

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF INTELLIGENCE AND SECURITY STUDIES

DISSERTATION

**THE ROLE OF INTERNAL AUDITORS IN UNEARTHING FRAUD IN LOCAL
AUTHORITIES. A CASE OF THE CITY OF HARARE (2016-2018)**

BY

SHYLET P CHAMUNORWA

B1542886

SUPERVISOR:

Mr. GOMBARUME



RELEASE FORM

Name of Author: BI542886

Dissertation title: The role of internal auditors in unearthing fraud in local authorities. A case of the City of Harare (2016-2018)

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Signed

Permanent Address: 4370 Njiva Close
Budiriro 2
Harare

Date / /

APPROVAL FORM

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I certify to the best of my knowledge that the required procedures have been followed and the preparation criteria have been met for this dissertation.

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DEDICATION

This project is dedicated to my parents Mr and Mrs Chamunorwa, my big brother Evans, twin sister Shaleen and young sister Emildalonsia, who are always encouraging in times of difficulties and also to my two daughters Lauren and Mazvita who are also my sources of inspiration.



ABSTRACT

This study's major purpose was to evaluate the role of internal auditors in unearthing fraud in local authorities a case study of Harare City Council. Fraud cases have been prevalent at Harare City Council in recent years despite auditor's presence. The study was guided by the following objectives, to identify types of fraud being committed at Harare City Council, to establish whether there is auditor's independence in performing their duties at Harare City Council, to explore the effects and consequences of fraud at Harare City Council., to explore the responsibility of internal auditors in the prevention and detection of fraud at Harare City Council, to identify possible solutions and make recommendations to reduce fraud incidences at Harare City Council. The targeted population of the study was 50 which comprised of internal auditors. audit committee, other staff, and senior management. The sampling technique that was used to carry out this research is stratified random sampling with a sample size of 25 employees. Structured questionnaires and interviews were used to collect data, and the researcher personally distributed the questionnaires. All returned questionnaires were checked for completeness and interviewing quality as a way of analysing quantitative data. Qualitative data was presented in text form and then analysed. Quantitative statistics such as frequency distributions and percentages was used to analyse data and results were presented using graphs and tables. The study showed that the internal audit system is effective in unearthing fraud at Harare City Council. Results of the study shows that cases of bribery failed to be detected by internal auditors hence the ineffectiveness of internal auditors however, cases of point of sale fraud detected by auditors hence the effectiveness of the internal auditors. The study recommended that Harare City Council should reduce the workload on employees, improve its auditors' independence, segregate duties, and increase education of the internal auditors. The research concluded that the internal audit system at Harare city council needs to be improved, following the recommendations of this study The results of the study can also be used by other councils, academician, and the researchers as a source of knowledge. As for future researches, it was suggested that they focus on the impact of reduction of workload on employees and segregation of



duties to large firms.

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Table of contents

Release form.....	ii
Approval form.....	iii
DEDICATION.....	iv
ABSTRACTION.....	v
ACKNOWLEDGEMENTS.....	vi
LIST OF TABLES.....	x
LIST OF FIGURES.....	xi
APPENDICES.....	xii
CHAPTER 1.....	1
INTRODUCTION.....	1
1.0 Introduction.....	1
1.1 Background of the study.....	1
1.2 Statement of the Problem.....	2
1.3 Objectives of the study.....	3
1.5 Significance of the study.....	3
1.6 Assumptions.....	4
1.7 Delimitation of the study.....	5
1.10 Summary.....	7



CHAPTER II.....	8
LITERATURE REVIEW.....	8
2.1 Purpose of Literature Review.....	8
2.2 Theoretical Framework.....	8
2.3.1 Fraud Triangle Theory.....	9
2.3.2 The Fraud Diamond Theory.....	10
2.3.3 The Fraud Scale Theory.....	11
2.3.4 Iceberg Theory of Fraud.....	12
2.4 Conceptual Framework.....	12
2.4.1 The Concept of Fraud.....	12
2.5 Types and or nature of frauds.....	13
2.6.1 The Role of Internal Auditing.....	15
2.6.2 Internal Auditing and fraud detection.....	16
2.6.3 Internal Audit and Fraud Prevention.....	16
2.7 Empirical Review.....	16
2.8 Gap Analysis.....	19
2.9 Summary.....	20
CHAPTER III.....	20
RESEARCH METHODOLOGY.....	20
3.0 Introduction.....	20
3.1 Research Design.....	20
3.2 Research method.....	20
3.3 Descriptive research.....	21
3.3.1 Justification.....	21



3.4 Case Study.....	21
3.5 Targeted Population.....	21
3.6 Sampling techniques.....	22
3.6.1 Stratified Random Sampling Technique.....	22
3.6.2 Simple Random Sampling.....	22
3.7 Sample Size.....	22
3.8 Types of Data.....	23
3.8.1 Secondary Data.....	23
3.8.2 Primary Data.....	23
3.9 Research Instruments.....	23
3.9.1 Questionnaire.....	24
3.9.2 Interviews.....	25
3.10 Pilot study.....	26
3.12 Validity and Reliability of Findings.....	27
3.13 Ethical Considerations.....	28
3.14 Data presentation and analysis plan.....	28
3.15 Conclusion.....	28
4.2 Age.....	32
4.3 Education.....	33
4.4 Employment period.....	34
4.5 Fraudulent Activities.....	35
4.6 Causes of Fraud.....	37
4.7 Auditor independences.....	38
4.8 Impact of Fraud.....	39



4.9 Auditors responsibilities effectiveness.....	40
4.10 Anti-fraud measures effectiveness.....	41
4.11 Interview responses.....	42
4.11 How can Harare City Council Internal auditing system be improved?.....	42
4.11.3 What are the causes of fraud cases at Harare City Council?.....	43
4.11.4 How is fraud minimized at Harare City Council?.....	43
4.12 Summary.....	43
CHAPTER V.....	45
SUMMARY, CONCLUSION AND RECOMMENDATIONS.....	45
5.0 Introduction.....	45
5.1 Summary.....	45
5.2 Conclusion of the major findings.....	46
5.3 Recommendations.....	47
5.4 Further research areas.....	48
REFERENCES.....	49



LIST OF TABLES

Table 4.1	Questionnaire response.....	29
Table 4.2	Interview response rate.....	30
Table 4.3	Appointment of Internal Auditors.....	35

LIST OF FIGURES

Fig 2.1 Fraud Triangle.....	9
Fig 2.2 Fraud Theory.....	11
Fig 4.1 Gender.....	30
Fig 4.2 Age.....	31
Fig 4.3 Education.....	32
Fig 4.4 Period of Employment.....	33
Fig 4.5 Fraudulent Activities Prevalent at Harare City Council.....	34
Fig 4.6 Causes of Fraud at Harare City Council.....	36
Fig 4.7 Auditors independence in duty performance.....	37
Fig 4.8 Impact of Fraud.....	38
Fig 4.9 Effectiveness of Internal Auditors Responsibility.....	39
Fig 4.10 Effectiveness of the anti-fraud measure.....	40



APPENDICES

Appendix A Cover letter.....	51
Appendix B Questionnaire.....	52
Appendix C Internal guide.....	55

CHAPTER I

INTRODUCTION

1.0 Introduction.

Fraud is one of the most controversial issues in auditing, and has been one of the most frequently debated areas among auditors, politicians, media, regulators and the public (Gay et al 1997). This debate has been necessitated by the collapse of both big and small corporations across the world. The auditing profession in local authorities has caught the media's attention through the audit reports they release in newspapers. In local authorities there seem to be a fallacy that auditors' duties are largely that of preventing, detecting and reporting of fraud. However, this study will mainly focus on the role of internal auditors in detecting fraud in local authorities as well as exploring the challenges they face in undertaking their duties as there are many fraud cases in local authorities. Thus, in trying to put the problem into perspective, this chapter presents the background to the study, statement of the problem and objectives of the study. The assumptions of the study, significance of the study as well as the scope of the study will be highlighted. The chapter ends with a summary.

1.1 Background of the study

Fraud has been regarded as one of the major constraints against the successful operation of local authorities, with some scholars citing lack of independence by internal auditors as the loophole used in perpetrating this crime. According to Ojo (2009), the key determinant of financial management efficiency lies on how excellent a particular organization pursues its duties and to what extent it is capable of



carrying out its responsibilities. Globally, the Enron scandal has helped to prove the importance of internal auditors in exposing and detecting fraud cases, where Enron's reports testified that its annual revenues grew from under \$ billion in the early 1990s to \$101 billion in 2000, ranking it seventh on the Fortune 500. The company used accounting techniques involving unconsolidated partnerships and "special purpose entities to prevent significant losses from appearing on its financial statements and to conceal the extent of its indebtedness.

In South Africa the VB S Mutual bank which granted the former president Jacob Zuma a 7.8 million-rand loan for him to repay taxpayers for security upgrades to his private Nkandla homestead in 2016 collapsed after scores of people and companies looted 1.9 billion rand over three years. Zimbabwe has been named amongst the top fraudulent countries in Africa. Two former Air Zimbabwe executives Peter Chikumba and Grace Pfumbidzayi were given 20 years in jail for bringing the company to its knees. Air Zimbabwe lost nearly \$10 million between 2009 and 2013. These two bled the national flag carrier of millions of dollars in a fraudulent aviation insurance deal after they appointed Navistar Insurance Brokers in opaque circumstances as the air line's local broker.

It is a requirement that every City Council has to employ its own Internal Auditors so as to examine and evaluate the effectiveness of the financial management. This is because the management of the City Council has the responsibilities of ensuring a systematic arrangement to financial management within the organization. The auditors have to satisfy themselves that the existing laws and regulations are adhered to so as to eliminate fraud. However, it has been reported that, despite the organization's initiative to establish the audit unit, most of the auditors (consultants) fail to perform their duties to the required standard thus forcing the organization to seek for external assessment (independent consultants) when conducting annual assessments.

1.2 Statement of the problem

It has been seen that fraud is the biggest enemy of an economy and it has existed in every economy, thus it can be said that fraud and economic development have an inverse relationship. Organizations have put in place measures to reduce fraud as a way of minimizing losses. One such measure is the establishment of the internal audit department. However, cases of fraud at the Harare City Council have been dominant in recent years despite the internal auditor's presence. For example, in September 2018 Harare Acting Town Clerk Eng. Hosiah Chisango suspended some officials following allegations of overcharging for goods and services to cash in on a \$10 million donation from Econet Group towards the fight against cholera. Therefore, unearthing the causes of fraud has become the focus of the study.

1.3 Objectives of the study

The study was guided by the following objectives:

- To identify types of fraud being committed at Harare City Council
- To establish whether there is auditor's independence in performing their duties at Harare City Council
- To explore the effects and consequences of fraud at Harare City Council.
- To explore the responsibility of internal auditors in the prevention and detection of fraud at Harare City Council.
- To identify possible solutions and make recommendations to reduce fraud incidences at Harare City Council.

1.4 Research questions

- What types of fraud are prevalent at Harare City Council?
- How is auditors' independence being considered in performing their duty at Harare City Council?
- What are the responsibilities of internal auditors in fraud detection and

presentation at Harare City Council

- What are the effects of lack of auditor independence at Harare City Council
- What are the possible solutions available to Harare City Council to combat fraud?

