

Perceived role of internal auditing in fraud prevention and detection in South African public sector national departments

K N Motubatse

Auditing

Tshwane University of Technology

ABSTRACT

The objective of this article was to determine whether the internal audit function (IAF) has a role to play in the prevention and detection of fraud in the South African public sector, with reference to national departments. Accordingly, the possible role of the IAF is discussed, with specific reference to fraud prevention and detection, fraud risk and reportable wasteful, irregular and unauthorised expenditure. The article presents a literature review and discusses the data gathered by means of a survey from the accounting officers (AOs), who act as heads of department (HoDs), the chairpersons of audit committees (CACs), and the chief audit executives (CAEs) of national departments in the South African public sector on their perceptions of the IAF's role with regard to fraud. The findings show that the AOs, CACs and CAEs believe that the IAF has a responsibility to detect material fraud and reportable fruitless and wasteful, irregular or unauthorised expenditure in national government departments. Furthermore, a review of the literature suggests that the prevention and detection of fraud should remain the responsibility of the AOs, and the survey revealed that the responding AOs and CACs perceive the IAF as a management tool to detect elements of fraud. It is recommended that the AOs and the IAFs should take equal responsibility in notifying the CACs about any allegations of fraud received from any whistleblowing assurance provider. In conclusion, the article suggests avenues for further research on internal auditing's role regarding fraud prevention and detection.



INTRODUCTION

Sections 7(1) and (2) of the *Constitution of the Republic of South Africa, 1996* (RSA 1996) enshrine the rights of the people, and affirm the democratic values of human dignity, equality and freedom. The Constitution states that the government must respect, protect, promote and fulfil the rights of its people. Despite this preservation of rights in the Constitution, one of the biggest challenges that the South African public sector faces is the risk of fraud and related irregular acts (National Treasury 2011). The risk of fraud is pervasive in the public sector (PricewaterhouseCoopers 2011), as in most organisations, and such acts undermine not only the rights of the people and democratic and ethical values, but also the government's efforts to deliver quality services to its people.

The *Public Finance Management Act (PFMA), 1 of 1999* (RSA 1999) recognises an internal audit function (IAF) in the public sector, with its skills and knowledge of applicable legislation (Deloitte 2010:28), as a critical governance tools for preventing and detecting fraud (DPSA 2003:64), as well as "fruitless and wasteful expenditures". IAFs do so by assisting the accounting officers (AOs) and audit committees in effectively discharging their responsibilities, which include managing the risk of fraud (National Treasury 2009:6–8). As fraud and related irregular acts become more pervasive in the public sector (Dintwe 2013:553), the IAF is expected to "execute its work with proficiency and due professional care" in dealing with the risk of fraud in the public sector, according to the Institute of Internal Auditors (IIA 2012, 2013).

Against this backdrop, it is concerning that South Africa was recently ranked 72th, alongside Bosnia and Herzegovina, Serbia, Brazil, and São Tomé and Príncipe, out of 177 countries on the Corruption Perceptions Index, which reflects perceptions of public sector corruption in various countries (Transparency International 2013). Given that fraud and corruption are reported to be so pervasive in the South African public sector (Dintwe 2013:553), this article argues that fraud has become one of the public sector's biggest challenges and that a synergised approach by various assurance providers, such as the Auditor-General of South Africa or public sector external auditors, the Presidential Hotline or any other whistleblowing mechanism, is needed to address the problem.

Some research has already been conducted on auditing and fraud-related aspects in the public sector. This prior research includes the articles "Fraud profiles on public sector institutions in South Africa" by Gloeck and De Jager (2005) and "Fraud examination: Do auditors need the knowledge and skills" by Marais and Odendaal (2008). The former study found that an IAF is one of the strongest measures, coupled with internal controls and a code of ethics, that can be used to prevent fraud and to fight fraud in the public sector (Gloeck and De Jager 2005:59). However, Marais and Odendaal (2008:42) found that internal auditors still need effective training on dealing with fraud and related irregular acts.

