the respondents' permission.

The researcher looked for informed consent from the responsible organizational respondents by disclosing the real purpose of the research study and the reasons as to why the research is being carried out.

The researcher was in position to respect privacy of individuals for example if one was not free to talk about their private life, the researcher was not biased and avoided fabrication and falsification of data.

Anonymity of the respondents was observed by the researcher because they too have their right to remain anonymous. The researcher did not name respondents without their consent.

The researcher conducted the study with integrity of self-awareness being fair with good attitudes and values, also the researcher did not force participants to the study as they should participate willingly and voluntarily.

The researcher was made sure that the research conducted was not to cause physical or psychological harm to the participants and here the research tested first the data collection tools to ensure they have no harm to respondents.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter presents the research findings of the study carried out to examine the effect of internal audit activities on fraud prevention in service organizations . The research objectives of the study were: to establish the effect of audit planning on prevention of fraud in service organizations, to determine how internal controls can be exercised to prevent fraud in service organizations, to identify the different types of audit testing that can be used to reduce fraud in service organizations.

4.2 Response Rate

In addition, the research sought to obtain the perspectives and opinions of participants with regard to effect of internal audit activities on fraud prevention in service organizations in platinum credit ltd Masaka branch . Qualitative information was collected from respondents of platinum credit ltd in Masaka branch who were selected from administration and sales departments. However, after questionnaire administration, only 24 questionnaires were returned duly filled. This contributed to 85% response rate. This response rate was adequate for data analysis and conforms to Kothari (2004) who stipulates that a participation frequency rate of 30% and above is sufficient for examination and reporting. Therefore, a rate of 93% response rate was justifiable under this research. In addition, this section presents discussions on the statistical relationships between variables of the study and further discusses the outcomes of the researching relation to existing empirical publications.

4.3. Gender of the respondents .

The participants of the research were requested to provide their gender and the results are as shown

in table1

Table 4.1: Showing gender of the respondents and their percentages

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	22	73.3	73.3	73.3
Female	8	26.7	26.7	100.0
Total	30	100.0	100.0	

Source : research data

According to the study findings as in table 4.1, most of the respondents were 22 males compared to the 8 females. The number of males who participated in the study was represented 73.3% as compared to 26.7% of the female respondents. Further findings by the study revealed that the difference in percentage arose as a matter of fact that most men were participating in the finance/ accounts department, operation department, risk & collections department at platinum credit ltd were selected during the study. The above finding clearly indicates that male participated in platinum credit ltd than female.

4.4 Respondent period of Work

The respondents of the study were requested to indicate the time frame they had been employed with in platinum credit ltd and the following were the findings as shown in Table 4.2

Table 4.2: Showing the respondents' length of service worked in platinum credit ltd

	Frequency	Percent	Valid Percent	Cumulative Percent
1-3_years	12	40.0	40.0	40.0
4-6_years	12	40.0	40.0	80.0
7-10_years	6	20.0	20.0	100.0
Total	30	100.0	100.0	

Source: Research data

As shown in the Table 4.2, majority (40 %) of the respondents has served for 1-3 years, and for 4-6 years and 20% of them has also served for 7-10 years. Most of the respondents working with platinum credit ltd did not have business related backgrounds but were engaged by their firms to offer a range of services including marketing and selling of platinum credit ltd products.

4.5 Education Level of Respondents

The participants of the research were requested to provide their educational level and In order to get information from all categories of people, those that have attained certificate, diploma, bachelors and post graduate were all approached during the study process and the results were shown in the table below.

Table 4.2: Showing education Level of Respondents working in platinum credit ltd

	Frequency	Percent	Valid Percent	Cumulative Percent
Certificate	2	6.6	6.6	6.6
Diploma	11	36.7	36.7	43.3
Bachelors	14	46.7	46.7	90.0
Post graduate	3	10.0	10.0	100.0
Total	30	100.0	100.0	

Source : Research data

As shown in the Table 4.3, shows the respondents’ educational level working in platinum credit ltd majority (14) of the respondents were bachelors holders, 11 of them were diploma holders, 2 of them were certificate holders and 3 of them were postgraduate holders. (47%) of the respondents were bachelors holders. 37 % of them were diploma holders. 6% of them were certificate holders and 10% of them were postgraduate holders. The high number of employees with first degree implied that the service organizations had attracted many people with various qualifications from different areas of specialization. Most of the respondents working with platinum credit ltd did not have business related backgrounds but were engaged by the firm to offer a range of services including marketing and selling of platinum credit products.

