

**THE EFFECT OF INTERNAL AUDIT ON FRAUD DETECTION
AND PREVENTION IN THE NIGERIAN PUBLIC SECTOR: A
CASE STUDY OF PORT HARCOURT ELECTRICITY
DISTRIBUTION COMPANY**

BY

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A PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
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DECLARATION

I declare that this project is based on a study conducted by me, Princess Wisdom in the Department of Accountancy, Bayelsa State Polytechnic, Aleibiri under the supervision of Mr. TiminipreOkpobo. This project report has not been submitted elsewhere for the award of a degree. The ideas and views of the research project are products of research undertaken by me. Where the ideas and views of other authors/researchers have been expressed, they have been duly acknowledged.

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CERTIFICATION

This project, *the effect of internal audit on fraud detection and prevention in the Nigerian public sector: A case study of Port Harcourt Electricity Distribution Company, Yenagoa Branch*, meets the regulations governing the award of National Diploma in Accounting, Department of Accountancy, Bayelsa State Polytechnic, Aleibiri.

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DEDICATION

This project is dedicated to God Almighty for His mercy and grace in every area of my life.

BAYELSA STATE POLYTECHNIC, ALEIBIRI

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I want to appreciate all my lecturers at Bayelsa State Polytechnic, especially my project supervisor, Mr. TiminpreOkpbo for his patience, understanding, constructive and painstaking corrections in the course of this work. Special thanks to the Dean of our school, Dr. James Poyeri, our amiable HOD, Dr Laim Isaac Odogu, Dr. Sunday Zibaghafa, Mr Anderson Obalakumo, Mr Sulaiman Disu and other lecturers, for the knowledge they have imparted in me throughout my programme.

I equally want to use this opportunity to say a big thank you to my parents, siblings, all other family members, my friends and loved ones for their love, care and support in every way.

God bless you all.

BAYELSA STATE POLYTECHNIC, ALIBIRI

ABSTRACT

This study examined the effect of internal audit on fraud detection and prevention in the Nigerian public sector, using Port Harcourt Electricity Distribution Company, Yenagoa Branch as a case study captured by functional internal audit unit, independent internal auditors and effective internal control system. The study employed survey design in which a set of questionnaire was administered on the respondents of the company used as sample. Multiple regression technique and ANOVA were used for the analysis. The results indicated that the level of fraud control in the organisation during the period covered was low; and that functional internal audit unit, independent internal auditors and effective internal control system in the Port Harcourt Electricity Distribution Company can limit the fraudulent activities among the staff of the company by 35, 13 and 18 percent respectively; the results also showed that internal audit captured by functional internal audit unit, independent internal auditors and effective internal control system were statistically significant in determining the fraudulent act in the company under study. Based on the findings, the study concluded that functional internal audit unit, independent internal auditors and effective internal control system are carried out to determine the effectiveness and impact of internal audit on fraud detection and prevention. The study recommended that the independence of internal auditors should be made more effective to checkmate any increase in the perpetration of fraud. The government is advised to create legal backing to the Internal Auditor that will compel them to report any findings of corruption directly to the board, Auditor-General of the Federation and anti-graft agencies.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The value of public resource lost each year in Nigeria through fraud and corruption defies precise quantification, but almost certainly runs into many billions of naira. Fraud in public institution in Nigeria, particularly at government parastatals, is ever on the increase and dates back to the ages. This seems to be in an escalating rate as we witness it day-in-day-out through newspapers reports that public officers and treasury managers entrusted with public treasury manage business to their own advantages (Akanni, 2020). Fraud is an age-long phenomenon associated with mankind mostly in his public interaction with other people, corporate entities and indeed government owned institutions. Nigeria government institutions are not exception to this age-long tradition of fraud in the public service sector of the Nigerian economy. Fraud no doubt is one of human phenomenon that creates serious challenges for all kinds of businesses be it public or private (Perri & Brody, 2019). The concept of fraud focuses on any deliberate action or inaction of man either as an individual or as a group to deceive others or take possession of an item deceitfully at the expense of others (Halbouni, 2016).

Without a doubt, Badara (2020) noted, the survival of any organization to a large extent depends on its ability to detect and prevent fraud and its attendance consequences by the adoption of auditing practices mostly in the public sector of any economy. Auditing is the art of checking the books of accounts of any business to protect the business from fraud and fraudulent activities, highlighted by any discrepancies in accounting methods of the day to day business transaction of an organization for its growth and survival. The constant review and verification of the accuracy of financial records of any organization is the certain way to curb, if not

eliminate completely, fraud and fraudulent activities in any organization, irrespective of sector (Bello & Orah, 2019). The cardinal responsibility of auditing, in addition to examining and preparing financial documentations, writing financial reports, examining financial statement for compliance with laws and regulations, preparing tax owed and returns, looking at the validity of a company financial statement and writing report at the end of the investigation, are all geared toward the detection and prevention of fraud and fraudulent activities in any organization especially the public organizations. According to Onuigbo (2020), these core principles of auditing and auditors seem to have failed over the years as fraud cases in Nigeria's public service sector has assumed an alarming proportion, evident by the recent fraud (corruption) allegation against the head of different public organizations by the Economic and Financial Crime Commission (EFCC). Internal auditors who are gate keepers in checkmating fraud and fraudulent activities in any organization especially public service institutions in Nigeria have not been able to detect and curb fraud in some institutions based on the increasing rate of fraud in government owned institutions in Nigeria.

As Olaoye and Adekoya (2022) pointed out, despite the fact that there has been continuous auditing by both internal and external auditors in the private and public organization in our country, incidences of fraud and fraud related activities are being reported in government owned institution in Nigeria at an alarming rate. Does it mean that auditing practice mostly in government owned institutions in Nigeria is ineffective in the detection and prevention of fraud and financial crimes? Or has the auditing process been compromised by the auditors and managers of government institutions in Nigeria? These and many other questions beg for answers. Over the years, successive government and accounting/auditing professionals have committed huge resources to create an enabling environment for the practice of auditing and the

training of auditors to enhance their technical know-how in preparing, checking and handling of financial statements in order to curb the increasing rate of fraud in public institutions in Nigeria. But this effort by government and various accounting bodies has not yielded the desired result, as fraud and corruption allegations against managers of government owned institution are on the increase in Nigeria (Olaoye & Adekoya, 2022). Therefore, this study sets out to empirically investigate the effect of internal auditon detection and prevention of fraud in the Nigeria public sector.

1.2 Statement of the Problem

Anyanwu and Okafor (2022) noted that fraud has really been the undoing of many unlucky businesses, both in the private and public sectors. 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 venture 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 an organization at a competitive disadvantage when fraud comes at a cost of doing business.

Fraudulent practices and corruption have been described as the major causes of the comatose state of the public sector of Nigeria, and a major hindrance to good government (Onwemenyi, 2018). It has also been identified by Ali (2018) as one of the problems confronting the effectiveness of the public sector. Therefore, it is asserted by Bello and Orah (2019) that one of the major problems associated with internal audit in relation to the prevention and detection of fraud is that there is lack of functional internal audit unit in many public corporations. Worse still in the public corporations where there are functional internal audit units, it is disheartening to

point out that some of them do not have adequate internal control system. Moreover, in some of these establishments, their internal auditors are not independent, in that the top-management personnel keep interfering in the job of the staff of inter audit. These problems have brought about the perpetration of fraud in the public sector. In a nut-shell, the damage which this menace, called fraud has done to our national development is innumerable and needs urgent attention (Bello & Orah, 2019).

Various literatures have studied internal audit in public sector with more emphasis on how it can help revenue generation, safeguard assets and control fraud (Chnar, 2022; Onuigbo, 2020; Achilonu, 2018; Udeh, 2018). However, very few literatures have considered internal audit in relation to its usefulness in fighting corruption (Olaoye & Adekoya, 2022; Ezekiel, 2019). Based on available information and researches, empirical studies on how internal audit can curb corruption in Nigerian Public sector appear to be scarce. Also, with the poor rating of Nigeria by the Transparency International in terms of corruption indices and the Brookings Institute rating of Nigeria despite its huge oil revenue, a study on internal audit and its role in combating fraud especially in the public sector has become necessary. Therefore, the study aims to examine the effect of internal audit on fraud detection and prevention in Nigerian public sector, using the Port Harcourt Electricity Distribution Company, Yenagoa branch as a case study.