1.5 Significance of the study

- **To the local authorities**

The audit committee, will have relevant information and intervention strategies they might make use of when performing g their duty in detecting fraud thereby enabling them to be able to find ways of preventing fraud. Thus the company will be able to implement better solutions of reducing fraud.

- **To the Government**

It will help the country to come up with better policies. An improvement in the overall management of fraud incidences will see the fraud trend plummeting which will then present a conducive environment for economic growth as investors would want to invest their capital in a country with low fraud rates thus ushering in some socio-economic benefits to the country and its citizens through improved standards of living as employment would be created.

- **To Bindura University**

The study may also contribute to the existing body of knowledge at Bindura University of Science Education and other institutions of higher learning by providing additional literature on the subject of fraud detection and prevention.

- **To the researcher**

The study is significant as it is undertaken in partial fulfilment to the requirements of the Bachelor of commerce (honours) degree in Financial Intelligence offered at Bindura University Having carried out this research, the researcher will gain

experience on carrying out a detailed research hence it will serve as a good foundation for future work. The researcher will also benefit from the increased knowledge. This knowledge will be used for academic studies and other further studies as literature review.

1.6 Assumptions

The study was guided by the following assumptions:

- The auditors will be honest, accurate and objective in expressing their perceptions on how they detect and prevent fraud in the organization.
- Adequate resources would be available to successfully conduct the study
- The respondents would be literate and willing to cooperate
- The study findings can be generalized.

1.7 Delimitation of the study

- The study was confined to the Harare City Council, covering a period from January 2016 to December 2018.
- The study was centred on the data obtained from the internal audit department at Harare City Council.
- The main focus was on the evaluation of internal auditors in the detection and prevention of fraud at Harare City Council.
- Harare City Council has 20 internal auditors.

1.8 Limitations

The researcher encountered some challenges during the research process. These challenges affected the results of the research in terms of quantity and quality of data and information and these challenges are mentioned below

- **Material resources**

The study was not funded. Shortages of material resources particularly transport posed a challenge to the researcher as she undertook the research. The researcher also faced some challenges in the acquisition of stationery to use for data collection. The researcher as somebody who was not gainfully employed, got funding from her parents.

- **Population availability**

Since the area of the study was vast and population involved was also not always available, it was not possible to study the population elements in its entirety. Thus, the researcher resorted to the use of a study sample to cut on the costs involved in data collection as well as to be able to complete the study on the scheduled time frame.

1.9 Definition of terms

The under mentioned will be defined in the context of this study:

Fraud - The Institute of Internal Auditors, the American Institute of Certified Public Accountants and Association of Certified Fraud Examiners (2007) defines fraud as “any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain.

Auditor - According to the International Standard on Auditing 2002 an auditor is a person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. Where an ISA expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "auditor" is used. "Engagement partner" and "firm" are to be read as referring to their public sector equivalents where relevant.

Internal audit - According to the Zimbabwe Internal Audit Charter (2012) internal

audit is a control measure which ensures that other internal controls are in place through examining and evaluating adequacy and effectiveness and efficiency of internal controls

Fraud detection - According to KPMG Forensics (2008) fraud detection are the controls designed to decide to discover fraud and misconduct when it occurs

Fraud prevention -- According to The Fraud Examiners Manual, fraud prevention requires a system of rules, which in their aggregate, minimize the likelihood of fraud occurring while maximizing the possibility of detecting any fraudulent activity that may transpire.

1.10 Summary

This chapter looked at the background to the study the research problem and question objectives of the study and scope of the study. In addition, the chapter explained the assumption of the study, its significance, delimitations and limitations, and definition of important terms. It also presented the general background to the current study and to addressed use related auditing in general and specifically auditing practices in the Harare City Council The next chapter will present literature review on fraud and its related sub-topics

CHAPTER II

LITERATURE REVIEW

2.0 Introduction

This chapter focuses on the literature that has been written by other scholars along the lines of fraud. Literature review assist in developing research ideas. It is a process that involves reading, location and evaluating reports of research as well as reports of casual observations and opinions that are related to the individuals' research project. It acts as a foundation to the study. According to it establishes the



need for the research and indicates that the researcher is knowledgeable about the area of study. It provides a framework for launching the importance of the study with other results.

2.1 Purpose of Literature Review

Literature review establishes the identity of some controversial areas concerning the problem at hand. According to Jurs, (1990) many researchers have emphasized the need for improved internal control system and intelligence skills in every organization. According to Frost (1986), literature review provides a thematic narrative, which guide the formulation of the topic and suggests strategies for making the independent and dependent variables considered in the study operational.

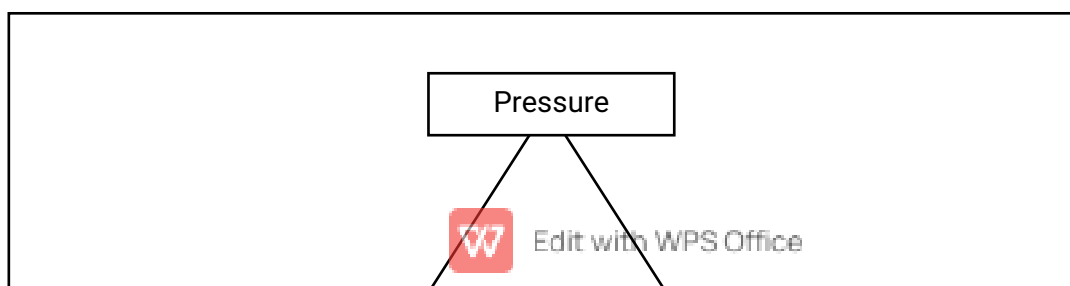
2.2 Theoretical Framework

Saunders, (2003) states categorically that theoretical framework is used in research to present a preferred approach to an idea or thought. Saunders, (2003) further stated that theoretical framework is a type of intermediate theory that attempt to connect all aspects of inquiry for example problem definition, purpose, literature review, methodology, data collection and analysis.

2.3.1 Fraud Triangle Theory

Cressey, (1978) came up with the Fraud Triangle Theory and it was mainly based on the position that drives individuals to be engaged in fraudulent activities. The fraud triangle theory was raised by the undertaking of this study. There are three factors that the theory identifies as alleviating circumstances that leads individuals to committing fraud and also these three factors have to be present for fraud to occur. The three factors were identified as pressure, opportunity and rationalization. These factors were presented and illustrated in the diagram below

Fig 2.1: Fraud Triangle



Source: Wells, J. T., 2005. Principles of fraud examination. Hoboken, New York: John Wiley and Sons

► **Pressure**

Albrecht et al, (2006) eluded that pressure does not have to be existent. According to the theory, pressure is purported to be non-sharable financial desires which drives any individual to be engaged into committing fraud. Nevertheless, if the fraudsters believe that they are under pressure that leads them to commit fraud, it might be as a result of financial load, greed and unemployment.

► **Opportunity**

The second sect of the fraud triangle defines the method by which crime is committed and also the ability to commit fraud Cressey, (1978) states that employees may have the opportunity to commit fraud if they happen to have access to major assets and information which allows them to choose their fraudulent activities. It is proposed by the concept of perceived opportunity that employees will take advantage of circumstances available to them Usually opportunity occurs because of poor management, absence of detailed operational structure and poor internal controls.

► **Rationalization**

according to Cressey, (1978) rationalization is a state when an employee reconciles behaviour (fraud) with the commonly accepted ideas of trust When an individual

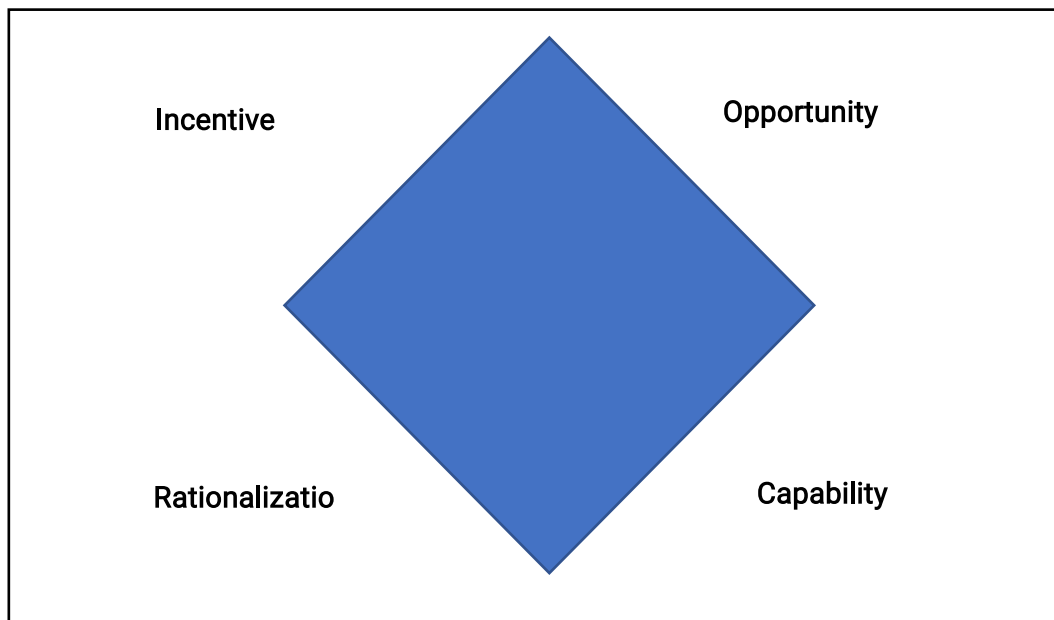


justifies why he or she commits fraud rationalization is believed to occur. This impression suggests that the culprit formulates some type of morally acceptable rationalization before engaging in unethical behaviour.

2.3.2 The Fraud Diamond Theory.

Wolfe and Hermanson, (2004) propounded the Diamond theory. The theory comprises of one element short of the triangle theory namely capacity to the reasons why individuals commend fraud. Wolfe and Hermanson (2004) affirm that, though pressure might exist at the same time with an opportunity to commit fraud and rationalization, economic crime (fraud) is unlikely to occur unless capacity is present in this regard the theory propounded that in the presence of the three elements there must also be the capability and the ability to carry out the illegal activity, fraud, by the existence of this fourth element the detection and prevention of the risk might suffice but however take long.

Fig 2.2: Fraud diamond



Albrecht et al (1984) propounded the fraud scale theory. This theory acts as a substitute to the fraud triangle formulated by (Cressey, 1978). Though the two theories may seem not to differ in application, but the fraud scale uses personal integrity for rationalization whereby the personal integrity element is linked to an individual's personal ethical behaviour. Albrecht et al 1984 argued that, unlike rationalization in the fraud triangle theory, personal integrity can be observed in

individual's decisions and overall decision-making process, which can help in examining integrity and determining the likelihood that an individual will commit fraud.

2.3.4 Iceberg Theory of Fraud

This theory was developed by Biegelman and Bartow, (2006). The theory suggests that we cannot see or detect most of a situation's data, that is, when it was first discovered, very few frauds yielded their true extent, along with the actual amount of the loss. Often the fraud that would first be seen is just a small part of the actual deceit. A larger fraud is usually reviewed as an investigator conducts the investigation, interviews people, reviews supporting documentation.