In the light of this prior research, this article undertakes an empirical examination of the role of the IAF with specific reference to the prevention and detection of fraud and reportable fruitless and wasteful, irregular or unauthorised expenditure in national government departments in South Africa. This article is structured as follows: the next two sections provide the research objectives, limitations and significance of this research and describe the research methods applied. Then, the literature review and the findings are discussed. The article ends with a number of conclusions and recommendations.

OBJECTIVES, LIMITATIONS AND SIGNIFICANCE OF THE RESEARCH

The objective of the study reported in this article was to determine whether the IAF is expected to play a role in the prevention and detection of fraud in the South African public sector. This objective was addressed by answering the following questions:

- Is the IAF responsible for preventing and detecting fraud in the public sector?
- Is the IAF responsible for preventing and detecting reportable fruitless and wasteful, irregular or unauthorised expenditure?

The article is limited to the national government departments in the South African public sector. The discussion and conclusions relate only to the perceptions of the respondents in the study on the *standing of and demand for internal auditing in the South African public sector*. Further clarification of the answers was not pursued.

This article serves to expand the existing limited literature available on public sector internal auditing in South Africa. Its significance lies in the information that it provides to AOs and CACs about the role of the IAF with regard to fraud in the public sector. The research should also help to inform AOs and CACs by providing them with a better understanding of the current activities of IAFs versus the expectations from IAFs in relation to fraud, as well as assessing IAFs' current activities in terms of the internal audit charters.

RESEARCH METHOD

The method used in this research conforms to a quantitative paradigm. Research questionnaires were used as the data collection instruments. The respondents were the AOs, the CACs and the CAEs of 33 national government departments in South Africa. At the time of the study, South Africa had more than 33 government departments, but not all government departments participated in the study. The data presented in this article are based on the perceptions of 31 AOs, 30 CACs and 32 CAEs who participated in the survey on the *standing of and demand for internal auditing in the South African public sector*.

This article specifically used three sets of data from the larger survey by the iKUTU team. Firstly, respondents' perceptions about the occurrence of fraud and fruitless, irregular or unauthorised expenditure were gleaned. In responding to the items in the questionnaire, respondents were requested to indicate their perceptions as Yes, No, or Unsure. Secondly, again using Yes, No or Unsure response options, respondents' perceptions about the IAF's responsibilities with regard to the prevention and detection of fraud and fruitless and wasteful, irregular or unauthorised expenditure were elicited. Thirdly, respondents were asked about their perceptions about the degree of "comfort" (reassurance) provided by each of the various role players in national departments that fraud in departments will be prevented and detected. Respondents could rate the degree of comfort provided by each role player on a five-point Likert-type scale, ranging from 1 (no comfort) to 5 (significant comfort).



LITERATURE REVIEW

The purpose of this section is to provide an overview *only* of research on the role of the IAF in limiting fraud. It does so by examining the role of the IAF in fraud prevention and detection. Next, various elements that may possibly cause fraud in the public sector are explored. These elements include reportable fruitless and wasteful, irregular and unauthorised expenditure. The review of these elements serves to provide an answer to some of the questions raised in this article.

Role of the IAF in fraud prevention and detection

According to several authors, including Asare, Davidson and Gramling (2008:184), Hillison, Pacini and Sinason (1999:353), and Norman, Rose and Rose (2010:548), the IAF could play a significant role in the prevention and detection of fraud, as it is expected to provide assurance on governance, risk management and control (IIA 2013). According to Murdock (2008:81), the best way to address fraud is to prevent it. The internal auditor's role with regard to fraud is assisting organisations to "prevent and detect fraud from the perspective of fraud risks to the protection of the organisation's assets" (Jackson 2008:68).