1.3 Objectives of the Study

The major objective of this study is to examine the effect of internal audit on fraud detection and prevention in Port Harcourt Electricity Distribution Company, Yenagoa branch. Specifically, the objectives of this study are to:

- i. examine the effect of functional internal audit unit on detection and prevention of fraud in Port Harcourt Electricity Distribution Company, Yenagoa branch.
- ii. determine the effect of adequate internal control system on detection and prevention of fraud in Port Harcourt Electricity Distribution Company, Yenagoa branch.
- iii. ascertain the effect of independence of internal auditors on detection and prevention of fraud in Port Harcourt Electricity Distribution Company, Yenagoa branch.

1.4 Research Questions

In view of the objectives of this study, the following research questions are posed:

- i. What is the effect functional internal audit unit on detection and prevention of fraud in Port Harcourt Electricity Distribution Company, Yenagoa branch?
- ii. What is the effect of adequate internal control system on detection and prevention of fraud in Port Harcourt Electricity Distribution Company, Yenagoa branch?
- iii. What is the effect of independence of internal auditors on detection and prevention of fraud in Port Harcourt Electricity Distribution Company, Yenagoa branch?

1.5 Statement of Research Hypotheses

In relation to the research questions raised above, the following hypotheses statements, stated in both null and alternative forms, are formulated:

Ho 1: There is no significant impact of the existence of a functional internal audit unit on the prevention and detection of fraud in Port Harcourt Electricity Distribution Company, Yenagoa branch.

Ha 1: There is significant impact of the existence of a functional internal audit unit on the prevention and detection of fraud in Port Harcourt Electricity Distribution Company, Yenagoa branch.

Ho 2: Independence of internal auditors does not have any significant effect on fraud detection and prevention in Port Harcourt Electricity Distribution Company, Yenagoa branch.

Ha 2: Independence of internal auditors has significant effect on fraud detection and prevention in Port Harcourt Electricity Distribution Company, Yenagoa branch.

Ho 3: Internal control has no significant impact on the detection and prevention of fraud in Port Harcourt Electricity Distribution Company, Yenagoa branch.

Ha 3: Internal control has significant impact on the detection and prevention of fraud in Port Harcourt Electricity Distribution Company, Yenagoa branch.

1.6 Significance of the Study

The findings of this work will be of immense significance to the public sector in Nigeria. It will go a long way in enlightening the sector on the concept of internal audit as well as its role in the management of fraud. This study is important to Port Harcourt Electricity Distribution Company, Yenagoa branch by providing basis for evaluating and assessing control installed by the audit units in the financial dealings at the company. The significance of the study also lies in its usefulness in ensuring effective and strong internal audit system in the public sector that will help eradicate the rate of fraud, error and other irregularities in practice. It will assist to assess the contributions that internal audit can provide in alleviating fraud and its prevention.

It will also benefit other organizations. The findings from this study will aid them to apply better internal auditing strategies or effective control mechanisms in checking fraud in their diverse organizations.

It will as well benefit the general populace. They will be enlightened on the concept of internal auditing as well as its roles.

Students and researchers will as well benefit from this study. They will widen their scope from the information contained in this study. It will therefore be of immense value as it will contribute to the existing literature and motivate researchers who may be interested to carry out similar study on the internal audit unit of other government establishments.

1.7 Scope of the Study

This study is focused on examining the impact of internal audit on fraud detection and prevention in the public sector, using Port Harcourt Electricity Distribution Company, Yenagoa branch as a case study. Therefore, the scope of this study is considered from three different perspectives:

Content scope: The content scope of this study is internal audit (measured by functional internal audit unit, adequate internal control system and independence of internal auditors) and fraud detection and prevention.

Geographical scope: The geographical scope of this study is Port Harcourt Electricity Distribution Company, Yenagoa branch.

Unit of analysis: This represents the staff of Port Harcourt Electricity Distribution Company, Yenagoa branch.

1.8 Definition of Terms

Internal Audit: Internal auditing is a composite of independent, consulting and objective assurance activities aimed at creating value and improvement in firms' operations, which employs a systematic and disciplined process of appraising the soundness of internal control, governance and risk management.

Internal auditor: This is the staff that heads the internal audit department or unit in an organization.

Internal control: This is the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records.

Public sector: This means all organizations, which are not privately owned and operated but, which are established, run and financed by the government on behalf of the public. It conveys the idea that the public sector consists of organization where control lies in the hand of public, as proposed to private owners, and whose objectives involve the provision of services, where profit is not a primary objective.

Fraud: Fraud is an intentional misrepresentation of financial information by one or more individuals among management, employees or third parties.

Fraud Detection and prevention: This is the mechanism put in place by an organization with which fraud perpetration can be detected and prevented.

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Concept of Internal Audit

Internal audit is a review of operations and records; sometime continuous undertaking within a business organization so as to prevent errors, irregularities and frauds. Internal audit is defined by Brierley et al. (2018) as an independent appraisal function within an organization for the review of system of control and the quality of performance as a service to the organization. Chnar (2022) also defined internal audit as a review of operations and records, sometimes continuous, undertaken within a business by especially assigned staff. Badara (2020) stated that the internal audit provides an independent and objective appraisal of activity is for the management. According to Ezekiel (2019), internal audit evaluates company internal controls, including its corporate governance and accounting processes. It ensures compliance with laws and regulations and help to maintain accurate and timely financial reporting and data collection. The managers of public institutions mostly are provided with the necessary tools to attain operational efficiency by identifying problems and correcting the gaps observes before they are discovered by external audits (Abdullahi, 2018).

Ima (2015), on his own part, described auditing as a branch of accounting concerned with the efficient use of resources to achieve a previously determined objective or set of objectives contained in a plan, while Arvid and Cornelia (2021) described internal auditing as the whole system of auditing, financial and otherwise, intended to secure management information and

reliability of accounting records. According to Anyanwu and Okafor (2022), the general definition of an audit is that it is an evaluation of a person, organization, system, process, enterprise, project or product. In the opinion of Adeyemo (2019), audits are performed to ascertain the validity and reliability of information; also to provide an assessment of a system's internal control. The goal of an audit is to express an opinion of the person / organization / system etc. in question, under evaluation based on work done on a test basis. Due to constraints, an audit seeks to provide only reasonable assurance that the statements are free from material error, and it is regarded as a vital part of accounting. Traditionally, audits were mainly associated with gaining information about financial systems and the financial records of a company or a business. However, recent auditing has begun to include non-financial subject areas, such as safety, security, information systems performance, and environmental concerns. With non-profit organizations and government agencies, there has been an increasing need for performance audits, examining their success in satisfying mission objectives. As a result, there are now audit professionals who specialize in security audits and information systems audits. An audit must adhere to generally accepted standards established by governing bodies. These standards assure third parties or external users that they can rely upon the auditor's opinion on the fairness of financial statements, or other subjects on which the auditor expresses an opinion (Agyei et al., 2018).

According to Abu-Saeed and Kabir (2021), internal auditing is an independent, objective assurance and consulting activity designed to add value, and improve organisations' operations. It helps an organisation accomplish its objectives by bringing a systematic, discipline approach to evaluate and improve the effectiveness of risk management, control and governance process. The primary purpose of internal auditing is to improve organisational efficiency and

effectiveness through constructive scrutiny of internal process. Akanni (2020) observed that internal audit functions as an important link in the business and financial reporting process. It also plays significant role in monitoring an organisations risk profile and identifying areas of improvement in risk management. Olowolaju (2019) stated that the extent of work covered by the internal auditor goes beyond financial matters. They could look into personnel department to see if there are wastages in human resources. They could also look into purchasing department to see if the purchases are made from the cheapest source and into the marketing department to see if the new sales outlets have been fully exploited and make a report to management. To make auditing possible, the internal control measures should be adequate and perfect, the accounting system must be sound and the organisational structure must not be overlapping (Brierley et al., 2018). The element of effective internal audit comprises, auditors` independence, good working relationship, proper staffing and training, exercising due care, evaluation of internal control systems, proper reporting and follow-ups (IIA 2004). In this study, internal audit is defined as a strategy used in supporting management efforts to establish a culture that embraces ethics, honesty, and integrity. They assist management with the evaluation of internal controls used to detect or mitigate fraud, evaluate the organization`s assessment of fraud risk, and are involved in any fraud investigations (Onuigbo, 2020).