4.6 Internal audit function

4.6.1 Internal control and fraud prevention.

The respondents of the research were requested to state the degree of affirmation with internal controls that were adopted by platinum credit ltd to detect fraud and the following were the outcomes as indicated in Table 4.4.

Table 3.4: Internal control and fraud prevention

Internal control	N	Mean	SD
Internal controls has ensured that organizational activities remain on track in relation to its goals and objectives .	30	4.43	.504
Internal control is the basis for prevention , detection and eradication of frauds in service organizations.	30	4.50	.509
It has ensured smooth and economic functioning of business entity.	30	4.53	.507
It has addressed identified business risks that threaten the achievement of organizational objectives	30	4.43	.504
It has ensured that assets and records are safe guarded and created an environment in which efficiency and effectiveness is encouraged and monitored	30	4.53	.507

As indicated in Table 4.4, most of the participants were in agreement to a larger extent that internal controls has ensured that organizational activities remain on track in relation to its goals and objectives with a mean of 4.43 and standard deviation of 0.504 . Internal control is the basis of prevention, detection and eradication of fraud in service organizations with mean of 4.50 and standard deviation of 0.509. Their internal controls ensured smooth and economic functioning of business with a mean of 4.53 and standard deviation of 0.507 Internal controls addressed identified business risks that threaten the achievement of organizational objectives with a mean of 4.43 and standard deviation of 0.504 and it has also ensured that assets and records are safe guarded and created an environment in which efficiency is encouraged and monitored with mean of 4.53 and standard deviation of 0.507.

The findings implied that, platinum credit ltd had internal controls that were adopted to minimize fraud cases in the system despite internal challenges like, employee behaviour, mechanistic structures and management styles that influenced fraud decisions. However, it was also established that majority of the service organizations sensitized their customers and employees on the consequences of fraud and engaged external auditors to analyze financial statements periodically on a small extent. This was due to inappropriate mechanisms put in place to sensitize customers and employees on the consequences of falsifying records and costs associated when engaging external auditors.

These findings correspond with Norman et al., (2010) who argue that both internal and external auditors should be given the opportunity to examine financial statements of an organization in order to reveal gaps that may lead to financial distress among service organizations. Further Nila and Viriyanti (2008) concurs with these findings by arguing that auditors should use a combination of methods to examine financial statements and systems in order to give valid financial reports to service organization for strategic decision making

4.6.1.1 The relationship between internal controls and fraud prevention.

Table 4.4: Showing the relationship between internal controls and fraud prevention

		Internal control	Fraud prevention
Internal control	Pearson Correlation	1	.789
	N	30	30
Fraud prevention	Pearson Correlation	.789	1
	N	30	30

From the table above, there is strong relationship between internal controls and fraud prevention represented by a correlation ($R=0.789$) which implied that internal controls has played a big role in creating reliable financial reporting, accomplishing operational efficiency and safe guarding assets in service organizations.

This relationship corresponds with Peterson, B. K., and P.E. Zikmund (2004) who argues that internal control mitigates the risk of fraud by increasing employee perception of detection. Therefore, internal control system not only ensures that assets and records are safeguarded but also creates an environment in which efficiency and effectiveness is encouraged and monitored as described in the literature review in chapter 2.

4.6.2 Audit planning and fraud prevention

The respondents of the research were requested to state the extent of affirmation on whether their auditors carryout audit planning in detecting fraud and material errors and the following were the outcomes as presented in Table 4.6.

Table 4.5: Audit planning and fraud prevention

Audit planning	N	Mean	SD
Audit planning has helped auditors to obtain sufficient evidence for the circumstances after audit work.	30	4.50	.509
It has facilitated auditors with knowledge to detect material misstatements in financial statements caused by fraud.	30	4.43	.504
It has enabled auditors to make optimal use of audit staff available so as to enable him/ her conduct efficient audit in exhaustive manner.	30	4.47	.507

From the table above, audit planning has helped auditors to obtain sufficient evidence for the circumstances after audit work with mean of 4.50 and standard deviation of 0.509 .auditors are facilitated with knowledge to detect material misstatements in financial statements caused by fraud with mean of4.43 and standard deviation of 0.504 and it has also enabled auditors to make

optimal use of staff available so as to enable him/her conduct efficient audit in exhaustive manner with mean of 4.47 and standard deviation of 0.507.