2.4 Conceptual Framework

2.4.1 The Concept of Fraud

Singleton, (2006) states that criminologists, just like their legal counterparts have found it constantly challenging to define fraud in its purest form and sample the constituents because of its ever-changing colour, modus operandi and texture, divergent views have sprouted. which are seemingly inconclusive in arriving at a standard definition? Fraud locates itself as a generic term which encompasses all miscellaneous means in which human ingeniousness can device, that are resorted by one individual to get advantage over another by false representation (Michigan criminal law code). Historically the roots of fraud could be traced to the Latin word 'frauds' which means to carry a wide range of meaning clustered around assertion harm wrong doing and deceit, (Levanti; 2001). However, Skalah et al (2003) attempted distil tacts of fraud as comprising of four elements, which are:

- A false representation of material nature
- Knowledge that the representation is false or reckless disregard for the truth.
- Relevance entails that the person receiving the presentation reasonably and justifiably relied on it.

- Damage means the financial damage resulting from the above

2.5 Types and or nature of frauds

There is a type of fraud that is commonly committed with employees at the Harare City Council and this type of fraud which is mentioned below.

Point of Sale Fraud

This form of fraud is whereby there are unofficial Point of Sale (POS) devices that are not registered with the city in operation in its offices. Some officials may supply the organization's district offices with the POS machines without going through the finance department.

However, there are also other types of frauds that are committed by the employees of Harare City Council and these are mentioned below

► Forgeries

Onibudo (2007) emphasized that most forgeries are committed either by internal staff or by outsiders who plots with employees of the organization who are usually the ones who release the specimen signatures being forged. This type of fraud involves the fallacious copying and use of customer's signature to draw immense amounts of money from the customer's account without the customer's agreement

► Theft and Embezzlement

Theft and embezzlement is a form of fraud which involve unlawful collection of monetary items such as cash, travellers' cheque and foreign currencies. It also involves the fraudulent collection of assets such as motor vehicle, computer and different types of electronics owned by the organization

► Accounting fraud

Skalah et al (2005) debates that banks in a bid to hide serious financial problems may be attempted to inflate the worth of the organization's assets or state a profit when it is operating at a loss. To solicit investment, the fraudulent documents are presented in the form of selling the organization's



securities, and bonds in an endeavour to obtain more funds to delay the collapse of an unprofitable or mismanaged organization and this could be used to conceal theft in the company. There are cases on point that can be noted as examples of this type of fraud, and these are the famous collapse of Enron in the United States and the collapse of our own Renaissance Bank

► **Manipulation of Vouchers**

The transposition or conversion of entries of one account to another being used to commit fraud is what is involved in this type of fraud. The account which the funds of unsuspecting clients of the organization are transferred would naturally be a fictitious account. usually the sums of money that are taken are often taken in small amounts as way of making it difficult or impossible to be noticed by the top management or other staff of the City of Harare.

Institutional causes of Fraud

Poor internal controls

Generally poor internal controls in an organization is regarded as one of the major causes of internal fraud and poor internal controls are manifested through insufficient supervision of employees. mostly employees with fraudulent tendencies who are not well supervised get the feeling that the environment is safe for committing fraud.

Inexperienced Personnel

According to Benson and Edwards, (2006) inexperienced personnel also contributes to unintentional fraud being committed by falling for numerous tricks, from external fraudsters and even fraudulent employees. This is because inexperienced personnel are unlikely to notice any fraud attempts and take necessary precautionary measures to checkmate the fraudster or set the detection process in motion.



2.6 Internal Audit

According to the IIA, (2009) internal audits objective is to evaluate and improve risk management control and governance processes. Internal audit is an independent, objective assurance and consulting activity that is designed to add value and improve the organization's operations. KPMG, (2008) further shows that internal audit can be a completely outsourced function or a resident function or a combination of these two approaches. The resident approach is propounded by (Ernst and Young, 2008) which is a system of internal auditing that wholly utilizes the IAF that is a permanent function of the organizations.

2.6.1 The Role of internal Auditing

It is advised by the IIA, (2009) that the role of internal auditing is basically to evaluate fraud risks faced by the organization and be in a position to advise the management on ways of mitigating these risks. In order to be able to detect fraud the Internal Auditing department should conduct surprise proactive auditing and also apply other procedures to search for misappropriation of assets, misrepresentation of information or any other form of fraud that may be going on. It is advised through the Practice Advisory 1210.A2-1 (2006) the Institute of Internal Auditors that Internal Audit's role is largely determined by the host organization but should cover most of the following fraud risk assessment, evaluation of internal controls specifically designed to prevent and detect fraud The host organization will be able to detect and prevent fraud if the role and duties are properly followed or adopted. For effective fraud prevention and detection, according to (Price waters house Coopers, 2004) the internal audit department should be involved in all of the following anti-fraud efforts.

- Facilitating fraud risk assessment at all levels
- Linking anti-fraud control activities to identified risks
- Evaluating the design and effectiveness of anti- fraud programs and controls
- Fraud auditing



- Leading or supporting investigations into suspected fraud
- Leading or supporting remediation efforts
- Reporting to the audit committee and board about the organisations effort to prevent, detect, investigate and remediate fraud.

2.6.2 Internal Auditing and fraud detection

The Institute of Internal Auditors Practice Advisory 1210.A42 -1, (2006) states that an auditor should be involved in fraud detection however the level of involvement varies from organization to organization. the internal audit may be given a chance to assist management in setting up the controls to unearth fraud. the internal audit function should evaluate the effectiveness of the controls and other antifraud efforts whether the controls are either exclusively by management or with Internal Audit's assistance.

2.6.3 Internal Audit and Fraud Prevention

It is stated by the Institute of Internal Auditors that internal auditors are responsible for assisting organizations to prevent fraud by examining and evaluating the effectiveness of their internal control systems. Internal auditors should consider the fraud prevention elements when gathering their preventive responsibilities. The internal audit department should be in an apposition to evaluate management's fraud risk assessment paying adequate attention to processes for identifying, assessing potential fraud schemes.

2.7 Empirical Review

Empirical literature involves the citation of researches and journals or current observations and experiments. Some of the studies conducted on fraud detection and prevention include the internal auditor as fraud-buster as one way of detecting



and prevention fraud.

Coram and Ferguson (2006) The importance of Internal Audit in Fraud Detection.

Coram and Ferguson examined the importance of internal audit in fraud detection in the town of Melbourne in Australia. The study found that for most organizations that have an IAF stand a better chance of detecting fraud in its earliest stages thus minimizing losses. It was found in the study that internal audit to be beneficial to host financial organization in light fraud detection and prevention. For example, it was also found that self-reported fraud was high in organizations with IAF than those that do not host any IAF let alone utilize internal audit services. Furthermore, we found out that major hindrance or factors that limit the IAF in fraud detection and prevention are mainly to do with the host organization rather the IAF itself. Challenges that this study revealed are inefficient resources, skills and qualifications, and underfunding.

DeZoort and Hanison (2008) An Evaluation of Internal Auditor Responsibility for Fraud Detection.

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

Coram, Ferguson and Moroney (2006) Value of internal auditing in Fraud Detection.

They examined in Australia the value of internal auditing in fraud detection. The study revealed that organizations with IAF are more likely to have a high level of self-reported fraud than those that do not host any internal audit function. The study also showed a positive relationship between the existence of internal audit function and the propensity to detect fraud. Organizations that in-source internal audit services are in a better position of detecting and preventing fraud than those that do not. Any level of involvement and responsibility of the IAF in any organization's anti-fraud efforts will certainly improve the organization's ability to fight fraud. The study also cited that excessive involvement of the internal audit function.

Harrison, Pacini and Sinason (1999) The internal auditor as fraud-buster.

Examined the impact of internal auditor as fraud-buster in United States of America. The study, qualitative in nature indicated or revealed that internal auditors can do more in fraud detection and prevention if they devote their efforts towards the key aspects of fraud prevention and detection. The key areas identified by the study included creation and maintenance of auditable fraud policy, fraud risk assessment or threat analysis, assistance in implementation, operation and maintenance of both internal and external fraud hotlines, and surprise fraud audits. Having auditable fraud controls helps the IAF when discharging their duties that are linked to fraud detection and prevention.

Josiah, Samson and Akpeti (2012) The Evaluation of the roles of auditors in the fraud detection and investigation.

They conducted a study in Nigeria evaluating the roles of auditors in fraud detection and investigation: a survey of selected firms in Nigeria. They used questionnaire as the data collection technique for the study and oral interview as supportive technique. The data was analysed through the use of chi-square. The findings showed that

firm's produced and published financial statement as well as engaging the services of auditors and that detection of fraud and errors is inevitable. Again, the case of fraud discovered in the sampled organizations was due to poor management, lack of internal auditors, poor internal control system and corruption. The recommended drawn from the study was that the selected firms should ensure continuous policies and strategies aimed at effective and efficient management. That management should continually engage the services of qualified and experienced external auditors which will not only put in place an effective internal control system but which equally enhance it.

Sengur (2012) The Auditors' perception of fraud prevention measures.

He examined the auditors' perception of fraud prevention measures in Turkey. In particular, the research focused on the differences in perception of the effectiveness of fraud prevention measures

among three categories of fraud:

- Fraudulent
- Financial statement
- Misappropriation of assets and corruption

In the analysis Friedman test and Wilcoxon test were used to examine differences in perception of the effectiveness of fraud prevention measures. The results drawn from the analysis showed that there are significant differences in terms of auditors ranking of fraudulent financial statements, misappropriation of assets and corruption for the following fraud prevention measures: establishing corporate code of conducts, effective audit committee and extremal auditors.

2.8 Gap analysis

Many of the published researches were carried out in developed countries and it would be of paramount importance for us in third world countries to take the studies as reflective of situation. The segments being studied will be mainly drawn from internal auditing profess ignoring other stakeholders in fraud prevention and detection such as board member's committee members, management and



regulators. The study will include other stakeholder's fraud detection and prevention like audit committee members and directors with main thrust in third world countries that is Zimbabwe in particular

2.9 Summary

Related literature under study was reviewed in this chapter. Discussed were the fraud detection, fraud presentation, fraud risks assessment, perceived role internal auditing and findings of other researchers concerning fraud and internal auditors.

CHAPTER III

RESEARCH METHODOLOGY

3.0 Introduction

This chapter looks at the methods that have been used to conduct the study. It begins with a brief explanation of the research philosophy and then analyses the data collection methods that were used in the entire research. Data was collected from both primary and secondary sources. The section looks at the target population and sampling aspects such as the sampling techniques, data collection instruments and the response rate. It concludes by looking at the data analysis approach limitations and justification for the methodology.

3.1 Research Design

Understanding the research philosophy can help the researcher specify the research



methods to be used (Proctor, 1998). This would allow or assist the researcher to assess the different methodologies and methods and be able to avoid unsuitable use of unnecessary work by recognizing the limitations of particular approaches at an earlier stage. It would also include the type of evidence gathered and its origin, the way in which such evidence is interpreted and how it helps to answer the research questions. The detailed investigation in this case was targeted at identifying or questioning an existing theory. Various designs will be used with the sole purpose of obtaining the objectives of the study.

