**INTERNAL AUDIT AN EFFECTIVE TOOL FOR FRAUD CONTROL IN A MANUFACTURING ORGANIZATION**

**(A STUDY OF MICHELLE LABORATORY PLC)**

**BY**

**CHIMEOCHA GLORIA C.**

**U14/MSS/ACC/027**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**FACULTY OF MANAGEMENT SCIENCES**

**GODFREY OKOYE UNIVERSITY, UGWUOMU NIKE, ENUGU STATE**

**JULY, 2018**

**TITLE PAGE**

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**A PROJECT REPORT SUBMITTED TO THE**

**DEPARTMENT OF ACCOUNTING/FINANCE**

**FACULTY OF MANAGEMENT AND SOCIAL SCIENCES**

**GODFREY OKOYE UNIVERSITY, UGWUOMU – NIKE, ENUGU STATE**

**IN PARTIAL FULLFUILLMENT OF THE REQUIREMENT FOR THE AWARD OF BACHELOR OF SCIENCE (B.Sc.) DEGREE IN ACCOUNTING/FINANCE**

**SUPERVISOR: DR. J.I. UGWU**

**JULY, 2018**

**DECLARATION**

I, Chimeocha Gloria C. with registration number U14/MSS/ACC/027 is a bona fide student in the department of Accounting and Finance under the Faculty of Management and Social Sciences in Godfrey Okoye University. I would like to declare that the work entitled “Internal Audit an Effective tool for Fraud Control in a Manufacturing Organization (A study of Michelle Laboratory Plc)” submitted by me in partial fulfillment of the requirements for the Award of Bachelor of Science (B.Sc.) in Accounting is my original work and has not been submitted either in part of full for any other degree or diploma either in this or any other tertiary institution

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**Chimeocha, Gloria C. Date**

**CERTIFICATION**

This is to certify that this research entitled “Internal Audit an Effective tool for Fraud Control in a Manufacturing Organization (A study of Michelle Laboratory Plc)” was written by Chimeocha Gloria C. with registration Number U14/MSS/ACC/027 presented to the Department of Accounting and Finance of Godfrey Okoye University, Enugu has been assessed and approved for oral examination/defense by the department of Accounting/Finance, Godfrey Okoye University, Enugu.

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**External Examiner Date**

**Dedication**

This project work is dedicated to Almighty God for His infinite mercy and grace upon my life that aided my stay in the Higher Institution as well as the successful completion of this project, and to my lovely parents Mr. and Mrs. Ernest Chimeocha for their parental care and their financial support.

**ACKNOWLEDGEMENT**

First and foremost, my appreciation goes to God Almighty, who in His infinite mercies, love and protection sustained me throughout the duration of this study. Special appreciation goes to my supervisor, Dr. J. I. Ugwu for his effort, patience, guidance and constructive scrutiny that brought this work to its completion. I express my profound gratitude to My Head of Department, Dr. S. N. Udeh who handled all matters with appropriate care. Exceptional thanks goes to my amicable lecturers Mr. Odoh John, Mrs. Okoro V., Mr. Elias Agbo, Assoc. Prof. Inyama and Prof. Eyisi.

Also my special gratitude goes to my lovely parents, Mr. and Mrs. Ernest Chimeocha for their tremendous sacrifice and unlimited support both financially and otherwise. I cannot forget my lovely siblings, Barr. And Mrs. Chinenye Orji, Rev. Julius Ikeanumba, Miss. Joyce Chimeocha and Mr and Mrs. Eze for their love, prayers, encouragements and buoyancies.

Once more, I recognize the advice and support of Dr. Michael Owoh, Babatunde Abdulsammad, my dearest friend Dusu Chung Isaac from department of Biotechnology, Mokogwu Stella, Uzubuaku Ijeoma, Onuigbo Loveth, Nnabuenyi Daniel and to my lovely one time roommate Ibekwe Victoria for their care, advice and support towards the completion of this research work. I would not forget to acknowledge my wonderful colleagues, friends and well wishers, most especially my assistant graduates Mr. Emeka and Miss. Ogbu Oge, I appreciate you all, may God reward you all.

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**ABSTRACT**

*This study, internal audit an effective tool for fraud control in a manufacturing organization. The effectiveness of the internal audit were carefully examine and the aim of the study is to ascertain the contribution of internal audit in fraud prevention in a manufacturing organization, to evaluate the contribution of internal audit in fraud detection in a manufacturing organization, to evaluate the contribution of internal audit in fraud remediation in a manufacturing organization. The survey research design was adopted and a sample size of eight (8) was gotten using Taro Yamene’s 1964 formula out of the population of eight (8) staff in Michelle laboratory Enugu. In determining the number of questionnaire administered to the respondents, stratified random sampling and the kumar proportionate were adopted. The data for the study was gathered with a four point likert scale questionnaire. The study revealed that internal audit has statistical significance association on fraud prevention in manufacturing organization, also that internal audit has statistical significance association on fraud detection in manufacturing organization and finally, internal audit has no statistical significance association on fraud remediation in manufacturing organization. The study concludes the failure of the management to adopt the services of the internal auditor in an organization can lead to fraud, loss of finance and lack of accountability. The study recommends that since services of a qualified internal auditor has statistical association on fraud prevention, detection and remediation in manufacturing company, management should always adopt the services of the Internal auditors in the firm so as to ensure no financial leakages and accountability in the firm.*

**CHAPTER ONE**

**INTRODUCTION**

* 1. **Background to the study**

Fraud is the International distortion of financial statements or other records by a person (internal or external) to the organizational which is carried out to conceal the misappropriation of assets or otherwise for gain “(Adeniji 2004 and institute of chartered accountant Nigeria – ICAN 2006).

However, auditors have a significant role to play in the detection and prevention of fraud because they are not only agents of shareholders but their access to internal and external information makes them efficient monitor (Dyck, Morse & Zingales, 2008).The existence and in fact, the high incidence of fraud in company brings to mind the question of competence, skills, due care, honesty, and integrity of auditors in company or business enterprise, qualities are expected to be displayed by an auditor in every time in every circumstances (Olofin, 2005 & Agbaje, 2007).

Lorsase (2004) notes that when fraud occurs in work place, the question asked is “where were accountants and auditors? That an auditor has the responsibility for the prevention, detection, and reporting of fraud, and illegal acts and errors is one of the most controversial issues in auditing, and has been one of the most frequently debated areas amongst auditors, politicians, media, regulators and the public (Gay & Roger, 2002) However, there seems to be misconception that auditors duties are largely the preventing, detecting and reporting of fraud (Idris, 2009). The internal audit unit is vested with the power of independent checks, in order to access compliance with established rules and regulations of the company (Okoya, 2002).Despite the fact that audit exist in various company with internal control system in place, but the act of financial crime still continues e.g. fraud, irregularities and even breaches of other control and no any strong measures being taken to prevent such occurrence.

Auditors are primarily concerned about fraud as it relates to misstatement in the financial statement (Bells &Carcello, 2000). So, auditing has a greater impact in the control of fraud and financial irregularities in companies that make effective use of their auditing system .The study tends to identify financial report users’ perceptions of the extent of fraud in company and to determine their perceptions of the auditor’s responsibilities.

Moreover, according to the Institute of International Auditors (1991), the internal audit unit is expected to review the means of safeguarding assets and where appropriate, verify the existence of such assets. Financial control has concentrated on the cash out flow, purchasing procedures and accountability of budget holders for current expenditure on resources inputs (Mainoma, 2007) and (Buhari, 2001). Therefore, internal auditing furnishes authorities with analysis, appraisals, recommendations and information concerning all activities reviewed. The survival of every organization depends on it effective and efficient utilization of resources (both financial and non-financial).The internal audit unit is vested with the power of independent checks, in order to assess compliance with established rules and regulations of the organization (Okoya, 2002).