Prior research by Deloitte (2012) and the IIA (2006:3), as well as the Institute of Directors' (IoDs') *King report on governance for South Africa 2009*, known as *King III* (IoD 2009), on the role of the IAF in organisational governance argues that the IAF should contribute to good governance through the roles it plays in relation to governance, risk and internal controls. For South African national departments, the implementation of the IAF is outlined in section 38(1)(a)(ii) of the *PFMA* (RSA 1999), and the IAF's detailed functional responsibilities are set out in paragraph 3.2 of the Treasury Regulations (National Treasury 2005). Each national department must put a risk management strategy in place, which should include a fraud prevention plan. This strategy and plan should be used by the IAF to direct internal audit efforts and priorities (National Treasury 2005:para 3.2.1). The *Internal Audit Framework* provided by the National Treasury (2009:8) states that the IAF is a key factor in ensuring that a department's resources are not misused or misappropriated, and thus in preventing or limiting fraud.

According to the Southern African Institute of Government Auditors (SAIGA) (2002), the IAF is a key tool for preventing and detecting fraud risk in the public sector. It is against this background that this article attempts to analyse how the IAF can be expected to evaluate the control environment and identify fraud risk factors in line with the International Standards for the Professional Practice of Internal Auditing (ISPPIA) (Standards) (IIA 2009:10–11). The South African public sector has adopted these Standards, which clearly explain the internal auditor's role in the prevention and detection of fraud risks as follows (cited *verbatim*):

- "Proficiency and due professional care, Standard: 1210.A2 – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud" (IIA 2012).
- "Reporting to senior management and the board, Standard: 2060 – The chief audit executive (CAE) must report periodically to senior management and the board on the

internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board" (IIA 2012).

- "Risk management, Standard: 2120.A2 – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk" (IIA 2012).
- "Engagement objectives, Standard: 2210.A2 – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives" (IIA 2012).

In the public sector, an IAF works with AOs to improve service delivery (Asare 2009:22). Accordingly, in the public sector, the IAF helps AOs to identify fraud risks and to manage them (Asare 2009:22–23). According to Burnaby, Howe and Muehlmann (2011:197), the IAF is well situated to identify an organisation's fraud risks through its evaluation of the policies and procedures. In respect of a government's attempts to fight fraud in the public sector, Gloeck and De Jager (2005:57) hypothesise that "internal auditors play a far more important role in fraud than external auditors". Perhaps this is true because internal auditors work so closely with management that it can educate management about the strategies for preventing and detecting fraud in organisations (Bales and Fox 2011:6). AOs have a responsibility to prevent and detect fraud, and internal auditors should assist them in this regard by cautioning them about fraud risk and educating them about their internal control systems (Rae and Subramaniam 2003:104; Ramos 2003:31; Svare 2009:35). Hence, some of the official policies and procedures that the IAF could use to caution AOs about fraud and corrupt activities include the *Prevention and Combating of Corrupt Activities Act, 12 of 2004* (RSA 2004), as well as the National Treasury's fraud prevention guidelines, which cover aspects such as anti-fraud programmes, a code of ethics, internal controls, risk assessments, training and awareness, tip-offs and whistleblowing (National Treasury 2013).

The role of the IAF in the public sector should be addressed in the internal audit charter (National Treasury 2009:50). This charter should contain the scope of the IAF as included in the IIA's Standard 2100, *Nature of Work*, which states the "IAF must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach" (IIA 2013). Therefore, it would seem that the IAFs' role needs to be expanded in the area of fraud-related activity; however, the audit committees need to review and approve such an expanded scope (National Treasury 2009:85).