3.2 Research method

In the collection of data there was employment of quantitative and qualitative methods. The qualitative method involved the use of a questionnaire to obtain the relevant information. Interviews were also conducted and the interviewees were given the chance to express their opinions.

3.3 Descriptive research

Descriptive research is also known as statistical research, and this describes phenomenon as they exist. Descriptive research aims at showing accurately the characteristics of a particular group or situation (Islamia 2016). According to Mugiya (2014) descriptive research design comprises of interviews, questionnaires and observations which gives information directed towards determining the nature of the situation as it existed at the time of research.

3.3.1 Justification

The choice of this research design was for the researcher to be able to get in contact with the respondents so as to collect relevant data. This type of research design also enabled the researcher to collect large amounts of data through questionnaires. Descriptive research can yield rich data that lead to important recommendations in practice. It also provides assistance by introducing more detail to the research questions and it gives a detailed, highly the problem at hand.

3.4 Case Study

According to Islamia (2016) it is stated that in a case study, the insight-stimulating cases should be selected for special study. He further on proclaims that, under a Case study method the subject matter studied in all its proportions and ratifications. Its main aim is to know specifically the factors and causes which plain the complete behaviour patterns of unit and the place of the unit in its surrounding social miller. The researcher used a case study in the research as the researcher was seeking to discover the key phenomenon and traces of series of events related to the study at Harare City Council.

3.5 Target population

Cooper and Schindler, (2003) defined population as the total collection of elements about which we wish to make some inference. Since the study was focused on the Harare City Council, the population included 10 internal auditors, 5 Audit committee members, 5 other staff members and senior management of the organization utilizing the services of internal auditors will be included to complete the population. Target population is the collective of all elements defined subsequent to selecting a sample.

3.6 Sampling techniques

The researcher used Stratified random sampling that incorporated simple random sampling.

3.6.1 Stratified Random Sampling Technique

Proctor, (1998) propounded that stratified random sampling is when the population is split into distinguishable layers that are quite different from each other which together cover the population for example:

- Top management
- Audit Committee



- Internal Auditors
- Other staff

There was reduction of dominance of any other group because every member for different levels was included. The main aim of stratified sampling is of reducing sampling errors.

3.6.2 Simple Random Sampling

Dobler, (2000) defined simple random sampling as one of the probability sampling methods. which means that each element in the population has an equal chance of being selected. In simple random sampling there is random selection of elements from the target population. The reason that each and every member of the population has an equal chance of being selected for the study is why the researcher preferred this method of sampling. In other words, this sampling method is bias free.

3.7 Sample Size

Authentic research was reached because the sample size of the research was large enough and manageable. To easy the data collection process mainly due to limited time and financial limitations a sample of thirty (25) individuals was selected from the internal auditors, audit committee and top management. As a way of making the data collection manageable the number of respondents was limited.

3.8 Types of Data

3.8.1 Secondary Data

Information collected from sources other than the directed area of respondents in the study is called secondary data. The information's relation to the study issue may either be direct or indirect, and at times may have the opinion of the referred author. To get detailed insight into the subject of study there was use of many textbooks, journals and websites on the internet. These secondary sources were used

essentially in the literature review relating to the efficiency of the IAF in fraud detection and prevention, in which the result was the literature review section (chapter 2) of the study.

3.8.2 Primary Data

Primary data is usually referred to as first hand source data It is that information that is gathered from the direct subjects of the research objectives and aims. Data was collected from internal auditors affiliated with the Zimbabwe chapter of the Institute of Internal Auditors, top management and audit committee members. This being qualitative research, specific respondents will be targeted in the primary data collection. The researcher took consideration of issues relating to the target population sampling frame, sampling size, sampling technique, data collection instruments and the response rate in carrying out the primary data collection.

3.9 Research Instruments

Research instruments can be defined as the tools used for gathering data for the research or tools that are used to collect data to find solutions to the problem under investigation. for the purpose of establishing as much information as possible the researcher may elect to use several research instruments. This research made use of questionnaires, interviews and observation.

3.9.1 Questionnaire

Questionnaires as defined by (Saunders et al, 2009) are all techniques of data collection in which a person is asked to respond to the same set of questions in a predetermined order. Questions of the questionnaire are commonly answered in the absence of the interviewer. Some of the information gathered by the researcher was gathered through the use of questionnaires. Respondents were able to give their own response without being clued because of the open ended questions, and these contributed to the advantage of freedom to the respondents. This is because the respondents were able to answer freely to whatever they knew about the subject

matter. This sense of freedom is usually enabled by the absence of the researcher and the environment created by the researcher.

The researcher benefited from the use of questionnaires because they were directed to a large number of people. The use of this research instrument allowed the researcher to collect more information in a short period of time. However, the use of questionnaires did not without shortcomings and this is because they did not probe any further when a certain answer was given and also the questionnaires may not properly have been understood by the respondent and this would not yield best results. In addition, they may also be completed in a hurry, that is, the respondent may not give them time to concentrate. Another research instrument was used in order to counter these inherent weaknesses in questionnaires. For the researcher to ensure that the questions she felt were too contextual were further explained she undertook interviews.

Advantages of questionnaire

- Inexpensive - questionnaires are one of the most affordable ways to gather data for example, self-administered questionnaires, where one does not need to hire surveyors to
- Practical - questionnaires are a practical way of gathering data, and they can be targeted to groups of one's choice and managed in various ways.
- Offer a quick way to get results - questionnaires made it quick and easy to collect results because the researcher was able to gain insights in a short period of time.
- Comparability - when data was quantified, it was used to compare and contrast other research and was also used to measure change.

Disadvantages of questionnaires

- Dishonest answers - respondents may not be 100% truthful with their answers, and this can happen for a variety of reasons for example attempting to protect privacy.
- Unanswered questions - when questionnaires were left unused there were many questions that were left unanswered



- Differences in understanding and interpretation - not presenting questions to users face-to-face was incorporated with the problem of respondents not being able to interpret questions properly.
- Some questions are difficult to analyse - open-ended questions produced a flood of data that took forever to analyse.

3.9.2 Interviews

To ensure privacy the researcher interviewed five internal auditors in offices. However, exceptions to the rule of privacy were reconsidered when the respondent would want someone to be present during the interview. The interviews were expected to last an average of at most 30 minutes but some took unexpectedly longer because of the understanding and literateness level of the respondent. These interviews were held as a way of gathering professional views on the topic and approval of information gathered by the questionnaire.

Information that could not be addressed by the questionnaires were then clarified by the Interviews. The reason why interviews were done individually is because it would avoid the influence by group psychology on an individual and enable the respondent to say out his or her own thoughts freely. The five internal auditors are the ones that helped the researcher collect information concerning the evaluation of the role of internal auditors.

However, this research instrument posed some difficulties such as that the respondents held some important information that they felt that it was not in their best interest to be known that they disseminated the information, the researcher did not have interviewing skills, difficulty in recording the data since the researcher had to rely on her memory and also some respondents felt uneasy and intimidated by the in depth interview.

Advantages of interviews

- Easy correction of speech - they allowed one on one interaction between the researcher and the respondents, therefore any misunderstanding and mistake were rectified easily.

- Development of relationship - relation between the researcher and the respondents was developed and it increased mutual understanding and co-operation between the two parties.
- Selection of suitable candidates - suitable candidates were selected through the interview because the researcher was able to know a lot about the respondents by this process.
- Collection of primary data - interview helped the researcher collect the fresh, new and primary information as needed.

Disadvantages of interviews

- Incomplete process -- suitable respondents cannot be selected by interview only, that is, the written test is more important than the interview.
- No record - in the case of interview some confusion can arise in the future as, there is no evidence actually that have been discussed at interview.
- Lack of attention - much attention is required for good interview, but it was observed by the researcher that both the respondents were less attentive and this led to real information being uncollected through the interview
- Time consuming -preparation for the interview, taking interviews and interpretation of the responses requires much time, which makes the interview method time consuming
-

3.10 Pilot study

it was described by Kothari (2004) that a pilot study is a replica and rehearsal of the main survey. Such a survey brings to the light the weaknesses (if any) of the questionnaires and also the survey techniques and thus from the experience gained in this way, improvement can be effected. According to Saunders et al (2009) it is propounded that prior to using a questionnaire to collect data, it should be pre-tested in order to refine it so that respondents would have no problems in answering the questions and checks for validity and reliability would be done at this stage.

In determining the above, the researcher a questionnaire pre-test to 3 staff members

which were from the revenue department at Harare City Council, and 2 audit committee members so as to ascertain the reliability and validity of the data gathering instruments. Few errors were found from poor worded questions and they were corrected. Findings of the pilot study were not included in the main research study as they were on meant to check questionnaire errors before they were administered and the respondents to the pilot study did not participate in the final study.

3.11 Data Collection Procedure

Data collection procedure takes into account several ways and steps to be taken in administering instruments and data collection from the subject that is under study. There were three steps that were involved in this procedure and these are; firstly, seeking permission from subjects' superiors were appropriate, secondly making appointments with respondents and lastly distribution and administration of instruments on the subjects of the sample. The researcher distributed questionnaires to the respondents and the appointments were made through telephones, emails and letters. As a way of ensuring that the questionnaires gets into the hands of the intended respondents the researcher hand delivered the questionnaires herself. Respondents were given at least 4 (four) days to fill the questionnaires and results were collected after at least 4 (four) days.

3.12 Validity and Reliability of Findings

Validity is defined as the extent to which a test measures what it is supposed to measure or as the quality of having legal force or effectiveness. Reliability is defined as the quality of being dependable and it incorporates the ability of the instruments to produce consistent results. Reliability and validity are conceived as trustiness, severity and quality in qualitative researches.

In order to bring validity to this study the researcher undertook questionnaires as a research instrument and the questionnaires were examined as way of ensuring that the questions asked seeks the information which was related to the problem of the study and objectives. To eliminate bias and increase the quality of responses and truthfulness the researcher tried to increase reliability by selecting a representative



sample then administering two research instruments which are questionnaires and interviews. Therefore, for the data to be free from bias and misrepresentation the researcher had to take stock and analyse data.

3.13 Ethical Considerations

Leedy and Ormrod (2005) state that whenever human beings undertake an investigation, the researcher should look closely at the ethical implications of what he/she proposes to do. Ethics are norms and values within an organization which guide all the employees. The researcher will take into consideration those ethical values in order not to offend anyone within the organization. As such participants were provided protection from undue physical or psychological harm, informed consent to participate and the right to withdraw from the study at any time and right to privacy.

3.14 Data presentation and analysis plan

Mouton and Marais (1994), define analysis as a process aimed at resolving a complicated problem by means of fragmenting data into smaller segments for analysis. The overall products that were used to organize, describe and analyse collected data are given in this section. Graphs, pie charts, and tables were used to present the data for easy understanding. Quantitative analysis is for numbers and other data was transformed into numbers. Whilst qualitative data is for words and other data which come in non-numerical form. This gave the researcher an opportunity to evaluate the internal auditors in detecting and preventing fraud at Harare City Council. It became easy to describe and analyse data after the presentation of data. In order to deduce the meaning and link to the research question and objectives the researcher analysed the information from the interviews and questionnaires in a qualitative manner.

3.15 Conclusion

The methodology of the research was discussed in this section, and the case study

research design was adopted in response to the researcher's aims and objectives. Data collection methods and instruments were discussed as well as their advantages and potential disadvantages. Data collection procedures, presentation and analysis procedures have been clearly justified and explained. The next chapter looks at data presentation, analysis and discussion.