According to Thompson (2003), internal auditing should not be restricted to financial transaction only. Internal auditors can equally assist management by ensuring that adequate financial and management controls have been implemented and are operating effectively or by identifying the weakness in such system and making recommendations toward their improvement. These include among others; internal audit with which errors are more likely to be discovered in their early stages. Existence of assets is verified so as to protect the assets of the company, errors in account can be corrected early once detected by the internal auditors, its acts as moral influence on the staffs and promotes efficiency by compelling the officers to keep on their books of account entered up to date, a detailed examination of the financial account submitted by contractors is facilitated, cash disbursement, such as for wages and salaries, may be checked before they are cashed.

The responsible for ensuring that internal control is established in the organization lies with management. The internal audit is supposed and to be custodian of internal control by providing assurance to the management that the company has put in place adequate and effective internal control system, and must not hesitate to draw management’s attention to lapses observed in the control. A good and visible internal control system increases operational efficiency, thereby making it more difficult for the preparation of fraud (Mayo, 2003). Effective internal control requires; appropriate accounting procedure and system, division of duties I.e. separation of responsibilities, especially those of authorization, regular verification of supervision of each person’s work by their superior officers. Internal control in its broad sense includes all controls operated by an organization to facilitate its activities and improve its efficiency and productivity. It also includes all administrative controls designed to effect, supervise and check management policies and strategies within an organization such as work study, production control, marketing, selling and distribution, financial and accounting control. The main objective of internal auditing is to provide assurance to management that the internal control system in the company is sound in design and effective in operation. It also helps to achieve value for money (Momoh 2005).

Okwoli (2004) also shares the view that the present requirement of internal audit is not the detection of fraud and errors, but reviewing the system of internal control. This is because in private company, internal audit is meant to carry out an independent appraisal of the effectiveness of internal controls and other financial controls in such ministry. Norm Anton as cited in Daniel (1999), emphasizes the importance of internal audit by saying that ‘’without audit, no efficiency, no development. The growth of any economy depends to a large extent on the system of control adopted by the management and the success and sustenance of the internal control lies on internal auditing. The above observation underscores the importance of internal audit in every organization of the internal control to effect.

Organization all round the world be it financial or otherwise needs auditing for proper assessment of their financial statements. In order to achieve set out goals and objectives, resources must be properly managed to get the profound results needed. (Joe, 2013).

Auditing in the Nigerian organizational system is relevant hence financial management in any company leads to the success and growth of the company. Auditing as a tool for accountability for efficient and effective company administration is clear term study which will educate us on the importance of company audit and how it will affect the staff if mismanagement of fraud eventually occurs.

* 1. **Statement of the Problem**

Fraud is the use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets, and is unfortunately, much more common in private than some owners realize. It has really been the undoing of many unlucky businesses. Private companies are likely to be victims of internal fraud, even much more than their larger counterparts (conventional Companies) as owners tend to put blind faith in their employees. They also neglect to take proper precautionary measures against fraud, which can add to the cost of doing business. The problem is that the trust that many owners o private companies placed in their employees is not always justified.

Clearly, fraud is a pervasive corporate problem, affecting organizations across industries and sectors without regard to size. Because of fraud’s disastrous consequences, failure to put deterrent procedures in place could put a company out of business within days. Fraud prevention, then, is a defined program of proactive measures to avoid or mitigate fraud. Failing to address these issues places a company at a competitive disadvantage when fraud becomes a cost of doing business. The study therefore, wants to ascertain how internal audit contribute to effective fraud control in organizations.

* 1. **Objectives of the Study**

The main objective of the study is to examine the internal audit system in the operation in companies in Nigeria and evaluate the effectiveness of the system as a toll for fraud control.

The study also has its specific objectives as follows:

1. To ascertain the contribution of internal audit in fraud prevention in a manufacturing organization.
2. To evaluate the contribution of internal audit in fraud detection in a manufacturing organization.
3. To evaluate the contribution of internal audit in fraud remediation in a manufacturing organization.
   1. **Research Questions**

Based on the objectives, this study seeks to answer the following questions:

1. To what extent do internal audit contribute to fraud prevention in a manufacturing organization?
2. What is the contribution of internal audit to fraud detection in a manufacturing organization?
3. How does internal audit contribute to fraud remediation in a manufacturing organization?
   1. **Research Hypotheses**

This study is required to test the following:

1. H0: Internal audit does not contribute significantly to fraud prevention in a manufacturing organization.

H1: Internal audit contributes significantly to fraud prevention in a manufacturing organization.

1. H0: Internal audit does not contribute significantly to fraud detection in a manufacturing organization.

H1: Internal audit contributes significantly to fraud detection in a manufacturing organization.

1. H0: Internal audit does not contribute significantly to fraud remediation in a manufacturing organization.

H1: Internal audit contributes significantly to fraud remediation in a manufacturing organization.

**1.6 Significance of the study**

The work is very relevant in one way or the other to the Nigeria companying industry as a whole, primarily this study is designed for all those who may be interested in carrying out further study on internal audit system as it related to fraud prevention, detection and remediation in manufacturing organizations in Nigeria.

**Manufacturing Companies:** companies in Nigeria will derive great assistance from this research work in detecting fraud in their companies and improving their internal control system subsequently preventing and minimizing fraud. There is no need over-emphasizing the fact that if companies are able to reduce the incidence of fraud in their operation to the least level, there will be able operates on a more profitable ground.

**Shareholders:** They are the direct beneficiary of companies and they will get bonuses if the companies operate successfully. The use of internal audit system will reduce the risk of fraud and increase the company’s profit which will reflect on the dividends of the shareholders.

**Customers:** company customers deteriorating confidence on the companying industry will once more be restored and thereby help in building up good companying habit in Nigeria.

**Government:** The creation of an effective internal audit committee function can help a government establish accountability because it can focus specifically on issues related to fiscal accountability.

* 1. **Scope of the study**

This study concentrates solely on the manufacturing organizations and focuses on Michelle Laboratory Plc.

Empirical generalization will be made of other private organizations in Nigeria.

* 1. **Limitations of study**

A very detailed research work was not possible as a result of some limitations suffered by the work.

The major part of this is as a result of the secrecy of organizations in Nigeria. Organizations in Nigeria do not let out information to people easily especially researchers. This is because other people can make reference to their research work and use the information against the organization.

Other limitation composed on this study, is that of shortage of time and financial constraints. The time limit set for the submission of this project work was short and this made it impossible for a detailed research work to be carried out. These problems of time and finance account for the limitation of the sample size to only Michelle Laboratory Plc. in Enugu. However, through concerted effort I was able to finish the project without compromising the quality of output.

* 1. **Definition of terms**

It is very eminent to define some professional terms and language used in this work to make it easily understandable to interested readers of other disciplines.

**Audit:** Ajembi (1999) describe audit as an examination by an individual or a firm of a set of financial statement and to the underlying books and records which result, the auditing provides an opinion on the financial statement. Audit here refers to internal audit.

**Accountability:** This simply defined as the process of keeping and documenting all the relevant data of an event.

**Stewardship Account:** This is an account required of the stewards or agents to render to the person they are subjected to the management of a firm render stewardship account to the members of the boards of directors.

**Financial Statement:** this is a formal record of the financial activities and position of a business, person or other entity.

**Shareholders:** This is a person who owns a share in an organization or firm.

**Financial Irregularity:** This is the international distortion of the financial statement for whether purpose of misappropriation of fund.

**Compliance Audit:** This is a kind of audit method carried to ensure that all books and records are in agreement with the laid down procedures and regulations.