Collaborative research conducted by the IIA, the American Institute of Certified Public Accountants (AICPA) and the Association of Certified Fraud Examiners (ACFE) indicates that the AOs, CACs, and IAF play a key role in dealing with fraud risk (IIA, AICPA and ACFE 2008:11). It therefore follows that "every employee is responsible for management of fraud risk" (National Treasury 2012:para 4.3), although, according to paragraph 4.3 of the *Draft Treasury Regulations*, AOs are expected to take the final responsibility for the system of enterprise risk management (National Treasury 2012). Therefore, the IAF can help with the mitigation of fraud risk if it adopts proactive strategies. Such strategies should include the



consideration of fraud risks in the assessment of internal control, the identification of red flags and being alert to fraud opportunities (IIA 2009:13). Hence, fraud risk is said to be a challenge (Burnaby *et al.* 2011:195) and public sector managers need to understand why it is a challenge in their departments (PricewaterhouseCoopers 2011:4). This article argues that AOs have a responsibility to identify and report such risks.

The next section of the literature review examines fraud and reportable wasteful, irregular and unauthorised expenditure.

Fraud and reportable wasteful, irregular and unauthorised expenditure

In the South African public sector, there are various agencies to whom acts of fraud can be reported, such as the Chapter 9 institutions (the Public Protector, and the Office of the Auditor-General) (RSA 1996). However, national departments are not prevented from using other organs of the state, such as the South African Police Service, the Presidential Hotlines and others.

In the public sector, as in any other organisation, fraud includes specific acts of intention, such as embezzlement, theft and kickbacks, as explained by various authors (Alleyne and Howard 2005:286; Coram, Ferguson and Moroney 2008:545; Gloeck and De Jager 2005:54; Hillison *et al.* 1999:351; Kassem and Higson 2012:191; Marais and Odendaal 2008:35; Murphy and Dacin 2011:602; Shawyer and Walsh 2007:108). Fraud is likely to be encouraged by “weak and lack of internal controls and the poor governance management in the national departments” (Gloeck and De Jager 2005:53; see also Corruption Watch 2013). Fraud can be further defined as “any illegal acts characterised by deceit, concealment or violation of trust” (IIA 2012).

The *PFMA* sets out the factors to be considered by the IAF or any other assurance provider when assessing reportable expenditure. The Act specifically mentions that fruitless and wasteful expenditure are expenditures made in vain, which could have been avoided had reasonable care been exercised by the AOs. Irregular expenditure is regarded as expenditure incurred without complying with applicable laws and regulations, whereas unauthorised expenditure refers to expenditure in excess of the amount budgeted for but not incurred in accordance with the purpose for which it was intended (National Treasury 2012).

For South African national government departments, sections 38(1)(c)(ii) and 51(1)(b)(ii) of the *PFMA* requires AOs to take appropriate steps to prevent fruitless and wasteful, irregular or unauthorised expenditure (RSA 1999). Where such expenditure is discovered, the AO should immediately report it in writing to the relevant treasury (RSA 1999: section 38(1)(g)). Furthermore, the AO should report on material losses incurred as a result of such expenditure in the annual report and financial statements of the national department (RSA 1999: section 40(3)(b)(i)). In order to assist the AO in performing these duties, paragraph 14.18 of the Treasury Regulations (National Treasury 2012) requires that “when an employee of a department discovers unauthorised, irregular or fruitless and wasteful expenditure” it must be reported immediately to an AO. The IAF, as an employee of the national department, thus also has a duty to report any such expenditure it discovers to the AO and the audit committees.

FINDINGS AND DISCUSSION

Table 1 below indicates the perceptions of the respondents on whether the IAF has a responsibility to prevent and detect fraud and fruitless and wasteful, irregular or unauthorised expenditure. The results indicate that 68% of the AO respondents, 57% of the CAC respondents and 75% of CAE respondents did not believe that their IAFs had a responsibility to *prevent* material fraud in their departments. However, 61% of those AOs, 73% of those CACs and 56% of those CAEs indicated that they believed that IAFs had a responsibility to *detect* material fraud. Therefore, the perceptions of the respondents highlight the importance of awareness about the IAF's responsibility towards fraud, although the respondents believe that the identification of fraud risk rests with the AOs and not the IAFs.