CHAPTER IV

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction

This chapter deals with the presentation, analyses, interpretation and discussion of the data generated from the respondents through questionnaires and interviews. The responses are to be presented in tables, pie charts as well as bar graphs. The findings and analysis were directed towards addressing the objectives of the study and answering the research questions.

Table 4.1 Questionnaire response rate

	Number of Questionnaire issued	Questionnaire returned	Percentage responds rate
Internal audit	10	7	70%
Audit committee	5	4	80%
Top management	5	4	80%
Other staff	5	5	100%
Total	25	20	80%

Out of the 10 questionnaires issued to the Internal audit 7 were returned giving a



total of 70%. 4 out of the 5 questionnaires issued to Audit committee were returned with a response rate of 80% the same with the response rate from the top management where 4 questionnaires were returned from the 5 questionnaires issued and the other staff returned all the 5 questionnaires issued to them giving a response rate of 100% as shown by the table above. A total of 80% response rate was obtained which is enough to give a general picture to the whole population being tested. The higher response rate was attributed to the nature of the topic since all targeted respondents had a role to play in the operation phase of the internal auditing information at City of Harare Council. In order to obtain a much clearer picture, the researcher also conducted an interview with the target population.

Table 4.2 Interview Response Rate

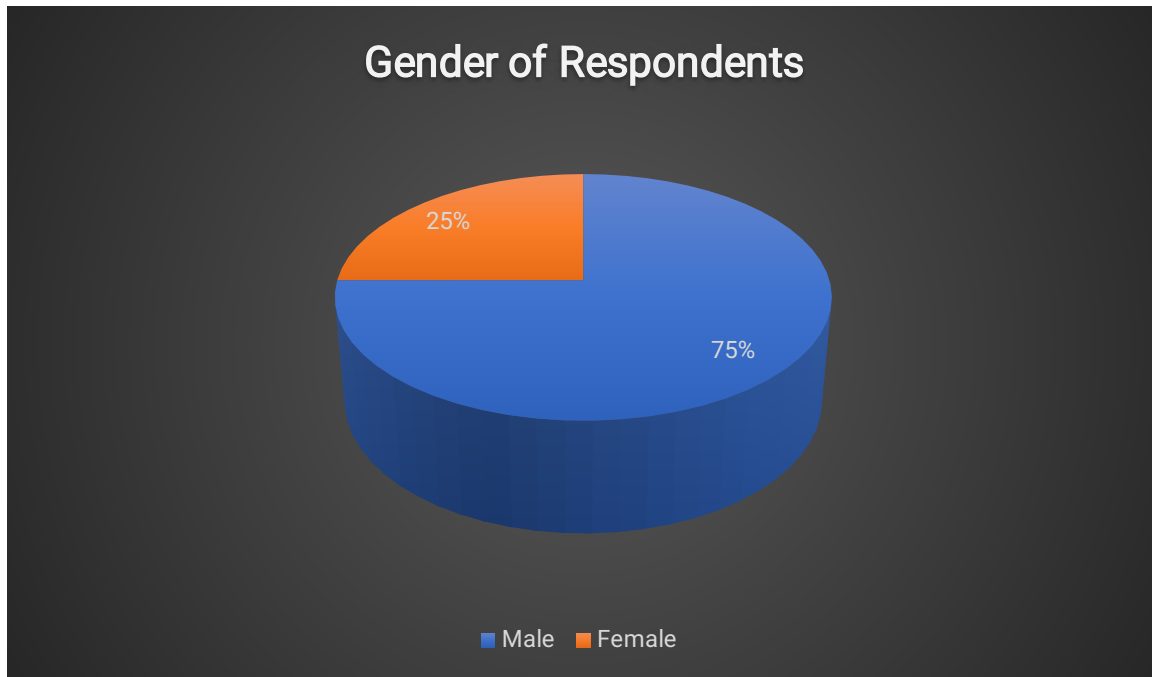
Planned meetings	Meetings held	Response rate (%)
10	9	90%

Source: Raw Data

The research did not manage to interview every subject at the Harare City Council mainly because of the work pressure of the subjects. However, of the 10 planned interview, 9 were successfully conducted which resulted to a percentage response rate of 90 % which when combined with the results from the returned questionnaire can thus represent a true picture of the whole population.

4.1 Gender

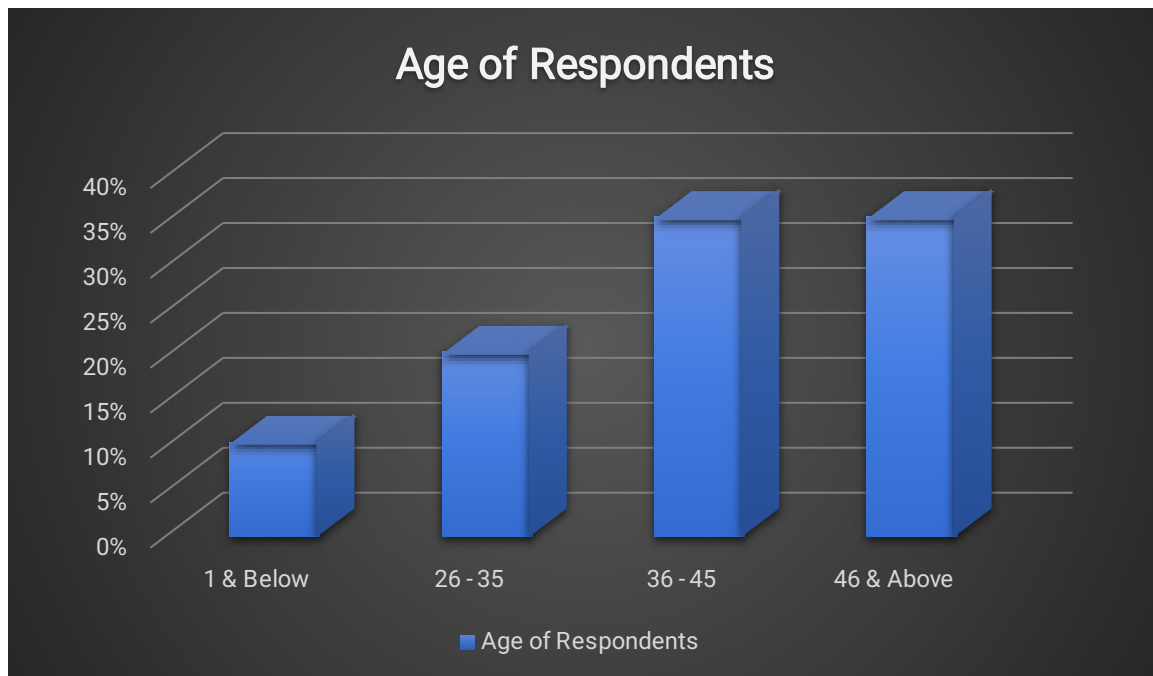
Fig 4.1 Gender



Source: Raw Data

75% of the respondents were males and 25% of the respondents were females as indicated above. Therefore, the pie chart above shows that the majority number of the respondents were males, whereby females are (n=5; 25%), and males are (n=15; 75%). This denotes a large number of male employees and this is explained by the historical imbalances where the male child was accorded more opportunities to learn than the opposite number.

Fig 4.2 Age of Respondents

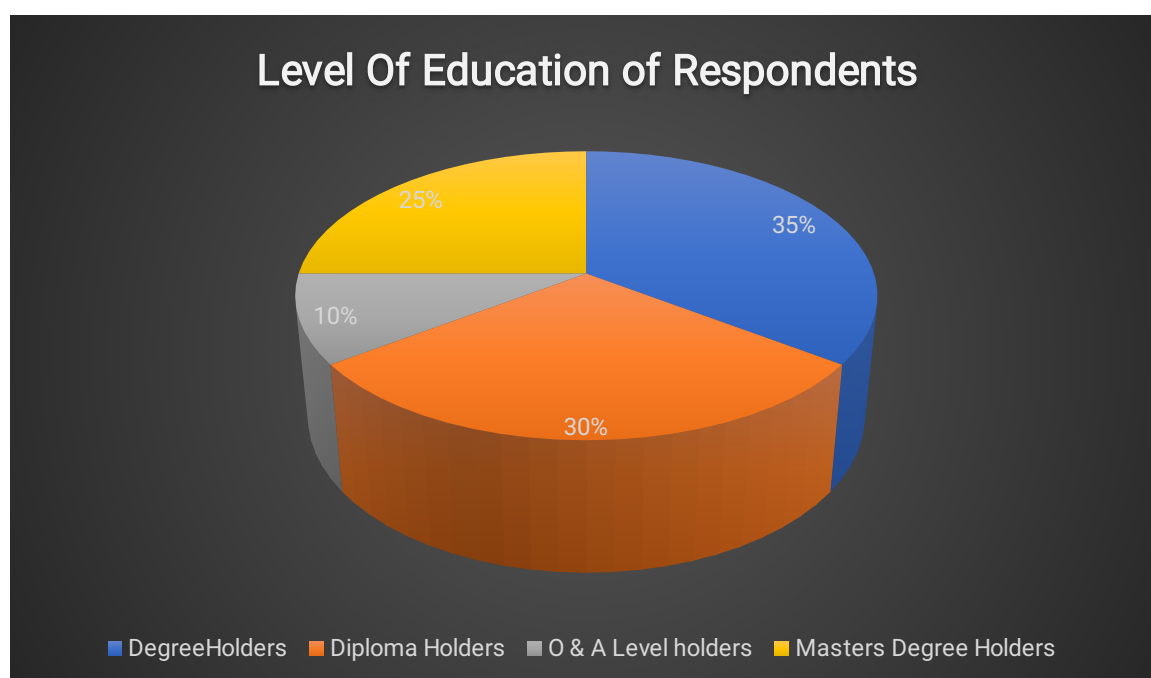


Source: Raw Data

The fig above shows that the majority of the respondents are between 36 - 45 and 46 & above, whereby 35% (n=7; 35%) are of the age 36 - 45 and 35% (n=7; 35%) of the respondents are of the age of 46 & above. They are closely followed by 20% (n=4; 20%) which are of the age 26 -35 and lastly 10% (n=2; 10%) of the respondents are of the age 25 & below. This finding indicates that the majority of the respondents are middle aged and old but not so old aged and economically active. However, the youths which are between the age of 25 and 35 are few meaning that the majority of the youths are economically inactive.