These findings implied that , audit planning gives platinum credit auditors a clear insight of the business processes thus helping auditors to develop an appropriate strategy despite the fact errors/ fraud are detected in a timely manner as auditors concentrate on important areas.This corresponds with (Anne B. , 2010) who asserts that “ There are three main benefits from planning audits that’s to say it helps the auditor obtain sufficient appropriate evidence for the circumstances, helps keep audit costs at a reasonable level, and helps avoid misunderstandings with the client”

These findings correspond with Association of Certified Fraud Examiners’ (ACFE) (2008) which argue that service organizations are likely to gain competitive edge in the changing business environment if they form audit teams to plan and perform audit work to detect errors and material misstatements in financial statements.

4.6.2.1 The relationship between audit planning and fraud prevention

Table 4.6: Showing relationship between audit planning and fraud prevention

		Fraud prevention	Audit planning
Fraud prevention	Pearson Correlation	1	.553
	N	30	30
Audit planning	Pearson Correlation	.553	1
	N	30	30

From the table above , there is a strong relationship between audit planning and fraud prevention represented by correlation ($R=0.553$) which implied that audit planning is vital in detecting errors and misstatements in financial statements.

This relationship corresponds to AICPA(2002) which argues that external auditors have a responsibility to plan and perform the audit to detect material misstatements in financial statements caused by fraud. Although many firms have computer software tools that assist in audit planning and while AICPA publications and firms audit manuals provide general guidelines for the planning of audits , the actual planning is left largely to the auditors judgment as described in literature review.

4.6.3 Audit testing and fraud prevention

The respondents of the research were requested to state the degree to which they agreed with audit testing practices adopted by their organization as a measure of detecting fraud and the outcomes are as presented in Table 4.8.

Table 4.7: Showing audit testing and fraud prevention

Audit testing	N	Mean	SD
Audit testing has ensured that underlying risk is effectively managed.	30	4.50	.509
It has facilitated internal auditors to base conclusions and engagement results on appropriate analyses and evaluations.	30	4.50	.509
It has facilitated internal auditors to detect material misstatement or fraud related to transactions or account balances.	30	4.47	.507

From the above , audit testing has ensured that underlying risk is effectively managed with mean of 4.50 and standard deviation of 0.509 . it has facilitated internal auditors to base conclusions and engagement results on appropriate analyses and evaluations with mean of 4.50 and standard deviation of 0.509 and also it has facilitated internal auditors to detect material misstatement or fraud related to transactions or account balances with mean of 4.47 and standard deviation of 0.507 .

These findings implied that audit testing can look for indicators for indicators of fraud or error such as analyzing expenses paid on the same date to see if a claim has been split due to authorization levels and these findings corresponds with K. Mills (2014), who argues that Audit testing helps Internal auditors to base conclusions and engagement results on appropriate analyses and evaluations

4.6.3.1 The relationship between audit testing and fraud prevention.

Table4.8: Showing the relationship between audit testing and fraud prevention

		Fraud prevention	Audit testing
Fraud prevention	Pearson Correlation	1	.189
	N	30	30
Audit testing	Pearson Correlation	.189	1
	N	30	30

From the table above, there is weak relationship between audit testing and fraud prevention represented by correlation of (R=0.189) which implies that audit testing is less practiced in service organizations. This is because in most service organizations , auditors don't practice audit testing during their audit work which calls for it being with weak relationship in preventing fraud in an organization which leads to internal auditors to base conclusions on inappropriate analyses and evaluations.

This relationship corresponds to K. Mills ,(2014) who argues that “Audit testing helps Internal auditors to base conclusions and engagement results on appropriate analyses and evaluations”.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter outlines; summary of research findings based on the research objectives, conclusion, limitations, recommendations and suggestions for further study.

5.2 Summary of the Findings

This study found out that there is a strong positive relationship between internal controls and fraud prevention with a correlation of $R= 0.789$ which implied that internal controls play a big role in creating reliable financial reporting, and safe guarding assets in service organizations, there is also a strong relationship between audit planning and fraud prevention with a correlation of $R=0.553$ which implied that audit planning is vital in detecting errors and misstatements in financial statements and there is a weak relationship between audit testing and fraud prevention with a correlation of $R=0.189$ which implied that audit testing is less practiced in service organizations.

It was concluded from the findings that platinum credit ltd has adopted internal controls like safeguarding assets and internal auditing to a large extent to minimize fraud despite the challenge of engaging external auditors and conducting sensitization campaigns among customers on fraud. It was established from the findings that platinum credit ltd services were complying with internal and external policies like audit planning, employee professionalism and creating strong internal control systems as measures of detecting fraud. The study established that platinum credit ltd had risk management initiatives like internal audits, automation of internal control systems of detecting fraud despite their level of effectiveness on fraud cases.