**CHAPTER TWO**

**LITERATURE REVIEW**

**2.0 INTRODUCTION**

This chapter reviews related literature under the following sub-headings:

Conceptual Framework

Empirical Review

Theoretical Framework

**2.1 Conceptual Framework**

**Concept of Fraud**

According to Adeniji (2004) and ICAN (2006), Fraud is an intentional act by one or more individuals among management, employees or third parties, which results in a misrepresentation of financial statements. Fraud can also be seen as the truth for the purpose of deception/manipulation to the financial detriment of an individual or an organization which also includes embezzlement, theft or any attempt to steal or unlawfully obtain, misuse or harm the asset of the organization, (Adeduro, 1998 and Bostley and Drover 1972). Fraud has increased considerably over the recent years and professionals believe this trend is likely to continue. According to Brink and Witt (1982), fraud is an ever present threat to the effective utilization of resources and it will always be an important concern of management. ISA 240 ‘The Auditor’s Responsibilities to consider Fraud in an Audit of Financial Statement (Revised)’ refers to fraud as ‘’an intentional act by one or more individuals among management, those charged with governance, employees or third parties involving the use of deception to obtain an unjust or illegal advantage’’. Aderibigbe and Dada (2007) defined fraud as a deliberate deceit planned and executed with the intent to deprive of whether the perpetrator benefits from his/her actions.

Weirich and Reinstein (2000 and Cited in Allyne& Howard 2005), define fraud as “international deception, cheating and stealing’’. Some common types of fraud include creating fictitious creditors, ‘’ghosts’’ on the payroll, falsifying cash sales, undeclared stock, making unauthorized ‘’write-offs’’, and claiming excessive or never-incurred expenses. Pollick (2006) regards fraud as a ‘’deliberate misrepresentation, which causes one to suffer damages, usually monetary losses’’.

Albrecht et al (1995 cited in Allyne & Howard, 2005) classified fraud into employee embezzlement, management fraud, investment scams, vendor fraud, customer fraud, and miscellaneous fraud. Fraud also involves complicated financial transactions conducted by white collar criminals, business professionals with specialized knowledge and criminal intent (Pollick 2006).

**Concept of Audit**

The word audit is derived from a Latin word "audire" which means "to hear". During the medieval times when manual book-keeping was prevalent, auditors in Britain used to hear the accounts read out for them and checked that the organisation's personnel were not negligent or fraudulent (Derek Mathew, 1890). Moyer (1951) identified that the most important duty of the auditor was to detect fraud. Chatfield (1974) documented that early United States auditing was viewed mainly as verification of bookkeeping detail.

An audit is a systematic and independent examination of books, accounts, statutory records, documents and vouchers of an organization to ascertain how far the financial statements as well as non-financial disclosures present a true and fair view of the concern (Power Michael, 1999). It also attempts to ensure that the books of accounts are properly maintained by the concern as required by law. Auditing has become such a ubiquitous phenomenon in the corporate and the public sector that academics started identifying an "Audit Society" (Power Michael, 1999). The auditor perceives and recognises the propositions before them for examination, obtains evidence, evaluates the same and formulates an opinion on the basis of his judgement which is communicated through their audit report.

Any subject matter may be audited. Auditing is a safeguard measure since ancient times (Loeb & Shamoo,1989). Audits provide third party assurance to various stakeholders that the subject matter is free from material misstatement. The term is most frequently applied to audits of the financial information relating to a legal person. Other areas which are commonly audited include: secretarial & compliance audit, internal controls, quality management, project management, water management, and energy conservation.

As a result of an audit, stakeholders may effectively evaluate and improve the effectiveness of risk management, control, and the governance process over the subject matter.

**2.1.1 Auditors’ responsibilities in fraud detection**

The role of auditors has not been well defined from inception (Alleyne & Howard 2005). Porter (1997) reviews the historical development of the auditors’ duty to detect and report fraud over the centuries. Her study shows that there is an evaluation of auditing practices and shift in auditing paradigm through a number of stages. Poter study reveals that the primary objective of an audit in the pre-1920’s phase was to uncover fraud. However, by the 1930’s, the primary objective of an audit had changed to verification of accounts. This is most likely due to the increase in size and volume of companies’ transactions which in turn made it unlikely that auditors could examine all transactions. During this period, the auditing profession began to management. In addition, management should also have implemented appropriate internal control systems to prevent fraud in their companies.

In the 1960’s, the media and public were generally unhappy that auditors were refusing to accept the duties of fraud detection. The usefulness of an audit was frequently called into question as they generally failed to uncover fraud. However, despite the criticism, auditors continued to minimize the importance of their role in detecting fraud by stressing that such duty rested with the management. Due to the advancement of technology in the 80’s, the complexity and volume of fraud have posed severe problems for businesses. Poter (1997) asserts that, even though the case law has determined that in some circumstances auditors have a duty to detect fraud, the courts have attempted to maintain the auditors’ duties within reasonable limits. In contrast, Boynton et al (2005) argue that since the fall of Enron, auditing standards have been revamped to re-emphasize the auditors’ responsibilities to detect fraud. Their assertion is based on ISA 315 ‘Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement’ and Internal Audit Standards (IAS) 240 ‘The Auditor’s Responsibilities to consider Fraud in an Audit of Financial Statement (Revised). ISA 240 deals with auditor’s responsibilities relating to fraud in an audit of financial statements, Identifying and assessing the risks of material misstatement due to fraud. It have been effective on or 15 December 2009  
ISA 240 objectives are; To identify and assess the risks of material misstatement of the financial statements due to fraud, To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

**2.1.2 Auditors’ Responsibilities in Fraud Prevention**

The internal audit according to (Boulescu, 2003) refers to a permanent review of the economic activity of an entity; an independent activity of assessing on behalf of the economic entity’s management that involves examining the financial, accounting, and other kind of operations concerning the services as a whole; an evaluation of tasks and conformity of the accounting entries, reports, assets, capitals, and results; or an attestation or certification of financial accounting documents. The responsibilities concerning fraud prevention within an organisation are divided between the executive board, the audit committee, and the internal audit (Munteanu, Zuca & Zuca, 2010). Firstly, the executive board has the final responsibility for implementing the mechanisms of detecting and preventing a fraud early on. The members of the executive board are those who should offer explanations in case of discovering certain cases of fraud. According to the National Standard on Audit 240 ‘Fraud and Error’ (NSA 240), the executive board is responsible for the prevention and detection of fraud and error by applying and maintaining appropriate accounting and internal control systems. These systems can also reduce the possibility that fraud and error occur, but they cannot completely eliminate them. Secondly, the audit committee has the role of supervising the management of fraud risks and actively monitoring the efforts of the executive board against fraud committing. Thirdly, the internal audit represents an efficient line of defence against fraud, having a role both in monitoring risks, as well as in fraud prevention and detection. The internal audit constitutes a tool at the disposal of the audit committee, the only one able to independently assess fraud risks and anti-fraud measures implemented by the executive board. In their current activities, the internal auditors must: have enough knowledge in order to identify the signs of a possible fraud; be attentive of the cases that involve a risk of fraud; and appreciate the necessity to further investigate a case, inform the responsible persons from an organization and take actions to eliminate or reduce the possibility of fraud occurrence. According to the National Standard on Audit 240 ‘Fraud and Error’ (NSA 240), the auditor is not responsible and cannot be held accountable of fraud and error prevention. Furthermore, conducting an annual audit can serve as a means to reduce the possibility for fraud and error to occur. In practice, it often happens that when the audit points out a case of possible fraud or error, the responsible entity does not expose the situation and tries to ‘clean up’ using their own means, usually by removing from within the entity the persons responsible for the possible fraud or covering the losses from internal resources (rarely recovered from the guilty parties), all in order to not tarnish their market prestige and reliability. There were quite a considerable number of cases when following a scandal in the press, the managers of entities where frauds occurred were forced to admit in front of the public opinion that they had knowledge (at least partially) of the respective fraud discovered after an internal audit and that they acted to remove the losses and the wrongdoers, preferring to keep quiet precisely for protecting their entity.