With regard to the prevention and detection of reportable fruitless and wasteful, irregular or unauthorised expenditure, all three categories of respondents held similar views, in that 58% of the AOs respondents answered No, together with the 73% of the CACs and 78% of the CAEs respondents, who responded that it is the AO's responsibility to *prevent* reportable fruitless and wasteful, irregular or unauthorised expenditure. However, with regard to the IAF's responsibility towards *detection*, the responses indicate that 65% of the AOs, 77% of the CACs and 72% of the CAEs answered Yes, and thus believed that the IAFs had a responsibility in the detection of reportable fruitless and wasteful, irregular or unauthorised expenditure in the national departments. Therefore, it should be noted that fruitless and wasteful expenditure does not necessarily imply acts of fraud, although it may constitute fraud and corruption, especially if the resources or money are mismanaged or not used for the planned purposes.

Table 2 presents the response rates for awareness of fraud-related incidents in national departments, including awareness of reportable fraud, fruitless and wasteful, irregular or unauthorised expenditure over the past five years. The results indicate that the AOs, CACs

Table 1: IAF's responsibility with regard to fraud and fruitless and wasteful, irregular or unauthorised expenditure

Questions	AOs			CACs			CAEs		
	Yes	No	Unsure	Yes	No	Unsure	Yes	No	Unsure
Prevention of material fraud?	29	68	3	40	57	3	22	75	3
Detection of material fraud?	61	32	6	73	23	3	56	38	6
Prevention of reportable fruitless and wasteful, irregular or unauthorised expenditure?	39	58	3	23	73	3	22	78	0
Detection of reportable fruitless and wasteful, irregular or unauthorised expenditure?	65	35	0	77	20	3	72	25	3

Note: = All figures are percentages (%)

Table 2: Fraud and fruitless and wasteful, irregular or unauthorised expenditure

Questions	AOs			CACs			CAEs		
	Yes	No	Unsure	Yes	No	Unsure	Yes	No	Unsure
Has the department been a victim of any fraud in the last five years?	77	16	6	70	20	10	68	19	13
Are you aware of the occurrence of reportable fruitless and wasteful, irregular or unauthorised expenditure over the past five years in your department?	90	10	0	73	20	7	81	13	6
Was your department reported on the Presidential Hotline during the last five years?	52	29	19	20	20	60	59	16	25
Note: = All figures are percentages (%)									

and CAEs were aware of incidents of fraud in their respective departments. Of the AOs, 77% were aware of fraud-related incidents over the past five years, compared to 70% of the CACs and 68% of the CAEs respondents. Of the AOs, 90% claimed knowledge of reportable fruitless and wasteful, irregular or unauthorised expenditure within their departments, compared to 73% and 81% of the CACs and CAEs respectively. It also appears from the survey that only 20% of the CACs knew whether their departments had been reported to the Presidential Hotline during the last five years, compared to a higher level of awareness of this issue among AOs and CAEs, at 52% and 59% respectively. By contrast, 60% of the CACs who responded were not sure whether or not their departments had been reported.

Table 3 shows that various parties were perceived to have contributed to the prevention and detection of fraud in national departments, including audit committees, the Auditor-General of South Africa (the external auditor of national departments), in-house and outsourced IAFs, executive authorities, senior managers, risk management functions and operational staff.

The results in Table 3 show the level of comfort by the AOs, the CACs and the CAEs within national departments. Most respondents ranked their level of comfort with the prevention and detection of fraud by other parties at above 50%. It was also found that the executives (the Minister, the MEC or the EXCO) and the operational staff were ranked lower than 50% by the CACs. Despite this low level of confidence, with specific reference to the role of the IAF in fraud prevention and detection, 58.1% of the AOs perceived their in-house IAFs as the parties in the government national departments that should *prevent* fraud, whereas 59.7% perceived the IAFs as being the parties that *detect* fraud. This finding could mean that fraud risk is deemed to be everyone’s responsibility. However, the CACs’