It was established that platinum credit ltd services were striving to apply control practices like development of contingency plans to curb fraud, conducted of internal audits, enhanced communication and trained employees as measures of minimizing fraud cases. It was revealed by the study that platinum credit ltd did not engage external auditors to audit their financial statements due to high costs associated with their services. It emerged that majority of platinum credit ltd services experienced high cases of fraud due to lack of employee integrity, outdated fraud policies. It was also established that platinum credit ltd was likely to achieve their financial goals if they had understood employee behaviors, conducted fraud sensitization campaigns, developed internal fraud detection systems and reviewed their ethical code of ethics to guide employee behaviors.

5.3 Conclusions

From the findings of the study, it can be established that platinum credit ltd is likely to gain competitive edge in the changing business environment if they develop proactive fraud audit functions, comply with internal and external regulations, develop risk management approaches, develop control mechanisms to regulate operational activities and improve their financial reporting systems. Platinum credit ltd in service organizations should rethink on who to develop new products and venture into new areas of production to maximize profits. Fraud being a complicated vice that has contributed to financial distress among firms, it is therefore appropriate for platinum credit ltd in Uganda to partner with other institutions like law enforcement agencies and ICT firms to curb fraud cases. Consumers and employees should be sensitized on the consequences of financial fraud.

5.4 Recommendations

It was established that proactive fraud audits of platinum credit ltd were not hundred percent effective due to changing trends of fraud in the service organizations. Therefore, it is recommended that management of platinum credit ltd should focus on industry partnership in order to curb cases of financial fraud. Platinum credit ltd should partner with security and investigation agencies, Information and Communication Technology firms and external auditing firms in order minimize cases of fraud among the service organizations in Uganda

It was established that some of platinum credit ltd services were not compliant with IIA and ACFE policies. Therefore, this study recommends that the Government of Uganda in partnership with Regulatory authorities should develop policies that will penalize service organizations that violate or evade complying with the expected business standards. Heavy penalties should be imposed on firms that are not complying with Institute of internal auditors and Association of certified fraud examiners policies.

It was established that to some extent, risk management approaches adopted by platinum credit ltd had some weaknesses ranging from employees and systems. Therefore, this study recommends that management of platinum credit ltd should create a fraud management unit that collects, analyses and interprets fraud related cases.

It was revealed by the study some of platinum credit ltd services had weak control practices in their operations. Therefore, this study recommends that platinum credit ltd should automate the internal processes to enhance efficiency and effectiveness. Platinum credit ltd should develop budgets and forecast the future changing business trends using appropriate internal control mechanisms.

It was revealed by the study that platinum credit ltd engaged external auditors to audit their financial statements on a small extent due to high costs associated with their services. Therefore, it is recommended that platinum credit ltd should enhance transparency and accountability through publication of audited financial statements on the print media in order to enhance stakeholder confidence. Internal auditors should be encouraged to observe International Accounting Standards(IAS) when conducting internal audits. On the other hand, platinum credit ltd should encourage both internal and external audits as approaches of enhancing accuracy of accountability and transparency.

It was established by the study causes of fraud in platinum credit ltd were lack of penalties among fraudsters, weak internal policies that regulated fraud cases, weaknesses of law enforcement agencies and unethical individual behaviour. Therefore, it is recommended that platinum credit ltd should impose heavy penalties on fraudsters, review internal policies that regulate fraud cases, partners with law enforcement and investigation agencies and sensitize employees and customers on the implication of fraud before and after filling claims.

It was indicated that platinum credit ltd were likely to minimize fraud cases if they had understood the behaviour of their employees, sensitized employees on consequences of fraud, developments of forensic audit functions that are ICT compliant, engagement of external auditors to audit financial statements, developments of mechanisms that will enhance payment of claims, review of compensation policies and development of ethical code of ethics to govern employee behaviour issues

5.5 Limitations of the Study

Selecting platinum credit ltd was one of the weaknesses of the study because financial fraud is common vice in every organization. This challenge was minimized by the researcher suggesting

other studies to be conducted in other sectors to establish the effect of internal audit functions on fraud detection.

The researcher established that most of the respondents were occupied during the administration of the questionnaires. The challenge was overcome by administering questionnaires during weekends when employees were less occupied.

The researcher found it difficult to get some information from respondents due to misunderstanding of the questions. The challenge was overcome by clearly explaining the objective of the study to respondents related to fraud.

Time constraint was a major challenge to the researcher during data collection. This was overcome through administered the questionnaire using distributing the questionnaires and collecting them later on in order to give respondents enough time to respond to questions.