There is a clear distinction between internal auditors and specialists in fraud investigation, both from the point of view of their roles and responsibilities, as well as in the case of their professional training and specialty. The role of the internal auditor depends, of course, on his professional training and practical abilities, as well. In practice, the role of the internal audit can include a varied set of responsibilities: supporting the management in establishing auditable anti-fraud mechanisms; facilitating the assessment of fraud and reputational risks at the level of an organization and its business process; assessing the connections between fraud risks and internal controls; auditing frauds; supporting the specialists in fraud investigation; supporting the efforts to rectify deficiencies; and reporting to the audit committee the problems regarding anti-fraud mechanisms, fraud and reputational risks assessment, or fraud cases and suspicions (Petracu, 2012).

The internal audit cannot completely prevent fraud, but it can adapt its work method and procedures so that it can increase the chances to identify and correctly interpret the signs of fraud (Munteanu, Zuca & Zuca, 2010).

The internal auditors must have a superior level of theoretical knowledge and practical experience in order to successfully accomplish their role. They must know the possible fraud schemes and scenarios that are specific to an organisation’s field of work (for example insurances, retail, telecommunications, etc.) and be able to recognise the signs of a possible fraud scheme.

For the implementation of all these above-mentioned, there is a considerable need to invest in the specialization of the internal auditors by financing courses in certain fields. Other organisations contact external specialists (on the basis of a service contract) in order to conduct the task of auditing, thinking that in this way they receive high-level specialists at a relative modest price.

**2.1.3 Auditors’ responsibilities in fraud Remediation**

Auditors can perform their fraud remediation responsibilities by; Ensuring that senior management is taking necessary corrective actions to address the findings and recommendations of internal auditors and external auditors in a timely manner; addressing control weaknesses, non-compliance with policies, laws and regulations and other problems identified by internal auditors and external auditors, and ensuring that deficiencies identified by supervisory authorities related to the internal audit function are remedied within an appropriate time frame and that progress of necessary corrective actions are reported to the board of directors.

According to Internal Audit Standard (ISA) 240 requirements are;

1. The auditor shall maintain professional skepticism throughout the audit.  
   Where responses to inquiries of management or those charged with governance are inconsistent, the auditor shall investigate the inconsistencies.
2. Discuss among team members; How and where the entity’s financial statements may be susceptible to material misstatement due to fraud including how fraud might occur.
3. Make inquiries of management about;

* Management assessment of risk of that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
* Management’s process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist.
* Management’s communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
* Management’s communication, if any, to employees regarding its views on business practices and ethical behavior.
* Management, internal audit and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity.
* Unless all of those charged with governance are involved in managing the entity, the auditor shall make inquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. These inquiries are made in part to corroborate the responses to the inquiries of management.
* The auditor shall obtain an understanding of how those charged with governance exercise oversight of management’s processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
* Auditor shall evaluate whether unusual or unexpected relationships that have been identified in performing analytical procedures, including those related to revenue accounts, may indicate risks of material misstatement due to fraud.
* The auditor shall evaluate whether the information obtained from the other risk assessment procedures and related activities performed indicates that one or more fraud risk factors are present.
* When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.
* In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall;
* Assign and supervise personnel.
* Evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management’s effort to manage earnings.
* Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures.
* Auditor shall design and perform procedures that are responsive to assessed risk.
* Auditor shall perform following procedure due to risk of Management override of control;
* Test the appropriateness of journal entries, for end of period and throughout period and inquire about any unusual transaction.
* Review accounting estimates for biases by evaluation and retrospective review.
* For significant transaction outside the normal course of business, evaluate the business rationale.

**2.2 Empirical Review**

Prior to this study a lot of research works have been conducted by other researchers related to this topic; some of such works have been reviewed below

Adeniji (2004), examined the impact of internal audit on fraud detection and prevention with power Holding Company of Nigeria as a case study. Information and data were collected through the use of research questionnaires and company’s financial statement. The research questionnaires distributed were 30 of which 23 were completed and returned by the respondents. The hypotheses formulated were tested using chi-square statistical tool. The study reveals that internal audit plays an important role in public sectors.

Onyinlola (2010) investigated the role of auditors in the detection, prevention and reporting of fraud. Data were obtained from 184 respondents in Nigeria. The findings revealed that the respondents are very concerned about the problem of fraud. In addition, the respondents placed very high expectation on auditors’ duties on fraud prevention and detection. This perception is in contrast with the stated primary objective of an audit, as stipulated in ISA 200, which required auditors to form an opinion on the financial statements, but not of fraud detection.

Olowolaju (2013) examined the role of internal audit in controlling errors, irregularities and fraud in corporate organizations. The various types of errors, irregularities, frauds as well as the problems of internal audit were discussed. Questionnaires were used to collect data from respondents. Questionnaires were distributed to 150 organisations in South West of Nigeria of which 106 returned the questionnaires. 5-Point Likert Rating was used to analyse the findings. The study revealed that the existence of internal audit department in a business organization is a good tool of corporate control of errors, irregularities and fraud.

Sorunke (2016) conducted a research to evaluate the effectiveness of the internal audit unit on fraud control in local government administration in Osun State. In the research, two hypotheses were formulated and tested. The primary data was obtained through the administration of questionnaires, interview and actual observation. It was supplemented with secondary data. The findings of the research indicate that the Internal Audit unit did not fulfill and in reality does not contribute significantly to fraud prevention and control in local government administration in Osun State. The study thus recommends total overhauling of the internal audit unit in the local government administration in Osun State.

Njoki (2016), conducted a study aimed at establishing the effect of internal audit functions on fraud detection among insurance companies operating in Kenya. The objective of the study was to establish the effect of Proactive Fraud Audit, Compliance to Policies, Risk Management, Control of Operation and Financial Reporting on fraud detection among insurance companies in Kenya. The study adopted a descriptive research designs to establish the statistical relationship between variables of the study. The study adopted a census approach where information was collected from all the 41 Insurance companies in Kenya. The primary data was collected using a structured questionnaire consisting of close-ended and open-ended questions. The analysis was done with the aid of Statistical Packages for Social Sciences (SPSS Version21). Data was analyzed using descriptive statistics and t-test was used in testing the significance of the effect between dependent variables and independent variables at 5% level of significance. The analyzed data was presented in tables. Multiple regression analysis was used to determine the statistical relationship between variables. It was established that there was a statistical relationship between Proactive Fraud Audit, Compliance to Policies, Risk Management, Control of Operation and Financial Reporting and fraud detection among insurance companies in Kenya. It was concluded that insurance companies were likely to gain competitive edge in the changing business environment if only they developed proactive fraud audit systems, compliance systems, risk management systems, internal control systems and financial reporting systems. It was recommended by the study that insurance companies in Kenya should recognize the need of sensitizing employees and customers on the consequences of fraud, train employees on fraud detection in systems, develop risk management systems and review internal control systems to promote the spirit of transparency and accountability.