4.3 Education

Fig 4.3 Level of education of respondents



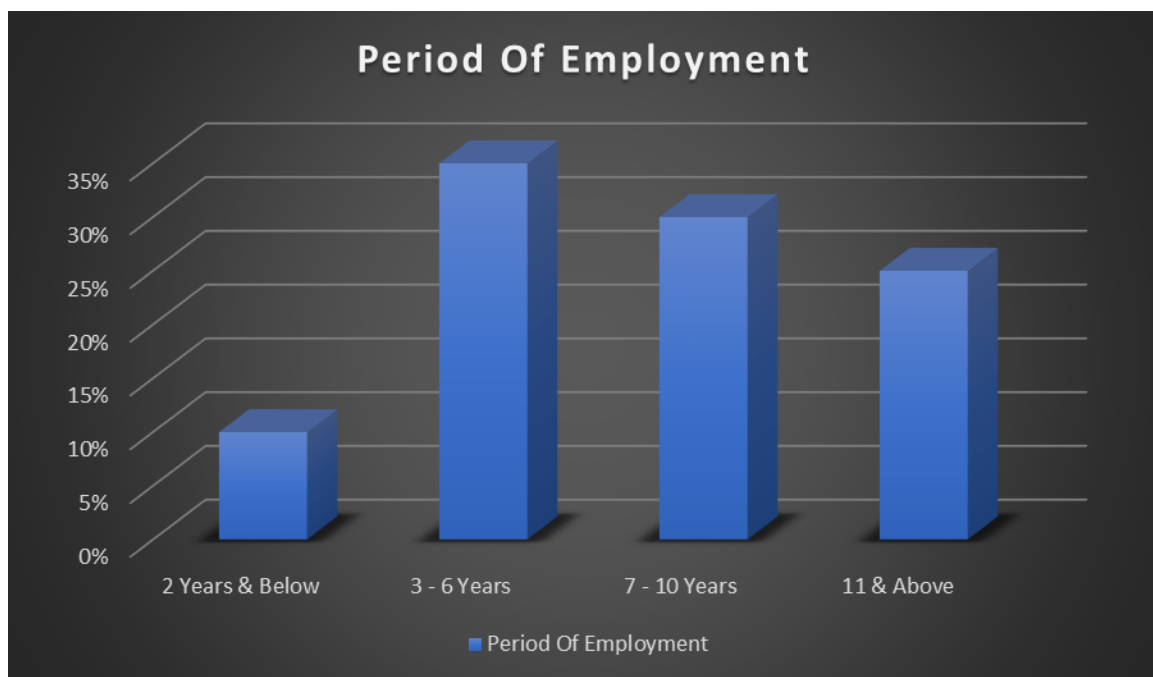
Source: Raw Data

When respondents were asked about their level of education, 35 % confirmed possessing a degree, 30% obtained diplomas, 10% own O & A 'level certificate and the remaining 25% carried master's degree and above. Whereby degree owners are n=7; 35%, diploma holders are n=6; 30%, O & A' level certificate are n=2; 10% and

master's degree holders are n=5; 25%. This showed that the data gathered was obtained from subjects with sound knowledge of the complicated nature of the topic under review hence the results can be relied on.

4.4 Employment period

Fig 4.4 Period of Employment

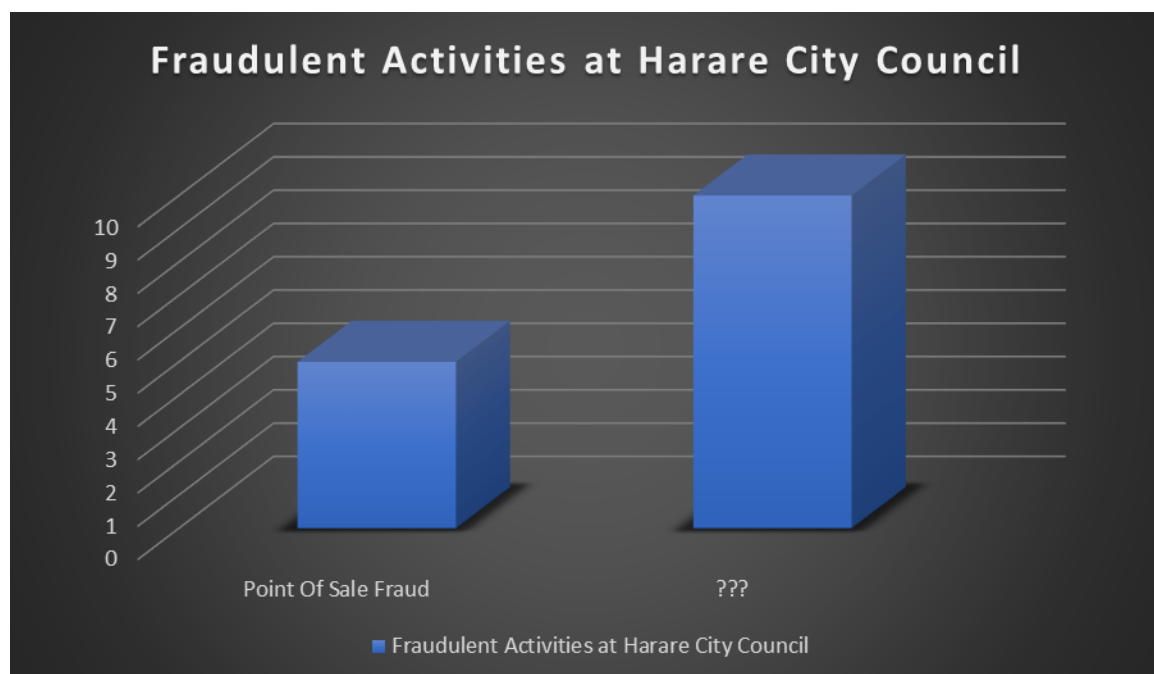


Source: Raw Data

The data presented on the graph above highlights that the majority of the respondents falls under the period of 3years - 6years at Harare City Council, and this majority is (n=7; 35%). This is closely followed by those that falls under the period of 7years 10years which are (n=6; 30%) working at Harare City Council, followed by those that fall under the period of 8 years and above which are (n=5; 25%) working at the Harare City Council. 10% of the target population falls under the period of 2years and below (n=2; 10%) working at Harare City Council

4.5Fraudulent Activities

Fig 4.5 Fraudulent Activities Prevalent at Harare City Council



Source: Raw Data

When the respondents were asked about the fraudulent activities prevalent at Harare City Council, 10 (n=10; 50%) agreed to a high prevalent of bribery at the council with some explaining that in order to receive more favours from the management one need to give them something first. Also 5 (n=5; 25%) agreed that point of sale (POS) fraud was equally among the prevalent fraudulent activities. Only 3 (n=3; 15%) named financial fraud as another form of fraud prevalent at the council and lastly 2 (n=2; 10%) agreed that nepotism is quite high at the council as one is treated with consideration to who one is, that is, one's relations with the management.

Table 4.3 Appointment of internal auditors

Department	Number of respondents	Percentage response rate
Council	10	50%
Directors	6	30%
Board members	3	15%
Minister	1	5%
Total	20	100%

Source: Raw Data

When asked about the appointment of an internal auditor, a greater portion of the respondents denoted that internal auditors are appointed by council members through a council resolution. From the analysis on the table above 10 (n=10; 50%) of the respondents believed that it is the responsibility of the council to appoint internal auditors at Harare City Council. Respondents said that it is an element of corporate strategy to appoint internal auditors at local authorities. and when the need arises the management makes recommendations to the human



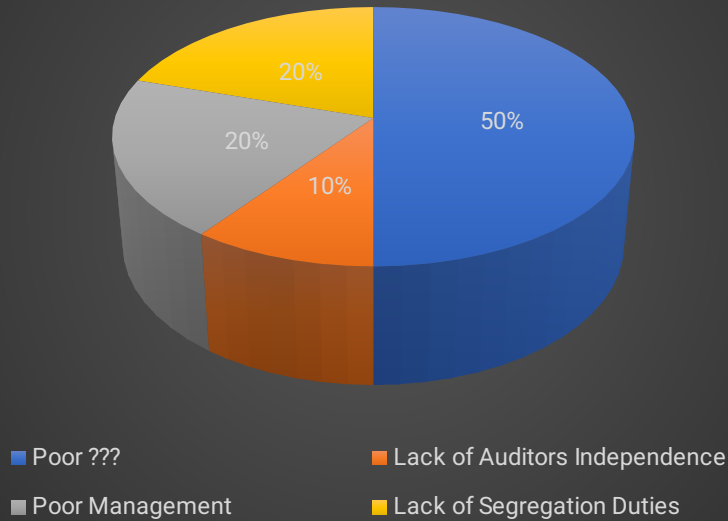
resource committee, and then the human resource committee will spell out the qualifications and duties of the internal auditors. There is a positive relationship between the above research findings and the Urban Council Act Chapter 29:15. The Urban Council Act Chapter 29:15 supports the above findings that an internal auditor is appointed by council members through a council resolution.

This is closely followed by 6 (n=6; 30%) of the respondents who agreed that the internal auditors are appointed by the directors. Respondents said that this is because the first auditor of a company is appointed by the directors within one month of the issue or the certificate that the company is entitled to commence business. This is closely followed by 3 (n=3; 15%) of the respondents who agreed that the internal auditors are appointed by board members, they argued that this is because if the directors fail to appoint the first auditor the members in a general meeting may appoint the auditor. and lastly only 1 (n = 1, 5%) believes that the internal auditors members are appointed by the minister, and the respondent argued that if neither the directors nor the members fail to appoint an auditor the minister may on application of any member do so.

4.6 Causes of Fraud

Fig 4.6 Causes of Fraud at Harare City Council

Causes of Fraud at Harare City Council

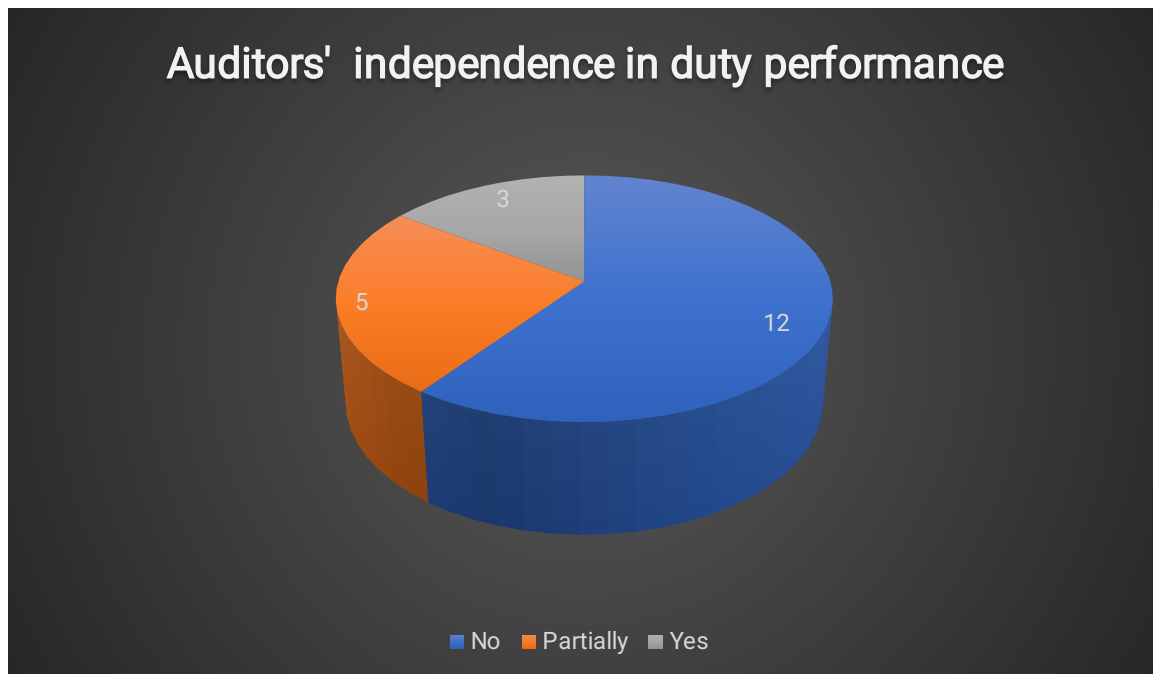


Source: Raw Data

The researcher used an open ended question to ask respondents about what they see as the main causes of fraud at the Harare City Council. The finding to this question shows that fraud at City Council is mostly caused by poor remuneration which was supported by 50% (n=10; 50%) of the respondents. 20% which is (n=4; 20%) of the respondents argued that fraud at the council is caused by lack of segregation of duties and 20% which is (n=4; 20%) blamed poor management as the cause of fraud at the Council. However, 10% (n=2; 10%) of the respondents said that lack of auditor's independence as the main cause of fraud at Harare city Council. The finding to this question show some similarities to the fraud triangle theory whereby it is said that in order for fraud to occur, three things must be present which are rationalization, pressure and opportunity.