Table 3: Perceptions of AOs, CFOs, COOs, CACs and CAEs on the degree of comfort provided by various parties that fraud will be prevented and detected

Question	AOs		CACs		CAEs	
	Prevent	Detect	Prevent	Detect	Prevent	Detect
The degree to which the following parties provide comfort regarding fraud						
Audit committee	51.8	53.4	64.8	58	62.5	59.5
Auditor-General of South Africa or department's external auditors	61.7	68.5	60.3	65.8	58.6	62.5
In-house IAF	58.1	59.7	63.9	65.2	73.3	74.2
Outsourced IAF	60.5	61.3	62.5	63.9	61.4	65.9
Minister/MEC/EXCO	61.2	56.7	49	42	57.8	50
Senior management of the Department	55.6	58.9	60.3	55.2	55.6	52.4
Risk management function	59.5	61.6	55.8	52.9	54.3	56.9
Operational staff	55.6	55.6	45.4	42	53.2	50.8
Note: = All figures are percentages (%)						

views suggest that the executives and operational staff rank their role as less related to the *prevention* than to the *detection* of fraud in national departments.

The survey also shows how the respondents perceived the Auditor-General of South Africa or the department's external auditors. Both the AOs and the CACs ranked the Auditor-General of South Africa or the department's external auditors well over 60%. It is relevant that all the respondents (AOs, CACs and CAEs) indicated that they felt a high degree of comfort that the Auditor-General of South Africa's or the department's external auditors will prevent and detect fraud, occasionally exceeding the level of comfort assigned to the IAF.

The findings also indicate that the CACs have a high level of trust in their in-house IAFs in respect of the prevention and detection of fraud. Of the CACs, 63.9% indicated that an in-house IAF has a role to play in the prevention of fraud in national departments. Consistent with these perceptions, 65.2% of the CACs considered that the in-house IAF could be critical in the detection of fraud. Approximately 73.3% and 74.2% of the CAEs perceived themselves as the appropriate parties to prevent and detect fraud respectively in the national departments. The CAEs' responses, however, were found to be more of a self-evaluation of their role in fraud prevention and detection in the national departments.

With regard to the perceived role of an outsourced IAF, the perceptions of the AOs, the CACs and the CAEs were very similar. For instance, 60.5% of the AOs perceived an outsourced IAF as the party most suited to providing comfort regarding fraud, as opposed to 61.3% of the AOs, who perceived the outsourced IAF to be fraud detectors. The results indicate that just over 60% of the CACs perceived the outsourced IAF as the party to prevent and detect fraud. This could indicate that the CACs are confident about the work of their IAFs, regardless of whether the IAF is in-house or outsourced. The ratings of 61.4% and

65.9% by the CAEs are thus not surprising, as these relate to a self-evaluation about how they perceive themselves in the role they play with regard to fraud in the national departments.

CONCLUSIONS AND RECOMMENDATIONS

This article reported on the perceptions of the AOs, the CACs, and the CAEs of national departments in the South African public sector about the IAFs' role with regard to combatting fraud. It presented a literature review on the role of the IAF, discussing the topic with specific reference to fraud prevention and detection, fraud and reportable wasteful, irregular and unauthorised expenditure, and combined assurance in fraud prevention and detection. The literature review showed that the IAF can and should detect fraud and is also expected to communicate fraud risks and allegations of fraud to AOs and audit committees, but that the AOs and audit committees are ultimately responsible for taking appropriate action.

The article attempted to answer the questions relating to perceptions of whether the IAF (whether in-house or outsourced) is responsible for reporting fruitless and wasteful, irregular or unauthorised expenditure, and whether national departments have been victims of fraud and have been reported on to the Presidential Hotline during the last five years. The study reported in this article concluded that fraud risk should be everyone's responsibility in departments, as fraud violates individual values, and undermines a government's effort to deliver quality service to its people. Where the IAF is used as a management tool, the responsibility for managing the enterprise risk system still rests with the AOs, as set out in the legislative frameworks and the internal auditing Standards.