Inadequate cooperation from the respondents due to fear and victimization from the top management influenced the information collected. This challenge was overcome by explaining to the respondents the objective of the study and assuring the respondents of confidentiality and privacy of the information given.

Accessing secondary data of platinum credit ltd was a challenge to the researcher due to the sensitivity of the research topic. This challenge was overcome by seeking permission and a letter from the University to authorize the study.

5.6 Suggestion for Further Studies

It is strongly recommended that further research should be carried out to establish other internal audit functions on fraud detection among service organizations and other financial institutions.

Other studies should seek to investigate the effect on internal strategies on fraud prevention among service organizations. This study was confined to the service organizations in Uganda and its findings may not be applicable to other sectors therefore, it is recommended that the study is replicated in other sectors to establish the challenges of fraud detection and what measures would be taken by the firms to deal with the financial fraud

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APPENDICES

Appendix A. QUESTIONNAIRE

Dear respondent, I am **Mbatudde Gladys** a student of Uganda martyrs university pursuing a bachelors degree in business administration and management. I am conducting a study and this questionnaire is designed to collect data on **the effects of internal audit activities on fraud prevention in service organizations, a case study of platinum credit ltd Masaka branch** as a requirement for the award of bachelors' degree in business administration and management of Uganda Martyrs University. Kindly provide me with information on the above topic.

Your opinions are very important to this study. The data shall be used for academic purposes only and it will be treated with the confidentiality it deserves.

SECTION A: BACKGROUND INFORMATION ON THE RESPONDENT (Please tick in the appropriate Box)

Please answer the following questions about the general business climate in your organization in terms of how it operates, not how you would prefer it to be.

1. Gender : Male [] Female []

2. Level of Education:

Certificate []

Diploma []

Bachelors []

Post graduate []

Others (specify)

3. For how long have you served in your organization?

1-3 years []

4-6 years []

7-10 years []

4. Which department/section do you belong to?

Sales/ marketing []

Administration []

Accounts []

Please specify if others.....

PART B: INTERNAL CONTROL AND FRAUD PREVENTION

1. Is internal control being practiced in your organization?

Yes

No

If yes, list the contributions of internal controls towards fraud prevention in your organization.

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If No, give reasons why it is not practiced

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2. Please indicate by ticking your opinion by using the following scale.

Strongly agree (SA)	Agree (A)	Not sure (NS)	Disagree(D)	Strongly Disagree(SD)
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INTERNAL CONTROL	SA	A	NS	D	SD
It has ensured that organizational activities remain on track in relation to its goals and objectives.					
Internal control is the basis for prevention, detection and eradication of frauds in service organizations.					
It has ensured smooth and economic functioning of business entity.					
It has addressed identified business risks that threaten the achievement of organizational objectives.					
It has ensured that assets and records are safe guarded and created an environment in which efficiency and effectiveness is encouraged and monitored.					

PART C: AUDIT PLANNING AND FRAUD PREVENTION

1. Do auditors carry out audit planning in your organization?

Yes

No

If yes, how has audit planning helped to detect fraud and material errors in your organization?

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If No, give reasons how it has affected organization in detecting fraudulent practices.

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2. Please indicate by ticking your opinion by using the following scale.

Strongly agree (SA)	Agree (A)	Not sure (NS)	Disagree(D)	Strongly Disagree(SD)
------------------------	-----------	---------------	-------------	-----------------------

AUDIT PLANNING	SA	A	NS	D	SD
It has helped auditors to obtain sufficient evidence					

for the circumstances after audit work.					
It has facilitated auditors with knowledge to detect material misstatements in financial statements caused by fraud.					
It has enabled auditors to make optimal use of audit staff available so as to enable him /her conduct efficient audit in exhaustive manner.					

PART D: AUDIT TESTING AND FRAUD PREVENTION

1. Do audit testing being practiced in your organization?

Yes

No

If yes , what are its contributions towards detecting of fraud practices in your organization?

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If No, why is it not practiced ?

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2. Please indicate by ticking your opinion by using the following scale.

Strongly agree (SA)	Agree (A)	Not sure (NS)	Disagree(D)	Strongly Disagree(SD)
------------------------	-----------	---------------	-------------	-----------------------

Audit testing	SA	A	NS	D	SD
It has ensured that underlying risk is effectively managed.					
It has facilitated internal auditors to base conclusions and engagement results on appropriate analyses and evaluations.					
It has facilitated internal auditors to detect material misstatement or fraud related to transactions or account balances.					

General question.

In your opinion, how does internal audit activities prevent fraud practices in your organization?

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Thank you for your cooperation.