Internal auditing is a composite of independent, consulting and objective assurance activities aimed at creating value and improvement in firms` operations. It employs a systematic and disciplined process of appraising the soundness of internal control, governance and risk management (Udeh, 2018). Meanwhile, Sorunke (2016) opined that because corruption is a fall-outs of weak systems, effective institutions and reforms are needed to combat it. Effective institutions involve making existing systems and structures more vibrant. This includes

strengthening the capacity of personnel in these organizations. Ezekiel (2019) opined that internal audit is an independent organ in a company created to make certain that the establishment's activities become more valuable of good quality. Olowolaju (2019) stated that audit is one of the machineries needed to battle against corruption, while Chnar (2022) stated that auditors are in an advantageous position to actively lead the war to curb corruption. From their perspective, Agyei et al. (2018) reported that organizations conduct audits as most effective method to monitor corruption and bribery. They opined that audit failure directly influences organizational performance and the role of internal audit consists in assuring that management has a known intolerable attitude towards corruption. However, Achilonu (2018) maintained that quality internal auditing would reduce corruption, and to make the reformation of internal auditing from just being a mere department to ensure compliance with rules and regulations to governance mechanism that brings added value, there is a need for a greater shift in culture. He asserted that internal audit effectiveness depends on some factors among which are their true independence, professional qualification/competency of the internal auditors, legislative backbone and government support. Badara (2020) opined that ineffective and sub-standard auditing and accounting practices encourage corrupt practices. Quality auditing will assist public organizations to carry out their responsibility in line with the requirements of accountability and integrity, and also help them to deliver quality service thereby boosting the people's trust in them. Akanni (2020) opined that people in public offices would be deterred and discouraged from involving in fraudulent practices or corrupt behaviour if findings of their illicit acts are disclosed through audit reports. When organizations seek and maintain a higher and better accounting and auditing standards, top management and all other persons in the organization would be bound to become more plain and straight-forward on how they use the entity's resources, thereby making it impracticable for management and other members of staff to indulge in any act of corruption (Abang & Onyia, 2020).

According to Abang and Onyia(2020), the importance of internal audit in the public sector is as follows:

- i. Unbiased and objective assessments in ascertaining if public funds are effectively utilized in addition to ensuring that the right ethics and value are maintained in the organization, auditing is the bedrock of effective and efficient governance.
- ii. It assists government in performing effectively, its oversight and monitoring functions.
- iii. It is an effective tool that gives assurance on financial control and can be used to monitor and assess management activities.
- iv. Internal audit helps to ensure fairness, transparency, reduction in corrupt practices and ensure value for money in public procurement.
- v. It works in conjunction with management to ensure quality service delivery.
- vi. It is an important aspect of public financial management that aid improved management performance.

Traditionally, as asserted by Adetoso et al. (2020), the function of the internal audit is to assess the effectiveness of the organizations internal control and to report to management on areas of the control system that needs to be strengthened. Its activities may also cover non-financial areas like compliance with laws and regulation. However, from existing literature it can be found that the role of internal auditing has well been expended over the years. Even from the definition of internal audit, it can be seen that the role of the internal audit has shifted. Formally, internal audit could be defined as an independent, appraisal function which is established within an organization to examine and evaluate its activities as a service to the organization (Adetoso et al., 2020). However, Chnar (2022) pointed out that now the Institute of Internal Auditors (IIA) has

modified its definition of internal auditing. Internal auditing can now be defined as an independent objective assurance and consulting activity designed to add value and improve and organizations operation. According to IIA (2016), in the first definition of internal auditing, the objective was to assist members of the organization in the effective discharge of their responsibilities. Therefore, internal auditing would provide detailed analyses, appraisals, recommendations, counsels and information concerning the activities reviewed. Therefore, the audit objective includes ensuring effective control. In today's definition according to IIA (2016), internal auditing should help an organization accomplish set objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance.

This the new definition throws a lot light on the effectiveness of three features- risk management, control and governance processed one can deduce that the ability to achieve the organizational set objective largely depend on the effectiveness of these three features. Therefore, the success of an organization largely depends on the effectiveness of its internal audit. The IIA certainly sees the objective of the internal auditing as both supporting and strengthening of the organizations governance mechanisms and evaluative and improving the effectiveness of risk management and control. This suggests that the value of internal audit as part of the governance structure is at the operational level rather than as part of the higher level oversight structure (Chnar, 2022).

The need for an effective internal audit cannot be over flogged for instance, as in a study conducted by Abu-Saeed and Kabir (2021) to assess the importance of the internal audit function in detecting and self-reporting fraud through misappropriation of assets within organizations, they found that organizations which had some in-house internal audit function were more effective in detecting and self-reporting fraud than where the internal auditing was completely outsourced. According to Adetoso et al. (202), the internal auditing has the responsibility to

generally carry out analysis and independent appraisal of the adequacy and effectiveness of a company's risk management and I.C system. Therefore, the internal auditor plays a major role in providing both assurance and consultancy services with respect to risk management in the organization. According to Adeyemo (2019), internal audit independently reviews and evaluates the adequacy of the system of internal controls and makes recommendations to management to improve these controls. Ima (2015) categorized these controls into administrative and accounting controls. Administrative controls are the controls designed to promote operational efficiency, effectiveness and adherence to organisations' policies and procedures. Accounting controls are very important in safeguarding the organisation's assets and ensure the accuracy of financial records internal audit department monitors the continuing validity of management control systems and effective compliance. The internal auditor is an employee of the organization and he acts as agent of the management for ensuring effective working of internal control system. Internal audit can be seen as the eye of the board or top management within the organization (Achilonu, 2018).

Internal audit was traditionally designed to ensure reliable accounting information to safeguard the organization asset especially public organizations, but more recently, internal auditing has evolved to encompass operational auditing, risk assessment, information technology assurance services, and more. This expanding role has increased the relevance of internal auditing as part of the organization's management control structure thereby requiring different skills and competencies, and many organizations need to face the choice whether to develop these broader competencies internally or to outsource internal auditing to outside service providers (Akanni, 2020).

2.1.2 Internal Audit Quality

i. Internal Auditors Competency

The opinion of Olaoye and Adekoya (2022) is that quality internal auditing is capable of assisting an establishment to actualize its objectives. The financial regulations mandated all public establishments to have an internal audit department. Brierley et al. (2018) suggested that with internal audit existence, risks and systems weaknesses are easily evaluated; measures for remedy and sustained improvements are initiated. A factor that determines the quality of internal audit work includes their competency. Arvid and Cornelia (2021) opined that the education and skill of the internal auditors in addition to adherence to the provision of the law determined the competency of the internal audit department, which is tandem with the submission of the Institute of Internal Auditors (2011) that auditor's competency involves knowledge, technical and behavioral skills.

ii. Internal Auditors Independence

Independence is a total and complete freedom from external influence. The Public Sector Internal Audit Standard (PSIAS) stated that Independence is the capability of the internal auditor to conduct his/her duties in a manner that is free from biasness. According to Agyei et al. (2018), there is greater responsibility on the internal auditors to be objective and independent in their job notwithstanding the fact that they are employees in the organization. They opined that lack of independence is a major factor affecting the quality internal audit work in most developing countries. The International Organization of Supreme Audit Institutions (INTOSAI, 2013) stated that internal auditors' independence is the freedom from situations that prevent him to carry out his responsibilities in a manner free from interferences. INTOSAI opined that independence allows internal auditors to perform his duties impartially and be unbiased in his judgments. The Public Sector Internal Audit Standards stated that to attain the level of independence required to

effectively perform his/her roles, the internal auditor must have direct and unrestricted access to the Chairman of the audit committee and the board (Agyei et al, 2018).

iii. Internal Auditor Integrity

According to Badara (2020), integrity is the ability of the auditors to be fair and honest in carrying out his duties. The auditor must carry out his professional duty in line with the law with its application, not to perform illegal activities and must support the ethics of the audited entity. By doing this, the auditors work will be credible and also attract trust of the people. According to the Institute of Internal Auditor's code of ethics, integrity of internal auditors creates trust and hence offers the foundation for dependence on their judgment. The Institute, according to Badara (2020), highlighted the following as basis to measure the auditor's integrity:

- The auditor shall carry out his duty with honesty, diligence, and responsibility.
- In the course of performing his duty, the Auditor shall comply with the law and also make disclosures as required by the law and the profession.
- The auditor must not willfully be a partner to any unlawful actions, or involve in actions that are disreputable to the profession of internal auditing or to the establishment.
- The auditor shall act in ways that esteem and add to the real and ethical aims of the organization.

iv. Internal Audit Effectiveness

Even with the expanded role of internal audit, the effectiveness of internal audit to the organization will not be questioned. In a study by Nagy & Cenker (2015) to find out how organizational members perceived the new role of internal audit and if a justification of the effectiveness of internal audit was required, they discovered that the organizational members (top management) did not feel any need to justify the effectiveness or role of the internal audit

function. According to Anyanwu and Okafor (2022), the extent to which an organization's internal audit meets its purpose of establishment is dependent on some factors which are internal audit quality, management support, organizational setting and attributes of the auditee. The ability of the internal audit to provide useful audit findings and recommendations would promote management interest in its recommendation. For an internal audit to be effective, it must receive the support in terms of resources and commitment to the implementation of its recommendation. Arvid and Cornelia (2021) tried to identify factor impacting on the effectiveness of the internal audit services by examining how internal audit quality, management support, organizational support, organizational setting, auditee attributes and the interplay among these factors influence internal audit effectiveness. In their finding, they reported that management support and audit quality are very important factors influencing audit effectiveness. They also found that organizational settings (not including budgetary status of internal audit) enables effective internal audit and the attributes of the auditees are not significant enough to undermine audit effectiveness.