Onoja (2015), analyzed the Internal Audit Techniques and Fraud Prevention in Bauchi State Local Government Councils. The data for the study were collected from both the primary and secondary sources. The primary sources data were collected from the thirteen (13) local governments internal audit units through self-administered questionnaires to the sample size of the study. The secondary sources were documents from Bauchi state ministry for local government affairs. Several statistical tools were used including tables, simple percentages, Chi-square and Pearson Product Moment Correlation Coefficient to analyze the data and test the null hypotheses formulated. The study revealed that the internal audit unit at local government put necessary measures to prevent fraud but lack total independent freedom to carry out their function effectively. The paper concludes that The internal audit units at local government level in Bauchi state are performing the function of fraud prevention and the internal audit techniques/procedures capable to prevent any type of fraud was effective. It was discovered that internal audit unit at local governments’ level in Bauchi state are not independent, and this affected their functions. The study recommends among other things that, Bauchi state government through House of Assembly should enact laws/legislation that will grant internal audit unit autonomy to discharge their functions. Effective internal audit techniques/procedures capable of preventing fraud should be installed by the councils and that adequate measures and control should be put in place.

**2.3 Theoretical framework**

This section discusses the theories on which this study is anchored. Theories are used by scholars when performing research studies to form a foundation for the parameters, or boundaries of a study. This study is grounded on Contingency theory.

**2.3.1 Contingency Theory**

The contingency theory of organisations as rational entities capable and willing to make internal changes to achieve a technical fit between environment and structure as argued by Byars and Rue (2004), the goal of an audit is to test reliability of a company’s information, policies, practices and procedures. Government regulations require that certain financial institutions undergo independent financial audits, but industry standards can mandate audits in other areas such as safety and technology. Auditors require access to documents, systems, policies and procedures to manage an audit.

According to Draft (2010), audit teams may begin the process with meetings where they gather risk and control awareness, after which the field work begins. During the audit process, auditors perform substantive procedures and test controls. The audit sub processes, particularly in planning and field work, include contingencies such as business type, employee skill level, applicable laws, available audit workforce, available technology and systems, and deadline.

Draft (2010) in his book wrote that contingency means one thing depends on other things and contingency theory means: it depends. Audit functions are task-oriented and can loosely structure. The functions also can vary considerably, depending on the area of a company under audit and the type of business model, so auditors must carefully manage their inspections and take variables into account to get the job done. The contingency theory also can be applied to an audit team’s structure. Typically, audit team managers receive audit projects (Draft, 2010). They creates adhoc audit teams for the projects, selecting auditors based on expertise and experience in the subject areas, and on auditor availability, all of which add up to contingencies for any given audits projects. Audits teams use a mix of structure and contingency to get the output rolling quickly.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

**3.1 Introduction**

This section concerns itself on the investigator’s scope of procedural strategies to be employed in the research. These include; research design, sources of data collection, tools for data collection, the population of the study, validity and reliability of the data and test instruments, data analysis technique.

**3.2 Research Design**

This study adopted a survey research design to answer the research questions of this study. The researcher selected a survey research design since primary data are collected using questionnaire from which the hypotheses were tested.

**3.3 Sources of Data Collection**

**Primary Source of Data**

These are original data collected basically for the purposes of the problem under investigation. According to Uzoagulu (1998), it contains the data originally assembled by the person who actually observed the phenomenon. Primary data mainly come from direct observation of event, manipulation of variables, contrivance of research situations including performance experiments and responses to questionnaire. Therefore, in this study data were obtained through distributed questionnaires designed for this purpose. In addition, oral interview were conducted briefly to supplement the information derived from the questionnaire. This is aimed at reducing the rigidity associated with the designed questionnaire and also to give the respondents the opportunity of supplying that information that the structured questionnaire did not accommodate.

**3.4 Tools for Data Collection**

The generic tools for data collection are questionnaires and interviews. A brief description of each shall be made hereunder as follows:

(a) **Questionnaire:** A Questionnaire is a list of question designed to elicit information from specified target respondents. This, they do, by filling in answers in spaces provided for that purpose. This is the most widely used tool especially for surveys covering a wide range of sample population. This is a set of questions relating to the aims and objectives of the research study to which the respondents are required to answer by writing in their responses. It is usually used when factual information is desired about the past, present and anticipated event and also the prevailing conditions and practices.

Questionnaire were designed into dichotomized multiple choice questions that gave the respondent the opportunity to answer either “yes”, “No”, undecided or to choosing from a range of answers, (Nwadozie and Akuezuilo, 2003). Questionnaires were channeled to staffs at Michelle laboratory PLC.

(b) **Oral interviews:** This is a question and answer situation between the researcher and the respondent with a view to eliciting relevant data for the study being carried out. Interviews could be done between the interviewer and the interviewee on one-on-one basis. It could also take place between the interviewer and a group of respondents. In this study, the structural interview was prepared for workers at Michelle laboratory PLC.

**3.5 Population of the Study**

The population of the study consist some staff (workers) at Michelle laboratory Tinkers corner, Emene, Enugu State specifically the accountants and senior administrative management staff. However, there are four accountants and four senior administrative management staff working at Michelle Laboratory as at the time this study was carried out.

Therefore the desired sample size of this study is 8 correspondents.

**3.6 Sample and Sampling Techniques**

Sampling enables us to be cost effective and cost efficient in our research, that is spending less in terms of time, money, energy and other resources (Nnayelugo 2001) A simple randomly sampling techniques is used in different Strata to select actual respondent.

A scientific means or statistical tools where used to determine the sample size of the study. Taro Yamane (1964) used this formula for finite population as



Where: n= Desired sample size

N= the entire population

e= level of significance or limit of tolerable error assumed to be 5% or 0.05

I= unit, constant figure

Therefore

N=

n= 

n= 

n= 7.84

n= 8

**3.7 Instrumentations**

A questionnaire requiring subjects not to disclose their identity was used to collect data from staffs. The questionnaires were structured questions. The researcher also used questionnaires in order to uphold the confidentiality of the respondents and also in order to save time. The study also used structured interview schedules to collect information from staffs.

The procedure for data collection was being as follows: Permission was requested from the laboratory management showing that the study is for academic purposes. Typed questionnaires were hand delivered to the subjects. The subjects were instructed not to reveal their identity and were assured that the information given was purely for research purpose and would not affect them individually.

**3.8 Reliability and Validity of the data and test Instruments**

Reliability of the instruments was carried out in order to find out whether the measures of the research instrument yield the same results on other occasions (Mugenda & Mugenda, 2008) Therefore, to ensure reliability, this study used Test-restest reliability method to measure the stability and reliability of the study. Test-retest reliability is a measure of reliability obtained by administering the same test twice over a period of time to a group of individuals. The scores from time 1 and time 2 can then be correlated in order to evaluate the test for stability over time.

Validity is the degree to which the empirical measure or several measures of the concept accurately measure the concept (Kothari, 2008). It is essentially concerned with establishing whether the questionnaire content is measuring what it purports to measure. For the purpose of this study the content validity was done through usual face and content validity usually done by the supervisor.

**3.9 Data analysis technique**

The t- test was employed in analysis of data gathered for the study of the effect of organizational challenges facing owners of medium enterprises in a recessive business environment in Enugu metropolis

The test statistic is given by the formula

T=∑d

N∑d**2** – (∑d)**2**

N-1

D= Difference between each paired observation

d**2**= the square of difference between each paired observation

N= the number of paired observation

∑= the usual stigma notation

N-1 = the degree of freedom

**DECISION RULE**

If the probability (or significant) of the t-calculated is less than 0.05, we accept the alternative hypothesis but if otherwise, we then should accept the null hypothesis

**CHAPTER FOUR**

**4.0 DATA PRESENTATION AND ANALYSIS OF RESULTS**

This chapter deals with the presentation, analysis and interpretation of data collected from the respondents in the course of carrying out the research. The responses were converted into scores and percentage distribution.

**4.1 Presentation of data**

This section deals with the analysis of the responses from the staff of Michelle Laboratory P.L.C in Enugu state. The researcher administered 8 copies of the questionnaire of which all the copies were returned, therefore all the copies were found useful.