4.7 Auditor independence

Fig 4.7 Auditors' independence in duty performance



Source: Raw Data

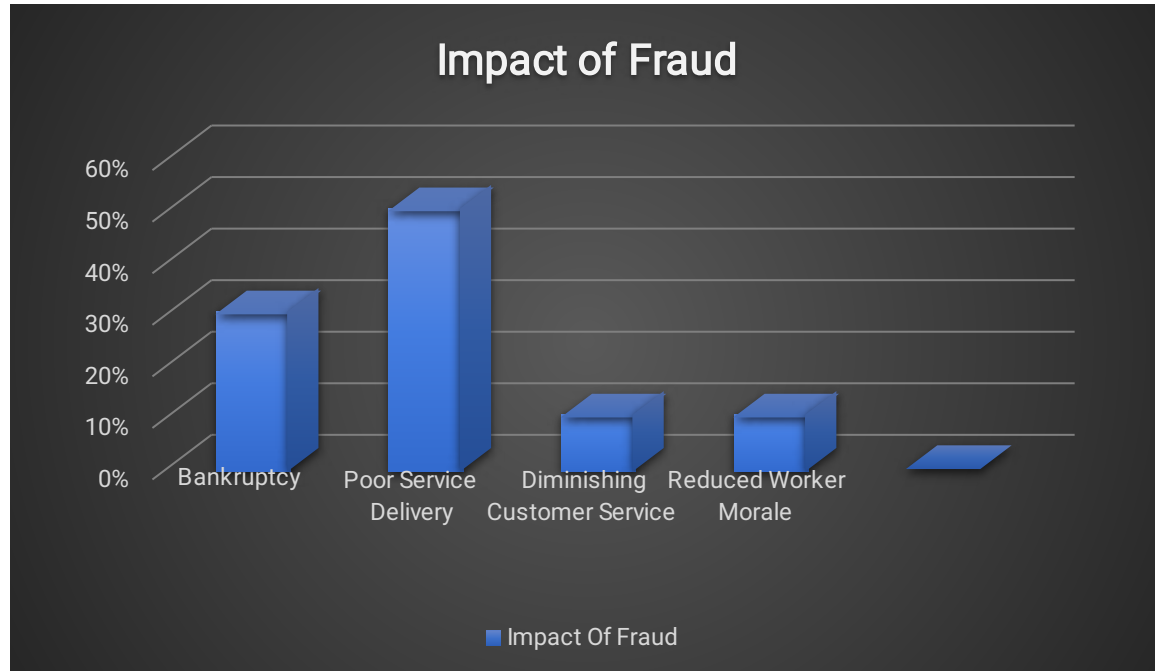
When asked about auditor's independence the 12 (n=12; 60%) of the respondents strongly believes that the independence of the auditors is not considered when they are performing their duty. This means that the internal auditors are not independent from the parties whose interests might be harmed by the results of an audit. The respondents said that the independence is not considered especially when the audit is being done to the accounts department or the salaries department. This is because the auditors would not want to jeopardize their incomes since the

departments being audited are the ones that are in charge with their income. They also said that independence of the auditors is not considered because the internal auditors are familiar with the employees they audit, that is, there are friendships between the internal auditors and the employees.

However, this is closely followed by 5 (n=5; 25%) that believes that the independence of internal auditor's is partially considered when they are performing their duties, that is, the auditors perform their duty independently without any fear or close relationships that may interfere with their work. This is closely followed by 3(n=3, 15%) who believes that auditor independence is considered at Harare City Council. This is supported by the Internal Audit Charter which states that if internal audit is to provide objectives and unbiased opinions and assurance, it is essential that it is independent of the activities it audits.

4.8 Impact of Fraud

Fig 4.8 Impact of Fraud

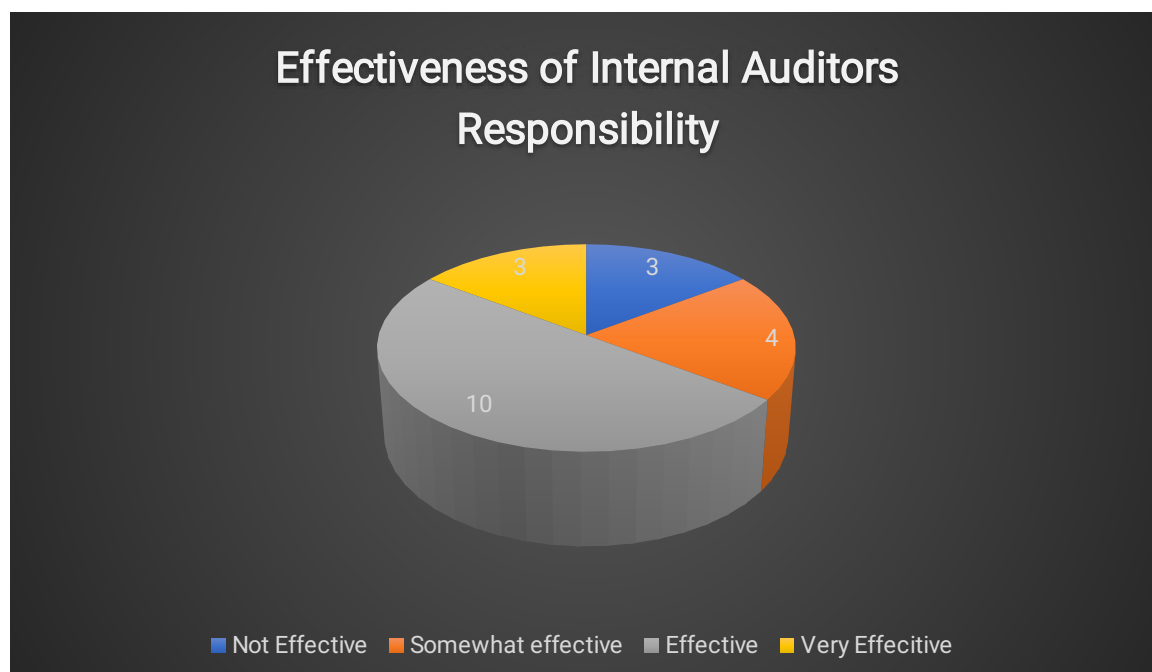


Source: Raw Data

The respondents were asked what they would consider to be major impacts of fraud at Harare City Council, and 50% (n=10; 50%) of the respondents strongly believe that fraud has an impact of poor service delivery. This is supported by a report that was published on 24 May 2017 which denoted that fraud, corruption and mismanagement at Harare City Council is what is responsible for poor service delivery unlike the mantra from council that non-payment by residents was negatively affecting effective service delivery. This is closely followed by 30% (n=6; 30%) of the respondents denoted that fraud has led to bankruptcy at Harare City Council. 10% (n=2;10%) of the respondents said that there has been diminishing customer service at Harare City Council due to fraud, and lastly 10% (n=2; 10%) of the respondents agrees that fraud has led to reduced worker moral at Harare City Council. This is supported by a journal by John Freedman which states that fraud can have substantial impact on a business, no, matter what size it is

4.9 Auditors' responsibilities' effectiveness

Fig 4.9 Effectiveness of internal auditor's responsibilities



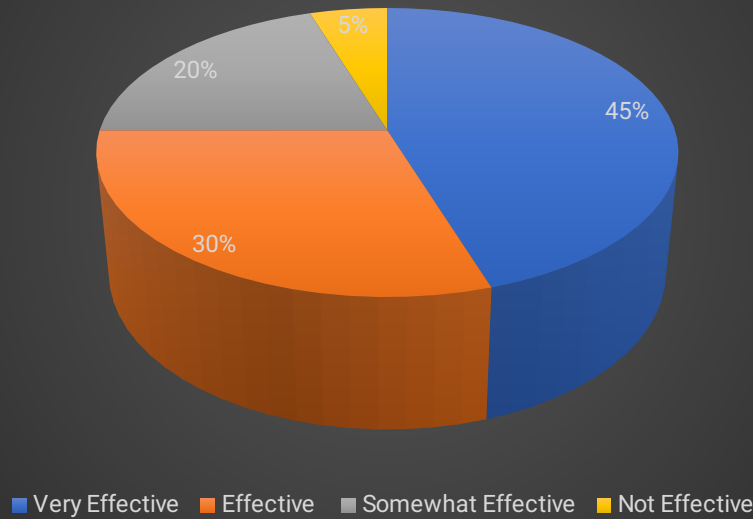
Source: Raw Data

The research used an open-ended questionnaire on the question so as to be able to obtain the views of the auditing staff. The responses from the questionnaire were summarized on the pie chart above. The pie chart suggested that 10 (n=10; 50%) respondents have got a view that the internal auditors' responsibility at Harare City Council is effective, and this is also followed by the response of 3 (n=3; 15%) of the respondents who believe that the responsibility of internal auditors is very effective. This is supported by the report that was recently published by the internal audit about an audit that was carried out by the audit manager Mr. A. Nyamurova on Point of Sale (POS) fraud. This was closely followed by 4 (n=4; 20%) of the respondents who have got the view that the auditors' responsibility is somewhat effective. 3 (n=3; 15%) of the respondents denoted that the responsibility of internal auditors is not effective, and this is supported by failure to observe or detect over receipting, improper cash movement and improper recording of security items during the process of their audit. This is supported by Onger S.N et al (2008)'s study which indicated that 100% respondents considered internal audit as being generally concerned with economic efficiency and effectiveness of the organizational operations and is widely held to be an independent appraisal of internal controls.

4.10 Anti-fraud measures' effectiveness

Fig 4.10 Effectiveness of the anti-fraud measures

Effectiveness of Anti-Fraud Measures



Source: Raw Data

The research used an open-ended questionnaire on the question so as to be able to obtain the news of the anti-fraud measures. The responses from the questionnaire were summarized on the pie chart above. 45% (n=9; 45%) of the respondents strongly believe that the anti-fraud measures put in place by Harare City Council, that is, the anti-fraud measures are have somewhat been operational on reducing fraud cases at Harare City Council. This is closely followed by 30 (n=6; 30%) of the respondents believes that the anti-fraud measures are effective on reducing fraud at the Harare City Council. 20% (n=4, 20%) of the respondents agrees that the anti-fraud measures put in place are not effective, and lastly only 5% (n=1; 5%) believes that the anti-fraud measures are operational in reducing fraud at Harare City Council. This is supported by a journal written by Elmond Bandauko. The journal stated that Harare City Councils vision is make Harare a world class city by 2025, and one of its goals is to improve service delivery that has been an effect of fraud, for example the intention to improve water delivery in Harare and make it portable and available every time and



everywhere in the city. However, the provision of improved and portable water remains one of the biggest service delivery challenges facing Harare and this is due to fraud that is being committed at the organization.