2.1.3 Concept of Fraud

The terms "fraud" has received attention and different definitions from different scholars, researchers and authors. What is very peculiar to the definitions is that the concept has been associated with embezzlement, financial misstatement and misappropriation, extortion, illegal amassing of wealth through dubious means, act of deception, bribery, false representation, theft, concealment of material fact etc. According to Adeyemo (2019), fraud is defined as "any illegal act characterized by deceit, concealment or violation of trust. These acts are not dependent on the application of threat or violence or of physical force. On the other hand, Adetoso et al. (2020) defined fraud as "any premeditated act of criminal deceit, trickery or falsification by a person or

group of persons with the intention of altering facts in order to obtain undue personal monetary advantage. Akanni (2020) defined fraud as all the multifarious means which human ingenuity can devise and are resorted to by one individual to get any advantage over another. It includes all surprise, trick, cunning, dissembling and unfair ways by which another is deceived. Fraud covers a plethora of corporate crimes like embezzlement, larceny, theft, misappropriation of assets, among others. Ezekiel (2019) explained that fraud as an illicit financial gain for the fraudster or loss for the victim while Olowolaju (2019) introduced a different concept to the definition of fraud when he argued that the menace occurs as a result of a person in position of trust or accountability who advances his own personal interests at the expense of the public interests through digressing from the set standards and rules.

2.1.3.1 Types of Fraud

Fraud varies widely in nature, character and method of perpetration. Olaoye and Adekoya (2022) categorized perpetrators into three namely; management of the banks (otherwise referred to as management fraud), insider (employee), outsider (customers and noncustomers) and insider/outsider. These are explained thus: Management Fraud is a kind of fraud frequently committed by management staff of a reporting entity, which comprises the director, general managers, and managing directors to mention but a few. As management fraud is normally committed by persons in positions of trust, they have the authority to override internal controls (Brierley et al., 2018).

According to Agyei et al., (2018), the category of victims of management frauds are investors and creditors, and the medium for perpetrating the fraud is financial statement. Insiders/employees frauds are the frauds perpetrated by the employees of the bank or organization is also known as non-management fraud. According to Olaoye and Adekoya (2022), it is the fraud perpetrated to the detriment of the organization and generally it is for the

direct or indirect benefit of an employee. Badara (2020) identifies some of the typical manifestations of employee's frauds in the banks to include: Cash thefts from the tills by banks' staff, forging of customer's signature with the intention of illegally withdrawing money from the account with the bank, use of forged cheques to withdraw money from the customer's accounts, opening and operating of fictitious account to which illegal transfers could be made and false balance credited, lending to fictitious borrowers effected through fictitious account opened at a branch, claiming of overtime for hours not worked, suppression of cash/cheques; fund diversion and computer fraud. Outsiders' fraud is frauds perpetrated by customers and non-customers to the detriment of the banks. This class of fraud as describe by Perspectives on the Nigerian Financial Safety-net (NDIC 2009) includes: advance fee fraud ("419") that usually involves an agent approaching a bank with an offer to access large funds for services purportedly rendered or contracts executed. According to Olaoye and Adekoya (2022), the collaboration of an accomplice is sought through the agent who must receive a fee or commission "in advance". As soon as the agent collects the fee, he disappears, and the funds never get to the bank. This is popularly known as "419" in Nigeria. Lastly, Outsiders/insiders fraud, this is the types of fraud committed by outsiders (customers/non-customers) of the bank with the effort of an insider (bank staff). For this type of frauds to be successful, there must be an insider providing necessary information and other logistic in secret (Olaoye & Adekoya, 2022).

2.1.3.2 Causes of Fraud

Adeyemo (2019) grouped the causes of fraud into three namely; institutional, social and individual. Institutional factors are conditions unconsciously created by institutions that allow fraud to flourish. In such institutions, a lot of loopholes are allowed to exist which fraudsters easily identify and exploit to commit their acts. Olaoye and Adekoya (2022) highlighted here under the common institutional causes of fraud: inadequate internal control, inexperience of

staff/inadequate staff training, employment disaffection, poor management, reluctance to report fraud due to the perceived negative publicity or image from the public, inadequate training and re-training, failure to engage in regular call-over, employees refusal to abide by laid-down procedures without any penalty or sanction, automation and computerization and disregard to know your customer (KYC) rules. Social factors such as societal values, placing of high value on accumulation of wealth by the society without regard for the source, promotion of nepotism in office where by only those with people in “high places” or high deposit or people who have relations or people holding sensitive political positions are favored, thereby placing less emphasis on professionalism, poor economy and slow legal process are part of social factor that influence fraud (Olaoye& Adekoya, 2022). Individual factors are factors that pertain to the person, that is, those that are peculiar to the individual and may encourage him to live a fraudulent life. These factors include: biological make-up – e.g. poor moral upbringing, criminal background, insatiable appetite for adventure- criminal or otherwise, wrong choice of friends or mentors, crime fathers, friends or parental influence to slow down investigation and weak mind (Olaoye & Adekoya, 2022).

2.1.4 Fraud Detection and Prevention

It is necessary for government owned institutions to establish an effective fraud prevention and detection mechanism in order to minimize the opportunities of fraud and financial crime from occurring. These methods can comprise managerial communications about intolerance to fraudulent activities, executing transparent performance and remuneration schemes, pre-employment and on-going screening and, most significantly encouraging a culture of fraud awareness (Agyei et al., 2018).

A survey conducted by PriceWaterCooper (2014) revealed that 37% of respondents globally reported fraud did occur in their organizations, and the number of economic crimes seemed to pose a persistent threat to businesses and their business processes. Arvid and Cornelia (2021) reported the 59 countries involved in the survey agreed that incidence of fraud and reported cases are not declining. In fact, new ways of fraud constantly emerge and matters that regulators and public consider inappropriate or fraudulent are evolving. A survey by KPMG Malaysia (2013) discovered that the highest number of fraud perpetrators came from employees which represented about 50%. These employees were found to be among those in non-management. In 2019, this category of fraud perpetrators i.e. employees, in contrast, only represented about 34%. These figures are alarming to the government and the management, as there was an increase of 16% in 2021 (Chnar, 2022).

According to Brierley et al. (2018), another category of fraud perpetrators were customers, followed by management, each category represented about 18% respectively. Other fraud perpetrators identified were service providers (8%) and suppliers (6%). The report also highlighted that theft of outgoing funds was the highest reported category of fraud at 67% in 2013 compared to 57% in 2009 survey. Ranking second, was theft of physical assets at 58%, followed by theft of incoming funds at 34%. On an individual basis, the most common types of fraud were theft of cash and cash receipts (26%), followed by false invoicing (16%) and theft of inventory (13%). Governments and corporations as claimed by Chnar (2022) agree that fraud, bribery and corruption are bad for business and society, and that decisive steps need to be taken to reduce them. Fraud prevention calls for measures to stop fraud from occurring in the first place. Fraud detection comes next once fraud prevention has failed as it involves identifying fraud as quickly as possible once it has been perpetrated. By nature, fraud detection must be used and worked continuously as fraud evolves (Olaoye & Adekoya, 2022).

Clearly, the traditional approach to detect and prevent fraud, like auditing, is not sufficiently effective and only enabled fraud to be detected months after the date of the transactions, if ever. In some cases, the consequent huge losses cause the organization to lose sustainability and the business would consequently collapse. Such belated discovery of fraud would then only have recourse on punishment which demonstrates a reactive approach instead of a proactive approach. Hence, deriving an understanding on the causes of fraud or economic crimes becomes vital, since this will crucially lead to identification of the most effective mechanisms to detect and prevent the occurrence of fraud (Chnar, 2022).