**4.2 ANALYSIS OF DATA**

Descriptive statistics was used to summarize the demographic information and the research question in this study while the hypothesis was tested using t-test analysis

**4.3 TEST OF HYPOTHESES**

This section is concerned with the testing of hypotheses earlier stated. In doing this, t-test was used. A test of hypotheses help to decide which of the contradictory claims is correct. It acts as guide through the research work in order to draw a logical or empirical conclusion.

**Decision Rule**

If the calculated value is greater than the critical value, we reject the null hypothesis or accept the null hypothesis if the calculated value is less than the critical value.

**Table: 4.3.1**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **sex** | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | male | 4 | 50.0 | 50.0 | 50.0 |
| female | 4 | 50.0 | 50.0 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

Table 4.3.1 which is descriptive table of values showing the sex distribution of the respondents, from the result, it can be ascertain that 4(50%) of the respondents are male, while 4 (50%) of the respondents are female. Hence we conclude that the number of male and female respondents are equal.

**Table: 4.3.2**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Marital status** | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | single | 3 | 37.5 | 37.5 | 37.5 |
| married | 5 | 62.5 | 62.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

Table 4.3.2 The table of values above shows the marital status of the respondents, from the result, the frequency of the respondents who are single are 3(37.5%) whereas the frequency of the respondents who are married are 5(62.5%). Hence we conclude that majority of the respondents are married.

**Table 4.3.3**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Age** | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | less than 25 | 7 | 87.5 | 50.0 | 50.0 |
| 26-50 | 3 | 37.5 | 50.0 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

From the table 4.3.3 of descriptive values on the age of the respondents, from the result, the respondents with their age less than 25 years are 7(87.5%) whereas those with age between the bracket of 26-50 years are 3(37.5%), hence we conclude that the respondents with the age bracket of less than 25 years are higher.

**Table 4.3.4**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Experience** | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | less than 10 years | 4 | 50.0 | 50.0 | 50.0 |
| 11-20 | 2 | 25.0 | 25.0 | 75.0 |
| more than 21 | 2 | 25.0 | 25.0 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

Table 4.3.4 which is descriptive table of values showing the experience distribution of the respondents, from the result, it can be ascertain that 4(50%) of the respondents have a working experience below 10years, those with the working experience between the age bracket of 11-20 are 2(25%) and those with the working experience more than 21 years are 2(25%). Hence we conclude that majority of the respondents have a working experience between the age bracket less than 10 years.

**Table 4.3.5**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Qualification** | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Bachelor | 7 | 87.5 | 87.5 | 87.5 |
| Master | 1 | 12.5 | 12.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

Table 4.3.5 which is descriptive table of values showing the qualification distribution of the respondents, from the result, it can be ascertain that 7(87.5%) of the respondents are bachelors degree, while 1(12.5%) of the respondents have masters degree. Hence we conclude that majority of the respondents have bachelor degree.

**Table 4.3.6**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Position in the organization** | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | management administrative staff | 5 | 62.5 | 62.5 | 62.5 |
| Accountant | 3 | 37.5 | 37.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

Table 4.3.6 which is descriptive table of values showing the position of the respondents in the organization, from the result, management administrative are 5(62.5), whereas the respondents who are accountants are 3(37.5%). Hence we conclude that majority of the respondents are management administrative.

**Table 4.3.7**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Providing internal audit increases the probability of fraud discovery** | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 5 | 62.5 | 62.5 | 62.5 |
| agree | 1 | 12.5 | 12.5 | 75.0 |
| disagree | 1 | 12.5 | 12.5 | 87.5 |
| strongly disagree | 1 | 12.5 | 12.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

The above table 4.3.7 shows the respondents opinion on if providing internal audit increases the probability of fraud discovery, it can be ascertain that 5 (62.5%) affirmed strongly agree, 1(12.5%) affirmed agree, 1(12.5%) affirmed disagree, 1(12.5%) affirmed strongly disagree. From the result, majority of the respondents affirmed strongly agree. Hence we conclude that providing internal audits increases the probability of fraud discovery.

**Table 4.3.8**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Review of generated financial reports that compares budgets to actual financial activities by appropriate management prevents fraudulent activities** | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 4 | 50.0 | 50.0 | 50.0 |
| agree | 1 | 12.5 | 12.5 | 62.5 |
| disagree | 1 | 12.5 | 12.5 | 75.0 |
| strongly disagree | 2 | 25.0 | 25.0 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

The table 4.3.8 above shows the respondents opinion on activities by appropriate management prevents fraudulent activities, it can be ascertain that 4 (50%) affirmed strongly agree, 1(12.5%) affirmed agree, 1(12.5%) affirmed disagree, 2(25%) affirmed strongly disagree. From the result, majority of the respondents affirmed strongly agree. Hence we conclude that activities by appropriate management prevents fraudulent activities.

**Table 4.3.9**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Provision of internal auditors increases the probability of problem discovery** | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 3 | 37.5 | 37.5 | 37.5 |
| agree | 3 | 37.5 | 37.5 | 75.0 |
| disagree | 1 | 12.5 | 12.5 | 87.5 |
| strongly disagree | 1 | 12.5 | 12.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

The above table 4.3.9 shows the respondents opinion on provision of internal auditors increases the probability of problem discovery, it can be ascertain that 3 (37.5%) affirmed strongly agree, 3(37.5%) affirmed agree, 1(12.5%) affirmed disagree, 1(12.5%) affirmed strongly disagree. From the result, majority of the respondents affirmed strongly agree. Hence we conclude that provision of internal auditors increases the probability of problem discovery.

**Table 4.3.10**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Performance of risk assessment by internal auditors prevent fraudulent activities** | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 3 | 37.5 | 37.5 | 37.5 |
| agree | 2 | 25.0 | 25.0 | 62.5 |
| disagree | 2 | 25.0 | 25.0 | 87.5 |
| strongly disagree | 1 | 12.5 | 12.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

The above table 4.3.10 shows the respondents opinion on performance of risk assessment by internal auditors prevent fraudulent activities, it can be ascertain that 3 (37.5%) affirmed strongly agree, 2(25%) affirmed agree, 2(25%) affirmed disagree, 1(12.5%) affirmed strongly disagree. From the result, majority of the respondents affirmed strongly agree. Hence we conclude that performance of risk assessment by internal auditors prevent fraudulent activities.

**Table 4.3.11**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Manufacturing organization with internal auditors detects fraud relatively easier than organizations without internal auditors** | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 4 | 50.0 | 50.0 | 50.0 |
| agree | 2 | 25.0 | 25.0 | 75.0 |
| disagree | 1 | 12.5 | 12.5 | 87.5 |
| strongly disagree | 1 | 12.5 | 12.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

The above table 4.3.11 shows the respondents opinion on manufacturing organization with internal auditors detects fraud relatively easier than organizations without internal auditors, it can be ascertain that 4 (50%) affirmed strongly agree, 2(25%) affirmed agree, 1(12.5%) affirmed disagree, 1(12.5%) affirmed strongly disagree. From the result, majority of the respondents affirmed strongly agree. Hence we conclude that manufacturing organization with internal auditors detect fraud relatively easier than organizations without internal auditors.

**Table 4.3.12**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Provision of internal audit cause detection of fictitious assets** | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 4 | 50.0 | 50.0 | 50.0 |
| agree | 1 | 12.5 | 12.5 | 62.5 |
| disagree | 1 | 12.5 | 12.5 | 75.0 |
| strongly disagree | 2 | 25.0 | 25.0 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

The above table 4.3.12 shows the respondents opinion on provision of internal audit cause detection of fictitious assets, it can be ascertain that 4 (50%) affirmed strongly agree, 1(12.5%) affirmed agree, 1(12.5%) affirmed disagree, 2(25%) affirmed strongly disagree. From the result, majority of the respondents affirmed strongly agree. Hence we conclude that provision of internal audit cause detection of fictious assets.