4.11 Interview responses

4.11.1 How can Harare City Council internal auditing system be improved?

❖ Educate internal auditors

The researcher found interview as the ideal research instrument or data collection tool. The respondents on how can Harare City Council internal auditing system be improved argued that the internal auditors need to be educated on their roles. The respondents denoted that there is really need for the internal auditors to be educated for there to be effective and efficient performance of the auditor's work This can be done through seminars and workshops.

❖ Increased independence

According to the Internal Audit Charter if the internal audit is to provide objective and unbiased opinions and assurances, it is essential that it is independent of the activities it audits. The respondents believe that the ideal solution to the current fraud causes prevailing at Harare City Council is to increase the auditors' independence. Basing on the findings and the analysis herein before and the current information above the researcher also suggests that auditors' independence be increased

4.11.2 What are the common fraud cases at Harare City Council?

When the internal auditors were asked about which types of fraud are common at Harare City Council, they argued that bribery is the type of fraud that is constantly occurring. However, they also stated that due to the advancement in technology, Point of Sale fraud is becoming prevalent and this argument is supported by the fact that it has recently been detected, and they denoted that it's the most threat to accuracy of the financial statements. Other types of fraud such as. Boynton et al (2005) suggested that organizations that have internal audit function are the ones that are most likely to detect and self-report fraud Presents of the above mention

frauds is the evidence of the violation of the internal auditors' role.

4.11.3 What are the causes of fraud cases at Harare City Council?

❖ The interview responses suggested that many fraud cases at Harare City Council are being caused by poor remuneration. The respondents suggested that intentional and unintentional errors may go undetected in that the person receipting was also the one preparing banking. The researcher also believes that this poor remuneration is a growing consensus as supported by the data above. This is supported by a journal on Low Salaries, the Culture of Per Diems and Corruption which states that as civil servant is underpaid they are forced to develop individual coping strategies to compensate for their declining purchasing power.

4.11.4 How is fraud minimized at Harare City Council?

❖ The interviewees suggested that for fraud to be minimized at Harare City Council there is need for workload to be reduced. This is because pressure on employees will be reduced and this will help in making the employees concentrate more on their work giving sufficient time to each transaction hence fraud will be minimized. This is because when employees have more workload on their plate intentional and unintentional errors are overlooked but when workload is reduced all these errors are detected and dealt with it. The respondents also suggested that for the management to deal with poor remuneration as a cause of fraud they should speak to those that are above them about the salary budget. This is done so that the employees can get an idea of how flexible the budget is, should they deem a pay raise appropriate.

4.12 Summary

This chapter presented the research findings that were obtained with the basis of the research objectives whilst using the research method that was presented in chapter III the findings were compiled from the questionnaires and interviews which were used as the research instruments. The chapter focused mostly on causes of fraud, types of fraud prevalent at Harare City Council, auditor independence, and how the

auditor's system can be improved. The next chapter gives the summary of major conclusions, and recommendations to all parties.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter summarizes the major findings of the research and draws a conclusion. The recommendations to the Harare City Council and some scopes for future research are provided in this chapter.

5.1 Summary

The research established that:

- The study managed to unearth the major fraud cases prevalent at the Harare City Council being point of sale (POS), bribery, nepotism, and financial fraud, the major fraud being bribery.
- The findings managed to identify the major cause of these frauds being poor remuneration, which gives the employees pressure to commit fraud.
- Internal auditors are highly involved in anti-fraud efforts of the Harare City Council. The efforts that were found are the involvement that internal auditors devote towards unearthing fraud such as assisting management in setting anti-fraud control evaluation, fraud auditing, and investigation.
- The responsibilities of internal auditors were found to be moderately responsible for anti-fraud activities in their respective organizations. The



responsibilities were said to be enshrined in respective internal audit charters and this makes the auditor perform regardless of the management's position

- Most internal audit functions do not have special fraud skills that are known to ever dynamic business environment were frauds enhance fraud detection in this modus operandi is always evolving.
- Organizations that have internal audit functions that are either highly involved or with high fraud responsibilities have managed to detect fraud more than those that have functions that are otherwise. Most of the organization have also detect low average fraud values which many attributed to a stronger prevention and deterrence regime that will be adopted if such involvement and responsibilities are in accordance with the function.
- The research managed to obtain some solutions to these fraud problems through the use of questionnaires and interviews for data collection procedures. It has been noted that reduction in workload is the best solution to the fraud problems at Harare City Council, since reduction in workload reduces pressure on employees thereby making them able to concentrate more on work giving sufficient time to each and every transaction. The researcher also noted that the management has to speak to those above about salaries so that they be able to see the flexibility of budget as a way of seeing if they can deem for a raise.
- Harare City Council has been established by this research that it meets auditing standards according to the International Standards on Auditing (ISA). However, there is a risk of failure by the Harare City Council to follow the standards and the Urban Council Act.
- Fraud cases are deemed to continue if workload is not reduced and if salaries are not raised because employees will keep on feeling the pressure to commit fraud. Also for if the auditors' independence is not increased and if the auditors are not educated then fraud is also deemed to continue. This is because increased independence and education of the internal auditors enhances the capability of the auditors in giving a true and fair view of the final accounts.



-

5.2 Conclusion of the major

In this research it was concluded that

- Internal auditing plays a critical role in fraud detection without which organizations can never effectively prevent and detect fraud. The higher the level of auditor involvement and responsibility for fraud detection and prevention, the higher the chances of having effective fraud prevention and detection.
- Harare City Councils procedure of discovering frauds rather than to prevent their occurrence has been identified by the researcher as detrimental to the organizations internal control system. This is because it poses a risk to auditors of the final accounts not to rely on them regarding the number of frauds that would be identified and corrected.
- The researcher noted that for effective fraud detection and prevention the internal audit function should not assume the role of setting anti-fraud controls but rather assist management in setting controls after reviewing and evaluating these controls. For the internal audit to have effective detective and preventive regime it should assist in detection and finally prevention by proposing improvement and change to the regime.
- The researcher, therefore based on the evaluation of the internal audit system carried out. concludes that the organization should increase the independence of internal auditors so that the major fraud causes are eliminated.
- To sum up, fraud exist despite the availability of internal auditors. it has been noted that internal auditors are not that very effective due to the occurrence of frauds. Fraudulent activities are prevalent because the evaluation of an internal auditor in relation to fraud detection was understated. However, it should be noted that the recommendations can never eliminate fraud but rather they help in reducing these fraud cases



5.3 Recommendations

On the basis of the findings, the following recommendations were proposed for the consideration of the Financial Institutions in Zimbabwe.

- ▶ The Harare City Council should reduce the workload on employees. The reduction on the workload will reduce the pressure on employees which will help in making the employees concentrate more on their work giving sufficient time to each transaction hence fraud will be minimized. This is because when employees have less workload on their plate intentional and unintentional errors are detected and dealt with it
- ▶ Harare City Council is recommended to educate and improve its auditors' independence so that the risks of failure to observe frauds are eliminated. Refresher courses would reduce confusion when segregating duties and allow the auditors to have a clear responsibility. Also increased education to internal auditors is foreseen to be the solution for a true and fair view in the presentation of financial system as a whole.
- ▶ Lastly the City Council should continuously evaluate their internal auditing and internal control to identify whether they are effective to meet the needs of the organization. Evaluation of the whole system provides a general overview to the system as a whole

5.4 Further research areas

1. Analyse the expectation gap between internal auditors and management
2. Evaluate the reasons behind large organizations employing few employees
3. Assess importance of internal auditor in relation to fraud prevention
4. Reviewing other stakeholders in financial reporting framework on how they act in fraud detection and prevention



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APPENDICES

APPENDIX A

The Human Capital Director

City of Harare

P.O.Box 1680

Penne father



BINDURA UNIVERSITY OF SCIENCE EDUCATION

To whom it may concern

REF: Request for completion of a Questionnaire

I am a final year student at the above mentioned institution studying toward the completion of a Bachelor of Commerce (Honours) Degree in Financial Intelligence. In partial fulfilment of my program, it is the university's requirement for me to carry out a research on a relevant area of study. My research topic is the role of internal auditors in unearthing fraud in local authorities Attached to this letter is a questionnaire that will help me in data gathering. May you please read the questions clearly before answering. The information obtained will be treated with confidentiality and will be solely used for academic purposes. I will be grateful if you can assist me.

Yours faithfully

Chamunorwa Shylet P.



Email: shyletchamunorwa2@mail.com

APPENDIX B

QUESTIONNAIRE

Guidelines:

- ▶ Indicate by way of a tick (V) the relevant answers and provide information in the spaces provided where necessary.
- ▶ Please do not write your name on the questionnaire.

SECTION A: Demographic data



1. Indicate your gender

Male Female

2. Indicate your age range

Below 25 years 25-30years

31-35 years 36-40 year

Above 40 years

3. Years in employment

Below 2 years 2-4 years

5-6 years 7-9years

Above 9 years

SECTION B

4. Which of the following fraudulent activities is prevalent at Harare City Council?

Point Of Sale fraud Payroll fraud

Nepotism Bribery

Financial reporting fraud

Other

Specify.....
.....
.....

5. Who is responsible for the prevention and detection of fraud?

Internal auditors Management

Directors

6. Who appoints an internal auditor at Harare City Council?

Council [] Shareholders []

Directors [] Audit committee []

7. Is the auditor' independence being considered in the performance of their duty at?

Yes []

partially []

No

8. What would you consider to be the major impact of fraud at Harare City Council?

Bankruptcy

Poor service delivery

Diminished customer loyalty

Reduced worker moral

Other

specify

.....
.....

10. How effective is the responsibility of internal auditors in the detection and prevention of fraud at Harare City Council?

Not effective [] Somewhat effective []

Effective Very effective

11. How effective are the current anti-fraud measures at Harare City Council?

Not effective [] Somewhat effective []

Effective [] Very effective []

12. What other measures can be put in place to curb fraud in local authorities?

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

Thank you for your assistance

APPENDIX C

INTERVIEW GUIDE

I would like you to assist me with some answers and comments to the following questions on the evaluation of the internal auditors in fraud prevention and detection.

Interview Questions

1. What are the common fraud cases at Harare City Council?
2. What are the causes of such fraud cases at Harare City Council?
3. What are the effects that are experienced as a result of fraud?
4. What measures have been put in place to curb fraudulent activities?
5. How effective are the fraud measures put up to curb fraud?

6. Who in your own opinion is responsible for the detection and prevention of fraud in your organization?

7. What do you think is the responsibility of internal auditors in the detection and prevention of fraud?

8. Is auditors' independence being considered in the performance of their duties at Harare

City Council?

9. What are the effects of lack of auditor independence at Harare City Council?

10. How can Harare City Council internal audit system be improved'?

Thank you for your assistance