Chnar (2022) asserted that the Association of Certified Fraud Examiners reported that fraud has been divided into three broad categories as follows: corruption, assets misappropriation, and financial statement fraud. From the existing cases, there are many ways that fraud can be perpetrated from the simple misuse of trust to the sophisticated computer based offense. Agyei et al. (2018) summarized the types of fraud on the basis of methods of perpetration include the following but not exhaustive as the methods are devised day in-day out. These include defalcation, suppression, outright theft and embezzlement, tampering with reserves, insider abuses and forgeries, fraudulent substitutions, unauthorized lending, lending to ghost borrowers, kite flying and cross firing, unofficial borrowing, impersonation, teeming and lading, fake payment. Fraudulent use of the organization documents, fictitious accounts, false proceeds of collection, manipulation of vouchers, over invoicing, changing statistical data, manipulation of ledger accounts, fictitious contracts, manipulation of cheque books, computer fraud, misuse of suspense accounts, false declaration of cash shortages among others (Agyei et al., 2018).

Ezekiel (2019) reported that the various forms of public sector fraud include bribery and extortion; fraud and embezzlement; unlawful use of public assets for private advances; over- and

under-invoicing; payment of salaries and other benefits to ghost (non-existent) workers and pensioners; payment for air supply (goods or services not provided or rendered). Underpayment of taxes and duties on exports and imports through false invoicing or other declarations; inflation of prices of goods purchase; embezzlement of assets; court pronouncements awarding financial compensations well in excess of any damage suffered; deletion of documents or the whole case files; favoritisms and patronage. Fraud may be categorized into Corporate, Management Fraud and fraud as a tort. Corporate fraud, on the other hand, is any fraud perpetrated by, for or against a business corporation (Olowolaju, 2019).

By and large, Onuigbo (2020) inferred that 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; aiding 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 fraud cases and suspicions. The internal audit cannot completely prevent fraud, but it can adapt its work approach and procedures so that it can increase the chances of identifying and interpreting the signs of fraud in the public firms (Onuigbo, 2020).

2.2 Theoretical Framework

2.2.1 Agency Theory

Agency theory originated from the work of Berle and Means (1932). They explored the concept of agency and the applications toward the development of large corporations. They found out

how the interest of the directors and managers differ from the owners of the firm, thereby using the concepts of agency- principal to explain the genesis of those conflicts. Agency theory is created where the principal appoints an agent that is saddled with overseeing the economic resources of the principal. According to Jensen and Meckling (1976), the agents unfortunately have more information about the organization than the principal and this information asymmetry makes the principals to be uncertain whether the agents are actually protecting their interests. Jensen and Meckling (1976) posit that agents may be tempted to be disloyal to their principals whereby they prefer self-interest over the interest of the principal thereby creating moral hazard. The principals, in order to protect their own interests, put in place a monitoring process like auditing to ensure accountability. Thus, auditing is a control tool that is used by the principal for the purpose of obtaining assurance regarding the reliability of the information contained in the stewardship report prepared by the agent. Since trust is lacking in the principal-agent relationship and the mechanism of audit was put in place to ensure that this trust is not fully eroded, agency theory is therefore relevant in explaining audit quality and it is thereby adopted in this study. Furthermore, high quality audit is one that ensures that financial information supplied by the organization is free from material misstatement thus eliminating information asymmetry caused by principal-agent conflict in agency theory. Proxies of audit quality used in this study (i. e. audit fees, audit tenure and auditor size) are believed to be capable of ensuring financial information supplied are credible enough to fairly assess the performance of the entity. As a result, the a priori expectation is that the variables will exhibit positive relationship with financial performance.

2.2.2 Signaling Theory

This theory was propounded by Michael Spence 1973, modified by Bhattacharya (1979), Miller and Rock (1985), and John and Williams (1985). Signaling theory, according to Spence (1973),

suggests that companies with good performance use financial information disclosure to send favourable signals to the market about their potentials. Companies with high quality auditors such as the big 4 auditors, send signals to the market that their financial statements are more credible than those audited by lower quality auditors. The market therefore associates auditors such as big audit firms and specialist auditors with higher audit quality than other auditors and rewards companies audited by high quality auditors with larger improvements in share prices (Teoh & Wong, 1993; Krishnan & Yang, 1999). The positive signal of transparency and credibility which high audit quality sends to the market, provides assurance to the stakeholders about the quality of earnings disclosed in financial statements and suggests a positive association between market based performance and audit quality.

2.2.3 Fraud Triangle Theory

The American criminologist Donald Cressey (2001) developed a theory – known as the Fraud Triangle – that explains the factors that lead to fraud and other unethical behavior. When businesses and organizations understand the Fraud Triangle, they can more effectively combat criminal behavior that negatively impacts their operations.

The three factors that make up the fraud triangle are:

- i. **Pressure.** Most individuals require some form of pressure to commit a criminal act. This pressure does not need to necessarily make sense to outside observers, but it does need to be present. Pressures can include money problems, gambling debts, alcohol or drug addiction, overwhelming medical bills. Greed can also become a pressure, but it usually needs to be associated with injustice.
- ii. **Opportunity.** An opportunity to commit the act must be present. In the case of fraud, usually a temporary situation arises where there is a chance to commit the act without a high chance of being caught. Companies that are not actively working to prevent fraud

can present repeated opportunities to individuals who meet all three criteria of the fraud triangle.

- iii. **Rationalization.** The mindset of a person about to commit an unethical act is one of rationalization. The individual manages to justify what he or she is about to do. Some may think they are just going to borrow the stolen goods, or that they need the money more than the “big” company they are stealing from.

The fraud triangle provides a useful framework for organizations to analyze their vulnerability to fraud and unethical behaviour, and it provides a way to avoid being victimized. Almost universally, all three elements of the triangle must exist for an individual to act unethically. If a company can focus on preventing each factor, it can avoid creating fertile ground for bad behaviour.

2.3 Empirical Framework

Sorunke (2016), in his study, evaluated 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, and was supplemented with secondary data. The findings of the research indicated 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 recommended total overhauling of the internal audit unit in the local government administration in Osun State.

Thaer (2016) in a study to examine the role of internal audit function in the public sector concluded that the Internal Auditor has a significant role to play to ensure that public resources

are well managed and utilized. The study stated that the Internal Auditors are knowledgeable and insightful on how government funds can be managed.

In a similar vein, Novita, Imam and Tarmizi (2017) confirmed that there is no significant role played by Internal Audit in improving the quality of accountability of financial statement but Internal Control can affect accountability.

Asiedu and Deffor (2017) in a study concluded that effective internal audit function would reduce corruption. They further opined that to reduce corruption, the internal audit department must be allowed to carry out their work independently. Ability to work without any external interference would make the internal audit work to be of quality and impactful.

Adedeji, Soyinka and Sunday (2018) in a research paper on corruption control in the public sector revealed that Nigerian accountants executing accounting principles in the public sector have enough scope and competency to prevent corruption in government organizations. They further asserted in the study that the effectiveness of the established principles is a function of the sincerity and genuineness of members of the organization. They, therefore, recommend that accounting code of ethics, sound internal control and adherence to government laws must be enforced in public sector organization in order to curb corruption.

Nurdiono and Gamayuni (2018) opined that internal audit effectiveness positively and significantly influences accountability. They concluded that internal audit quality is influenced by their competency. The quality of the internal audit work is a role of the competency of the internal auditors. Competency and audit quality are positively related, the more competent the auditors are; the more quality their work will be. Competency can be measured by educational and professional qualifications as well as years of experience.

Avis, Ferraz and Finan (2018) carried out an evaluation on the anti-corruption audit programmes of the government specifically to check the misappropriation of public assets at the local level in Brazil and concluded that audit would be a tool that can be used to significantly reduce corruption. They asserted that people elected into public offices would be wary of involving in corrupt practices if they are aware that audit presents a higher chance of exposing their fraudulent acts to the electorates thereby negatively affecting their chances of getting re-elected. They further posit that audit would increase their chances of getting charge for wrongdoings.