**Table 4.3.13**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Providing the internal audits causes detection of equity frauds** | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 3 | 37.5 | 37.5 | 37.5 |
| agree | 2 | 25.0 | 25.0 | 62.5 |
| disagree | 2 | 25.0 | 25.0 | 87.5 |
| strongly disagree | 1 | 12.5 | 12.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

The table 4.3.13 shows the respondents opinion on activities by appropriate management prevents fraudulent activities, it can be ascertain that 3 (37.5%) affirmed strongly agree, 2(25%) affirmed agree, 2(25%) affirmed disagree, 1(12.5%) affirmed strongly disagree. From the result, majority of the respondents affirmed strongly agree. Hence we conclude that providing the internal audits causes detection of equity frauds.

**Table 4.3.14**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Providing the internal audit causes detecting fictitious expenses** | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 2 | 25.0 | 25.0 | 25.0 |
| agree | 4 | 50.0 | 50.0 | 75.0 |
| disagree | 1 | 12.5 | 12.5 | 87.5 |
| strongly disagree | 1 | 12.5 | 12.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

The table 4.3.14 shows the respondents opinion on providing the internal audit causes detecting fictitious expenses, it can be ascertain that 2 (25%) affirmed strongly agree, 4(50%) affirmed agree, 1(12.5%) affirmed disagree, 1(12.5%) affirmed strongly disagree. From the result, majority of the respondents affirmed agree. Hence we conclude that activities providing the internal audit causes detecting fictitious expenses.

**Table 4.3.15**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Assessment value of loss to fraud** | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 5 | 62.5 | 62.5 | 62.5 |
| agree | 1 | 12.5 | 12.5 | 75.0 |
| disagree | 1 | 12.5 | 12.5 | 87.5 |
| strongly disagree | 1 | 12.5 | 12.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

The table 4.3.15 shows the respondents opinion on assessment value of loss to fraud, it can be ascertain that 5 (62.5%) affirmed strongly agree, 1(12.5%) affirmed agree, 1(12.5%) affirmed disagree, 1(12.5%) affirmed strongly disagree. From the result, majority of the respondents affirmed strongly agree. Hence we conclude that assessment value of loss to fraud.

Table 4.3.16

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Compensation payable to victims of fraud** | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 3 | 37.5 | 37.5 | 37.5 |
| agree | 3 | 37.5 | 37.5 | 75.0 |
| disagree | 1 | 12.5 | 12.5 | 87.5 |
| strongly disagree | 1 | 12.5 | 12.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

The table 4.3.16 shows the respondents opinion on compensation payable to victims of fraud, it can be ascertain that 3 (37.5%) affirmed strongly agree, 3(37.5%) affirmed agree, 1(12.5%) affirmed disagree, 1(12.5%) affirmed strongly disagree. From the result, majority of the respondents affirmed strongly agree and agree. Hence we conclude that compensation payable to fraud reduces fraud in an organization.

**Table 4.3.17**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Measuresto reduce impact of fraud** | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 3 | 37.5 | 37.5 | 37.5 |
| agree | 2 | 25.0 | 25.0 | 62.5 |
| disagree | 2 | 25.0 | 25.0 | 87.5 |
| strongly disagree | 1 | 12.5 | 12.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

The table 4.3.17 shows the respondents opinion on measures to reduce impact of fraud, it can be ascertain that 3 (37.5%) affirmed strongly agree, 2(25%) affirmed agree, 2(25%) affirmed disagree, 1(12.5%) affirmed strongly disagree. From the result, majority of the respondents affirmed strongly agree. Hence we conclude that measures to reduces impact of fraud.

Table 4.3.18

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Punishments to culprits of fraud** | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | strongly agree | 2 | 25.0 | 25.0 | 25.0 |
| agree | 3 | 37.5 | 37.5 | 62.5 |
| disagree | 2 | 25.0 | 25.0 | 87.5 |
| strongly disagree | 1 | 12.5 | 12.5 | 100.0 |
| Total | 8 | 100.0 | 100.0 |  |

The table 4.3.18 shows the respondents opinion on punishment to culprits of fraud, it can be ascertain that 2 (25%) affirmed strongly agree, 3(37.5%) affirmed agree, 2(25%) affirmed disagree, 1(12.5%) affirmed strongly disagree. From the result, majority of the respondents affirmed agree. Hence we conclude that majority of the respondents affirmed that punishment to culprits of fraud reduces fraud.

**Hypothesis One**

**Ho:** Internal audit does not contribute significantly to fraud prevention in a manufacturing organization. The analysis was done using questions 1 – 4 in the questionnaire. See appendix 1

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **internal audit \* fraud prevention Crosstabulation** | | | | | |
|  | | | fraud prevention | | Total |
| single | married |
| internal audit | male | Count | 3 | 1 | 4 |
| % within internal audit | 75.0% | 25.0% | 100.0% |
| % within fraud prevention | 100.0% | 20.0% | 50.0% |
| % of Total | 37.5% | 12.5% | 50.0% |
| female | Count | 0 | 4 | 4 |
| % within internal audit | 0.0% | 100.0% | 100.0% |
| % within fraud prevention | 0.0% | 80.0% | 50.0% |
| % of Total | 0.0% | 50.0% | 50.0% |
| Total | | Count | 3 | 5 | 8 |
| % within internal audit | 37.5% | 62.5% | 100.0% |
| % within fraud prevention | 100.0% | 100.0% | 100.0% |
| % of Total | 37.5% | 62.5% | 100.0% |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Chi-Square Tests** | | | | | |
|  | Value | Df | Asymp. Sig. (2-sided) | Exact Sig. (2-sided) | Exact Sig. (1-sided) |
| Pearson Chi-Square | 0.021a | 1 | .028 |  |  |
| Continuity Correctionb | 2.133 | 1 | .144 |  |  |
| Likelihood Ratio | 6.086 | 1 | .014 |  |  |
| Fisher's Exact Test |  |  |  | .143 | .071 |
| Linear-by-Linear Association | 4.200 | 1 | .040 |  |  |
| N of Valid Cases | 8 |  |  |  |  |
| a. 0 cells (100.0%) have expected count less than 5. The minimum expected count is 1.50. | | | | | |
| b. Computed only for a 2x2 table | | | | | |

**Decision Rule**

The probability value of the Pearson chi-square is (0.021) which is less than the 5% (0.05) percent level of significance on the average, hence we accept Alternate hypotheses (H1), and conclude that internal audit has statistical significance association on fraud prevention in manufacturing organization.

**Hypothesis Two**

**Ho:** Internal audits does not contribute significantly to fraud detection in manufacturing organization. This was done using questions 5–8 in the questionnaire. See appendix 1.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **internal audit \* fraud detection Crosstabulation** | | | | | | |
|  | | | fraud detection | | | Total |
| less than 10 years | 11-20 | more than 21 |
| internal audit | less than 25 | Count | 3 | 0 | 1 | 4 |
| % within internal audit | 75.0% | 0.0% | 25.0% | 100.0% |
| % within fraud detection | 75.0% | 0.0% | 50.0% | 50.0% |
| % of Total | 37.5% | 0.0% | 12.5% | 50.0% |
| 26-50 | Count | 1 | 2 | 1 | 4 |
| % within internal audit | 25.0% | 50.0% | 25.0% | 100.0% |
| % within fraud detection | 25.0% | 100.0% | 50.0% | 50.0% |
| % of Total | 12.5% | 25.0% | 12.5% | 50.0% |
| Total | | Count | 4 | 2 | 2 | 8 |
| % within internal audit | 50.0% | 25.0% | 25.0% | 100.0% |
| % within fraud detection | 100.0% | 100.0% | 100.0% | 100.0% |
| % of Total | 50.0% | 25.0% | 25.0% | 100.0% |

|  |  |  |  |
| --- | --- | --- | --- |
| **Chi-Square Tests** | | | |
|  | Value | Df | Asymp. Sig. (2-sided) |
| Pearson Chi-Square | 0.039a | 2 | .223 |
| Likelihood Ratio | 3.819 | 2 | .148 |
| Linear-by-Linear Association | .636 | 1 | .425 |
| N of Valid Cases | 8 |  |  |
| a. 0 cells (100.0%) have expected count less than 5. The minimum expected count is 1.00. | | | |

**Decision Rule**

The probability value of the Pearson chi-square is (0.039) which is less than the 5% (0.05) percent level of significance on the average, hence we accept Alternate

hypotheses (H1), and conclude that internal audit has statistical significance association on fraud detection in manufacturing organization.