The study of Ezekiel (2019) investigated the effect of internal audit quality on corruption in Nigerian public sector. The research used 160 respondents of the internal auditors in public sector organization in Lagos State. Data for the research was obtained through the administration of questionnaire. Multiple Regression Analysis was used to analyze the data. The findings of the study showed that the independent variable; internal audit quality (which is proxy by the Internal Auditors' independence, competency and integrity) has a significant effect on corruption and can help in checkmating corruption in the public sector. Internal audit quality must be pursued by ensuring that the internal auditor carries out his responsibility independently through the enactment of laws that protect the job of the internal auditor. Also, academic and professional qualifications should be a major factor to be considered before engaging someone to be staff of the internal audit department of government organizations.

The paper of Olowolaju (2019) 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 analysed 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. Therefore, the study recommended that every organization should endeavour to have an internal Audit unit so that fraud and errors could be reduced to the barest minimum. Efforts should be made by every organization to institute good control to eliminate teeming and lading and pilfering of stock which occur often in many organizations.

The study of Akanni (2020) examined the impact of auditors captured by risk assessment, system audit and verification of financial report on banking fraud control in Southwest Nigeria. The study employed survey design in which a set of questionnaire was administered on the selected banks in Southwest Nigeria. Multiple regression technique and ANOVA were used for the analysis. The results indicated that the level of fraud control in Nigerian banks during the period covered was low; and that risk assessment management, system audit and verification of financial reports adopted by the banking industry in Southwest Nigeria limit the fraudulent activities among the Nigerian banks by 35, 13 and 18 percent respectively; the results also showed that audit roles captured by risk assessment, system audit and verification of financial reports were statistically significant in determining the fraudulent act in banking industry in Nigeria. Based on the findings, the study concluded that risk assessment, system audit and financial report verifications are carried out to determine the effectiveness and impact of auditors on fraud control in Nigerian banks which reveals that auditors' roles need to be improved to enhance fraud control in banking industry. The study recommended that auditors should increase the scope of their activities on the efficiency of banks internal control system, risk assessment and system audit as this will enhance the detection of fraudulent activities. Also, management of banks should ensure strict compliance with their respective internal control system.

Onuigbo (2020) conducted a study which examined the impact of audit quality on financial performance of quoted cement firms in Nigeria. The study is descriptive in nature and the

correlational and ex-post facto designs were adopted in carrying out this research. Data were obtained basically from the published annual reports and accounts, and notes to the financial statements of the four firms that represent the sample of the study. The data collected were analysed and presented in tables. Multiple regression analysis using the SPSS Version 20.0 was employed in analyzing the data. The results of the findings show that auditor size and auditor independence have significant impacts on the financial performance of quoted cement firms in Nigeria. However, auditor independence has more influence than auditor size on financial performance. The study recommends that the management of quoted cement firms in Nigeria increase the remuneration of auditors in order to improve their financial performance and it also further recommends that management should employ the services of audit firms whose character and integrity is beyond question.

Abang and Onyia (2020) carried out a study to examine the effect of internal auditing in the detection and prevention of fraud and financial crime in the Nigeria public service. The paper relied mostly on secondary documentation, where scholarly articles on the subject matter were reviewed in line with the objective of the study. The reviewed articles revealed that auditing plays a significant role in the detection and prevention of fraud and financial crime in both private and government owned institutions. Internal auditing has been the traditional method of checking discrepancies in the accounting books of any organization mostly government owned institutions with the view of curbing fraud and financial crime. But fraud and financial crime has assumed a geometric proportion as observed in many of the articles reviewed. Based on the findings, it was recommended that public service institutions should engage in outsourcing of auditing services to stem the rising cases of fraud and financial crime in the public service as the traditional internal auditing has failed to curb fraud over the years.

The overall goal of the research conducted by Chnar (2022) was to analyze the impact of internal control systems on fraud detection and prevention. It is necessary to set an appropriate tone at the top, and top management should encourage ethical behaviour in a transparent manner. A risk assessment process needs to be set up, and the risk of fraud can be assessed by brainstorming to deceive the organization. It is necessary to create report and the investigation process. Thus, this work attempted to review and analyze 20 articles among different countries to reveal the importance of internal control system in preventing and detecting fraud in commercial companies. It is discovered that it has a significant role in fraud prevention.

In the study conducted by Olaoye and Adekoya (2022), the focus was on examining the probable influence of internal audit effectiveness on fraud prevention in Nigerian Listed Manufacturing Companies (NLMC). The study employed survey research design with a study population of 19,443 workers in ten selected companies in manufacturing sector. Sample size of 392 was determined with a response rate of 86%. Data were collected with a validated questionnaire, these were analysed by making used of descriptive and inferential statistics at 5% level of significance. The study revealed that IAE positively influenced fraud prevention ($Adj.R^2=0.349$, $F_{(3, 337)}=59.502$, $p=.000$). The study concluded that IAE influenced and has significant impact on fraud prevention in NLMC. The study further recommended that management should ensure good policies to guarantee independence of internal audit, establish a robust internal control mechanism to limit risk of fraud, and employ experience and professional staff into audit unit/department.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

This study is a descriptive type. According to Orji (2006), descriptive research is concerned with the collection, presentation, analysis and interpretation of data for the purpose of describing vividly existing conditions, prevailing practical beliefs, attitudes and on-going processes. Therefore, the research design adopted in this study is quantitative, i.e survey research design.

3.2 Characteristics of the Study Population

The population of this study is Port Harcourt Electricity Distribution Company, Yenagoa branch. Therefore, the population size of this study is the entire staff of the company which is sixty-three (63).

3.3 Sampling Design and Procedure

In order to determine the sample size that would be adequate for this study, the researcher used

Taro Yamane formula:

$$n = \frac{N}{1+N(e)^2}$$

Where

n = represents the sample size

N= represents the population

e = represents the margin of error

1= constant

For the purpose of this study, N will be equal to 63, e will be assumed to be 5%

Therefore, the sample size for this research work will be

$$\begin{aligned} n &= \frac{63}{1+63(0.05)^2} \\ &= \frac{63}{1+ 63(0.0025)} \\ &= \frac{63}{1 + 0.1575} \\ &= \frac{63}{1.1575} \end{aligned}$$

$$n = 54$$

Therefore, the sample size of this study is 54 staff members of the company under study. This sample size is considered to be adequate for the study.

3.4 Data Collection Instrument

The researcher gathered information through primary sources.

Primary source

This enabled the researcher to attain information from the field. Data collection in this case was done through the use of questionnaire. Data was collected from people's opinions, ideas through questioning and interviewing the study respondents.

Questionnaire

Questionnaire design was the major instrument used for data collection. The questionnaire design was preferred for this study because it enabled the researcher reach a larger number of respondents within a short time, thereby making it easier to collect relevant information. The first section in the questionnaire was the face sheet, to collect data on profile of respondents. The second section in the questionnaire was internal, the third section of the questionnaire had questions on fraud prevention and detection. All the questions were Likert Scaled on four points ranging from 1= strongly disagree, 2 = disagree, 3 = agree, and 4 = strongly agree. The questionnaire contained close-ended questions to collect quantifiable data relevant for precise and effective correlation of research variables. They were also preferred to save time, enabled respondents to easily fill out the questionnaires and keep them on the subject and relatively objective.

3.5 Validity and Reliability of Instrument

3.5.1 Validity

The researcher ensured the validity of the instrument by face validity analysis using research supervisors who went on checking if all the items constructed could help achieve the aim of the study.

3.5.2 Reliability

To ensure the reliability of the instrument, the researcher used the test-retest method. The questionnaire was given to 10 people who were part of the target population and after two weeks, the same questionnaire was given to the same people and the Cronbatch Alpha was computed using SPSS.

3.6 Method of Data Analysis

3.6.1 Qualitative data

After collecting data, it was processed and analyzed. The qualitative data was analyzed by sorting out major themes, concepts and ideas that relate to the variables of the study so as to make meaning and draw conclusions. All the relevant information was put in place to ensure that the necessary information is available before data analyzed deigns.

3.6.2 Quantitative data

The data collected was entered into statistical package for social scientists coded and all the errors were removed, and the results attained on mean and standard deviations. The data on mean attained a numerical scale that was designed based on highest value minus lowest and divided by highest value in the Likert scale.

The regression analysis was used to determine the effect of internal audit, detection and prevention of fraud. The decision rule for the data analysis was based on simple regression to determine the effect of internal audit on detection and prevention of fraud in Port Harcourt Electricity Distribution Company, Yenagoa Branch. The decision rule was on 0.05 level of significance.

3.7 Model Specification

The model for the study comprises independence variables which are internal audit captured by independence of internal auditor(s)- InIA, functional internal audit-FIA and effective internal control system-EICS while, Fraud prevention & detection- FPD serves as the dependent variable.