**Hypothesis Three**

**Ho:** Internal audit does not contribute significantly to fraud remediation in a manufacturing organization. Questions 9-12 were used in the analysis. See appendix 1

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **internal audit \* fraud remediation Crosstabulation** | | | | | |
|  | | | fraud remediation | | Total |
| management administrative staff | Accountant |
| internal audit | Bachelor | Count | 5 | 2 | 7 |
| % within internal audit | 71.4% | 28.6% | 100.0% |
| % within fraud remediation | 100.0% | 66.7% | 87.5% |
| % of Total | 62.5% | 25.0% | 87.5% |
| Master | Count | 0 | 1 | 1 |
| % within internal audit | 0.0% | 100.0% | 100.0% |
| % within fraud remediation | 0.0% | 33.3% | 12.5% |
| % of Total | 0.0% | 12.5% | 12.5% |
| Total | | Count | 5 | 3 | 8 |
| % within internal audit | 62.5% | 37.5% | 100.0% |
| % within fraud remediation | 100.0% | 100.0% | 100.0% |
| % of Total | 62.5% | 37.5% | 100.0% |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Chi-Square Tests** | | | | | |
|  | Value | Df | Asymp. Sig. (2-sided) | Exact Sig. (2-sided) | Exact Sig. (1-sided) |
| Pearson Chi-Square | 1.905a | 1 | .168 |  |  |
| Continuity Correctionb | .076 | 1 | .783 |  |  |
| Likelihood Ratio | 2.209 | 1 | .137 |  |  |
| Fisher's Exact Test |  |  |  | .375 | .375 |
| Linear-by-Linear Association | 1.667 | 1 | .197 |  |  |
| N of Valid Cases | 8 |  |  |  |  |
| a. 4 cells (100.0%) have expected count less than 5. The minimum expected count is .38. | | | | | |
| b. Computed only for a 2x2 table | | | | | |

**Decision Rule**

The probability value of the Pearson chi-square is (1.905) which is greater than the 5% (0.05) percent level of significance on the average, hence we accept null hypotheses (Ho), and conclude that internal audit has no statistical significance association on fraud remediation in manufacturing organization.

**CHAPTER FIVE**

**SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

**5.1 Introduction**

This chapter deals on the summary of the findings, conclusions of the study, recommendation, suggestions for further studies.

**5.2 Summary of Findings**

1. From the result of this study; The probability value of the Pearson chi-square is less than the 5% level of significance, hence we accept H1 and conclude that internal audit has statistical significance association on fraud prevention in manufacturing organization.

2. Also the result in the second hypotheses shows that the probability value of the Pearson chi-square is (0.039) which is less than the 5% (0.05) percent level of significance on the average, hence we accept Alternate hypotheses (H1), and conclude that internal audit has statistical significance association on fraud detection in manufacturing organization.

3. For the third hypotheses, the probability value of the Pearson chi-square is (1.905) which is greater than the 5% (0.05) percent level of significance on the average, hence we accept null hypotheses (Ho), and conclude that internal audit has no statistical significance association on fraud remediation in manufacturing organization.

* 1. **Conclusion**

The research conducted has vividly opined to a reasonably extent the role of audit as an effective tool for fraud control in a manufacturing organization. The failure of the management to adopt the services of the internal auditor in an organization can lead to fraud, loss of finance and lack of accountability. The growth of any economy depends to a large extent on the system of control adopted by the management and the success and sustenance of the internal control lies on internal auditing. Organization all round the world be it financial or otherwise needs auditing for proper assessment of their financial statements.

**5.4 RECOMMENDATIONS**

Having conducted this research and analyzed the field data, the researcher recommends the following points, which if adhered to will positively bridge the gender gap.

1. Since services of a qualified internal auditor has statistical association on fraud prevention in manufacturing company, management should always adopt the services of the Internal auditors in the firm so as to ensure no financial leakages and accountability in the firm.
2. Also, having discovered that service of qualified internal auditor has statistical association on fraud detection in a manufacturing company, then the management should put in their best resources to ensure that experts in the field of auditing are employed to avoid biased result.
3. More so, the finding in the last hypothesis tested, shows that internal auditors has no statistical association on fraud remediated, government and relevant financial auditor should be diplomatic when dealing with fraud remediation, knowing fully well that the services of internal auditors has no statistical association on fraud remediation.

**5.5 AREA FOR FURTHER RESEARCH**

The following areas are suggested for further research:

1. The same topic in other companies.
2. The role of auditing in small business performance

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**APPENDIX 1**

**QUESTIONNAIRE**

**SECTION ONE: GENERAL INFORMATION OF THE RESPONDENT**

√√

Please put a right mark in appropriate box.

1-Name…

2- Sex male female 􀂆

3- Marital status single married

4-Age less than 25 26-50 more than 51

5-Experiences less than 10 years 11-20 more than 21

6-Qualification: Bachelor Master PhD

7- Position in the organization?

Management Administrative staff Accountant

**RESEARCH QUESTION 1**

To what extent do internal audit contribute to fraud prevention in a manufacturing organization?

(Please tick the appropriate box which matches your view most closely as Strongly Agree (SA), Agree (A), Strongly Disagree (SD) and Disagree (D) respectively).

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **S/N** | **ITEMS** | **SA** | **A** | **D** | **SD** |
| **1** | Providing internal audit increases the probability of fraud discovery. |  |  |  |  |
| **2** | Review of generated financial reports that compares budgets to actual financial activities by appropriate management prevents fraudulent activities |  |  |  |  |
| **3** | Provision of internal auditors increases the probability of problem discovery. |  |  |  |  |
| **4** | Performance of risk assessment by internal auditors prevent fraudulent activities |  |  |  |  |

**RESEARCH QUESTION 2**

What is the contribution of internal audit to fraud detection in a manufacturing organization?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **S/N** | **ITEMS** | **SA** | **A** | **D** | **SD** |
| **5** | Manufacturing organizations with internal auditors detect fraud relatively easier than organizations without internal auditors. |  |  |  |  |
| **6** | Provision of internal audit cause detection of  Fictitious assets. |  |  |  |  |
| **7** | Providing the internal audits causes detection of equity frauds. |  |  |  |  |
| **8** | Providing the internal audit causes detecting fictitious expenses. |  |  |  |  |

**RESEARCH QUESTION 3**

How does internal audit contribute to fraud remediation in a manufacturing organization?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **S/N** | **ITEMS** | **SA** | **A** | **D** | **SD** |
| **9** | Assessment value of loss to fraud |  |  |  |  |
| **10** | Compensation payable to victims of fraud |  |  |  |  |
| **11** | Measures to reduce impact of fraud |  |  |  |  |
| **12** | Punishments to culprits of fraud |  |  |  |  |