The model for the study is specified as follows:

$$FPD = f(FIA, InIA, EICS)$$

$$FPD = a_0 + b_1 FIA + b_2 InIA + b_3 EICS + \mu$$

Where:

FPD = Fraud prevention and detection

FIA = Functional Internal Audit

InIA = Independence of Internal Auditor(s)

EICS= Effective Internal Control System

a_0 = Constant Parameter b_1, b_2, b_3 = Parameters to be estimated μ = Error Term

Decision rule

The hypotheses were tested based on the decision rule of 0.05 level of significance. The decision to test hypothesis is on the regression coefficients (significant values, all the values that were below 0.05 level was found to be significant and the hypothesis was rejected on all the variables since they were all found to have significant value less than 0.05.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Presentation of Data

4.1.1 Distribution of Questionnaire Analysis

The presentation of data collected means the way of arranging the different forms of data obtained through various data collecting techniques to enable the researcher perform analysis and exact new meaning from it. The data collected were presented in simple table. The data analyses were based on the answer to the key questions received from the various departments. The key questions in the questionnaires were analyzed by the use of simple percentage.

Table 4.1: Distribution table showing the returned and unreturned questionnaire:

Options	Questionnaire Distributed	Questionnaire Returned	Questionnaire not returned	Percentage returned(%)
Mgt.	11	9	2	82%
Staff	43	43	0	100%
Total	54	52	2	96%

Source: Field Survey, 2024

Table 4.1 shows that a total of 11 copies of questionnaire were distributed to management of PHEDC Yenagoa and 2 copies of the questionnaire were not returned while 9 copies were returned representing 82% return rate. 43 copies were distributed to the other staff of the company and all were duly filled and returned, thereby representing a 100% return rate. Therefore, the total return rate is 96%.

4.1.2 Descriptive Statistics

Table 4.2: Descriptive Statistics

	FPD	FIA	InIA	EICS
Mean	45.28571	45.17857	44.20626	42.93650
Median	46.00000	45.00000	43.33300	43.33300
Maximum	50.00000	50.00000	50.00000	50.00000
Minimum	36.00000	37.50000	33.33300	33.33300
Std. Dev.	3.473142	3.093702	3.611245	4.305556
Skewness	-0.681673	-0.214541	-0.418549	-0.120181
Kurtosis	3.481154	2.618656	3.801472	2.353250
Jarque-Bera	3.657888	0.576686	2.350407	0.833106
Probability	0.160583	0.749504	0.308756	0.659316
Observation	54	54	54	54

Source: Researcher's Computation, 2024.

Table 4.2 shows the descriptive analysis results of all the activities regarding the internal audit and detection & prevention of fraud in the company under study. The level of fraud detection and prevention and the roles of internal audit were captured by functional internal audit,

independence of internal auditors and effective internal control system. The result reveals that the average rate of these measures are 45.29, 45.18, 44.21 and 42.94. This result implies that the average level of fraud detection & prevention at the Port Harcourt Electricity Distribution Company Yenagoa is low and not encouraging. The functional internal audit, independence of internal auditors and effective internal control system reveal that internal audit needs to be improved to bring about fraud detection and prevention at PHEDC Yenagoa. The maximum and minimum level of fraud detection & prevention, functional internal audit, independence of internal auditors and effective internal control system are 50 & 36, 50 & 37.50, 50 & 33.33 and 50 & 33.33 respectively. The standard deviation values of 3.47, 3.09, 3.61 and 4.31 reveal the rate at which fraud detection & prevention, functional internal audit, independence of internal auditors and effective internal control system have deviated from their respective and expected roles.

Also, it was discovered that skewness of fraud detection & prevention, functional internal audit, independence of internal auditors and effective internal control system are -0.68, -0.21, -0.42 and - .012 respectively. This result indicates that the financial variables under consideration are negatively skewed because their distributions have a long tail to the left. However, the kurtosis values 0.481, -0.381, 0.801 and -0.647 respectively measured the extent of peakness of the financial variables. The result reveals that fraud controls and independence of internal auditors are leptokurtic in nature because the kurtosis coefficient indexes are positive. On the other hand, functional internal audit and effective internal control system are platykurtic in nature because their coefficients of kurtosis are negative. The Jarque-Bera values reveal that the financial variables examined in this study are not normally distributed statistically.

Table 4.3: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
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.606	.655	4
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Source: Researcher's Computation, 2024.

The reliability of the instrument was tested using Cronbach's Alpha test. Cronbach's alpha test is used to investigate the internal consistencies of the research instrument. If the result reveals value between 0.50 and 1.0 for the identified variables, then the reliability of the instrument in reasonable term is established to take acceptable decision and conclusion regarding the study under investigation. Thus, from the result, it was discovered that the Cronbach's Alpha statistics is 0.61. This value implies that the research instrument used in the study is 61 percent reliable and desirable in determining the impact of internal audit on fraud detection and prevention in the company under study.

Table 4.4: Fitted Model using Least Squares Method

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	21.34831	5.498828	3.882338	0.0091
FIA	0.346672	0.077983	4.445817	0.0000
InIA	0.129669	0.057619	2.250456	0.0056
EICS	0.182077	0.049109	3.707610	0.0003

Source: Researcher's Computation, 2024.

From the fitted regression model, it was discovered that a positive linear relationship exists between functional internal audit, independence of internal auditors and effective internal control system and fraud prevention in the company under study. This shows that functional internal audit, independence of internal auditors and effective internal control system which captured Internal audit have a direct relationship with the fraud control at PHEDC Yenagoa. The result shows that functional internal audit, independence of internal auditors and effective internal

control system adopted in this study limit the fraudulent activities at the PHEDC Yenagoa by 35, 13 and 18 percent respectively. This result indicates that functional internal audit, independence of internal auditors and effective internal control system been carried out at PHEDC Yenagoa are not effective in tackling or controlling the incessant incidence of fraudulent activities. Thus, it implies that there is need for the auditors to be alive to their responsibilities such that financial statements are prepared in accordance with an identified financial reporting framework in such a way that the financial statements give a true and fair view of the financial results and state of affairs of the client entity so that fraud can be curtailed.

The statistical significance of the estimated parameters of the model was examined using the standard error test, t-test statistic and the probability value. In using standard error test, the rule of thumb is that half of the estimated parameter must be greater than the standard error value in absolute term to establish the statistical significance of the parameter. Therefore, it was discovered from this study that half of the coefficient of the variables or estimated parameters for functional internal audit, independence of internal auditors and effective internal control system are 0.173, 0.065 and 0.091 respectively which are greater than the standard error values 0.078, 0.058 and 0.049. Thus, it implies that internal audit captured by functional internal audit, independence of internal auditors and effective internal control system are statistically significant in determining the fraudulent act at PHEDC Yenagoa. In using T-test statistic, the rule is that the estimated T-statistic value must be greater than or equal to the T-tabulated value at a given degree of freedom and level of significance that is, $T_{cal} \geq T_{tab} (df)$. Thus, the T-statistic values 4.446, 2.251 and 3.708 > $T_{tab} (141) = 1.684$. This implies the statistical significance of functional internal audit, independence of internal auditors and effective internal control system in examining fraud at PHEDC Yenagoa. However, the same result was also discovered using the probability value of the estimated parameters. This is because the

probability values 0.000, 0.006 and $0.000 < 0.05$ establish the statistical significance of functional internal audit, independence of internal auditors and effective internal control system in curbing the incidence of fraud at PHEDC Yenagoa. The test for the theoretical significance of the estimated parameters was examined based on the sign of the estimated parameters. It was discovered from the analysis that functional internal audit, independence of internal auditors and effective internal control system were positively signed. Thus, the result implies that internal audit captured by functional internal audit, independence of internal auditors and effective internal control system have direct impact on fraudulent activities at PHEDC Yenagoa. This result affirms a priori expectation that internal audit is vital to the prevention and detection of fraudulent incidence at PHEDC Yenagoa.

Table 4.5: Test for the Significance of the Model

Model Std.	R	R Square	Adjusted R Square	Error of the Estimate
1	.736a	.542	.483	3.29025

Source: Researchers' Computation, 2024.

The test for the significance of the model also known as the test for the coefficient of determination of the model was presented in table 4.5. It is the proportion of variation in the dependent variables that can be explained by the explanatory variables. This test was carried out using R-Square statistic. However, the R-Square value 0.54 implies that 54 percent variation in level of fraudulent act occurring at PHEDC Yenagoa can be explained by internal audit captured by functional internal audit, independence of internal auditors and effective internal control system. The result further reveals that the extent of the relationship that exists between internal

audit and fraud control is 0.74. This implies that there is a strong correlation between internal audit and fraudulent acts at PHEDC Yenagoa. Thus, the need for an improvement of internal control system for effective service delivery; training and retraining of staff to acquire more relevant knowledge that can enhance better management thereby, leading to a drastic reduction in fraudulent acts at PHEDC Yenagoa.

Table 4.6: Test for the overall significance of the model

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	172.945	5	34.589	5.937	.000 ^b
Residual	209.736	136	5.826		
Total	382.681	141			

Source: Researcher's Computation, 2024.

a. Dependent Variable: FPD

b. Predictors: (Constant): FIA, InIA, EICS

The test for the overall significance of the model is also known as the test for the goodness of fit of the model which was presented in table 4.6. The test was done using F- statistic and the probability of F-statistic. The result shows that the F-statistic value 5.937 is greater than the F-tabulated value 2.45 at 95 percent confidence level. Also, the probability of F-statistic $0.000 < 0.05$ the error margin allowed in the estimation of model. It was concluded based on this fact that the model is appropriate and adequate for determining the impact of internal audit captured by functional internal audit, independence of internal auditors and effective internal control system on fraud detection and prevention at PHEDC Yenagoa. Therefore, a viable internal control system through responsive internal audit is good, reliable and acceptable for determining the fraudulent activities at PHEDC Yenagoa.

4.2 Test of Hypotheses

Table 4.7: Test for equality of mean among the variables

Method	Df	Value	Probability	
Anova F-statistic	(5, 562)	5.065579	0.0002	
Friedman's Test	(5,520)	25.401	0.000	
Cochran's Test	(5,520)	25.401	0.000	
F- Test	(5,520)	5.642	0.000	
Analysis of Variance				
Source of Variation	Df	Sum of Sq.	Mean Sq.	
Between	5 416	.5528	83.31056	
Within	562	4045.815	16.44640	
Total	567	4462.368	17.77836	

Source: Researcher's Computation, 2024.

Table 4.7 presents the test for the equality of mean among the variables under investigation in this study. The test was carried out to show whether the impact of internal audit in curbing fraudulent activities at PHEDC Yenagoa is the same or not. This test is done using F-statistic, Friedman's Test and Cochran's Test. The probability values of F-statistic = 0.000 < 0.05, Friedman's statistic = 0.000 < 0.05 and Cochran's statistic = 0.000 < 0.05 (0.05 = error margin) reveal that the contributions of functional internal audit, independence of internal auditors and effective internal control system towards fraud control at PHEDCYenagoa are not the same. Thus, as the activities are different, the impacts or the contributions are also different.

Hypothesis One

Hypothesis one sought to find out if the existence of a functional internal audit unit would significantly prevent instances of fraud at the Port Harcourt Electricity Distribution Company Yenagoa. The finding of the study showed that establishment of internal audit unit would not

prevent instances of fraud. This is so because the primary function of the internal audit is to evaluate processes that are in place and to identify any weakness in internal controls that might lead to undetected fraud. According to Effiok (2023), the internal audit is expected to anticipate problems, visualize improvements and propose preventive actions. Where such weaknesses are identified and reported to management for corrective actions and nothing is done in that regard on the part of management, then fraud perpetration is imminent, notwithstanding the existence of internal audit unit. This finding was supported by the work of Abu-Saeed and Kabir (2021) who posited that the internal auditor has the responsibility to appraise the activities of other departments in an organization and provide management with information that is useful in assessing operational effectiveness.

Hypothesis Two

Hypothesis two investigated the impact of internal auditor's independence on fraud detection and prevention at PHEDC. The finding indicated that fraud prevention and detection at PHEDC does not significantly depend on the independence of the internal audit. Facts emerging from this research indicated that:

- (a) The internal auditor is usually a career civil servant employed and paid by the executive.
- (b) The internal audit staffs, like other civil servants are expected to be loyal to the government of the day if they want to retain their job.
- (c) Internal Audit is funded like any other units of government.

Hypothesis Three

Hypothesis three examined whether effective internal control system can significantly curb the detection and prevention of fraud at the PHEDC. Findings revealed that where the internal

control system is effective, it will go a long way in reducing fraudulent activities at the company, if not totally eradicate it.

4.3 Discussion of Findings

This study set out to examine the effect of internal audit on the detection and prevention of fraud at the Port Harcourt Electricity Distribution Company Yenagoa. From the presentation and subsequent analysis of relevant data gathered through the distribution of questionnaire to respondents of the company under study, the following findings are made available:

Hypothesis one sought to find out if the existence of a functional internal audit unit would significantly prevent instances of fraud at the Port Harcourt Electricity Distribution Company Yenagoa. The finding of the study showed that establishment of internal audit unit would not prevent instances of fraud. This is so because the primary function of the internal audit is to evaluate processes that are in place and to identify any weakness in internal controls that might lead to undetected fraud.

Hypothesis two investigated the impact of auditor's independence on fraud detection and prevention at PHEDC Yenagoa. The finding indicated that fraud prevention and detection at PHEDC Yenagoa does not significantly depend on the independence of the internal audit.

Hypothesis three examined the effect of effective internal control system on detection and prevention of fraud at the PHEDC Yenagoa. Findings revealed that where the internal control system is effective, it will go a long way in reducing fraudulent activities at the company, if not totally eradicate it.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The objective of this study was to examine the effect of internal audit on the detection and prevention of fraud in Port Harcourt Electricity Distribution Company, Yenagoa Branch. In conducting this study, questionnaires were designed and administered to the sample size of the company under study in order to gather data. Subsequently, the data gathered was analyzed and the following findings are made available:

- i. Functional internal audit unit does not have significant effect on the detection and prevention of fraud in Port Harcourt Electricity Distribution Company Yenagoa Branch.
- ii. Independent internal auditor does not have significant effect on fraud detection and prevention in Port Harcourt Electricity Distribution Company Yenagoa Branch.
- iii. Effective internal control system has insignificant effect on detection and prevention of fraud in Port Harcourt Electricity Distribution Company Yenagoa Branch.

On the overall therefore, internal audit does not have significant effect on detection and prevention of fraud in Port Harcourt Electricity Distribution Company Yenagoa Branch.

5.2 Conclusion

Based on the findings of the study, it is concluded that the impact of internal audit in theory and practice on fraud control which is the integrated set of activities to prevent, detect, respond and monitor fraud in the financial world cannot be overemphasized even with the pervasiveness of fraud incidences in the contemporary times. Functional internal audit, independence of internal auditors and effective internal control system were carried out to determine the impact of internal audit on fraud detection and prevention at the Port Harcourt Electricity Distribution Company Yenagoa, in particular and in the public sector, in general. Therefore, it is concluded that where these three are sound and effective in any establishment, fraud detection and prevention is certain.

5.3 Recommendations

The following recommendations are suggested on the basis of the findings of this study:

- i. The independence of internal auditors should be made more effective to checkmate any increase in the perpetration of fraud. The government is advised to create legal backing to the Internal Auditor that will compel them to report any findings of corruption directly to the board, Auditor-General of the Federation and anti-graft agencies.
- ii. The internal control system of the organization should be made more effective and efficient by ensuring that every machinery necessary for its effectiveness and efficiency is put in place.
- iii. Management should ensure that the recommendations of the internal audit unit are adhered to strictly and with utmost attention.
- iv. Internal audit department staff should be well trained and their knowledge updated to a level beyond error-proof works.

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APPENDIX

Information on Internal Audit Practices:

KEY: SA ==Strongly Agree, A== agree, D ==Disagree,

SD ==Strongly Disagree.

SA A D SD

S/NOITEMS

- 1 Information on I audit
Adequate and timely action is taken to

- correct deficiencies reported by internal audit function.
2. There is timely response to the recommendation of the independent auditors regarding I.C.
 3. Other quasi audit functions are reported to management and affect overall control environment.
 4. Staffing training and specialized skills are adequate in the environment.
 5. There is independencies in terms of reporting and authority of I.A function.
 6. Auditors do not have operating activities that conflict with monitoring role.
 7. Internal auditors have access to board of directors and audit committee.
 8. Internal auditor adheres to professional standards.
 9. Internal audit function has recently been reviewed by external parties for quality assurance.
 10. The scope I.A is appropriate given the nature size and structure of the company.
 11. Scope of I.A is reviewed with senior management, BOD independent auditor .
 12. I.A report is directed to senior management, BOD.