The survey found that the IAF is perceived by AOs, CACs and CAEs to be an essential party in the *detection* of fraud. Furthermore, the survey confirmed that the AOs and the CAEs of the departments who responded were aware of reportable fraud incidents in the last five years. This implies that both AOs and CAEs should take full responsibility for notifying the CACs as to whether a department has been reported to the Presidential Hotline or any whistleblowing agency. Such notification can be done in the audit committee meetings or in a private meeting between the CAEs and the ACs (if a reportable transgression or allegation of fraud relates to the AOs).

The AOs, CACs and CAEs believe that IAFs, regardless of whether they are in-house or outsourced, are important parties and should provide comfort regarding the curbing of fraud. The analysis and discussion of the Auditor-General of South Africa or the department's external auditors also revealed that IAFs provide a degree of comfort regarding fraud prevention and detection. Therefore, it can be concluded that possible transgressions (as a result of fraud, unauthorised, irregular, as well as fruitless and wasteful expenditure) can also be identified and detected by the Auditor-General of South Africa or a department's external auditors.

This article recommends that hotline reports should be formally assessed by the IAFs and should be presented to the AC meetings. Such a presentation should be a standing agenda item in every AC meeting. Thus, the ACs should be furnished with a summary of all allegations of fraud received from any source (assurance providers) and made to whistleblowing agencies (such as the Presidential Hotline, the Auditor-General of South Africa and the treasury departments). This will assist ACs to evaluate whether the IAFs have

sufficient specialised skills to detect fraud in the national departments. It will also assist the ACs to monitor the progress of fraud reporting in the departments. This will also ensure that the ACs become aware and informed about the fraud risk assessments in a department.

Although this article concludes that the final responsibility to manage fraud risk remains that of the AO, other assurance providers can also play an important role by assisting the AOs and can alleviate this burden. Of the various assurance providers, the IAF can make the most prominent contribution in this regard. This mandate may well strengthen the IAF in its role of effectively detecting incidents of fraud in a department. In conclusion, further research is suggested into the value-added role that internal audits could play with specific reference to fraud prevention and detection.

REFERENCES

- Alleyne, P. and Howard, M. 2005. An exploratory study of auditors' responsibility for fraud detection in Barbados. *Managerial Auditing Journal*, 30(3):284–303.
- Asare, S.K., Davidson, R.A. and Gramling, A.A. 2008. Internal auditors' evaluation of fraud factors in planning an audit: The importance of audit committee quality and management incentives. *International Journal of Auditing*, 12:181–203.
- Asare, T. 2009. Internal auditing in the public sector: Promoting good governance and performance improvement. *International Journal on Governmental Financial Management*, 1X(1):15–28.
- Bales, K. and Fox, T. 2011. Evaluating a trend analysis of fraud factors. *Journal of Finance and Accountancy*, 05 March, 1–10.
- Burnaby, P., Howe, M. and Muehlmann, B.W. 2011. Detecting fraud in the organisation: An internal audit perspective. *Journal of Forensic & Investigative Accounting*, 3(1):195–233.
- Coram, P., Ferguson, C. and Moroney, R. 2008. Internal audit: Alternative internal audit structures and the level of misappropriation of assets fraud. *Accounting and Finance*, 48:543–559.
- Corruption Watch. 2013. *Arms corruption: SA high risk*. [Online] Available at: <http://www.corruptionwatch.org.za/content/arms-corruption-sa> (Accessed on 14 January 2014).
- Deloitte. 2010. *Public sector shaping our future*. Johannesburg: Deloitte. [Online] Available at: <http://www.deloitte.com/assets/Dcom-SouthAfrica/Local%20Assets/Documents/Public%20Sector%20brochure.pdf> (Accessed on 18 April 2014).
- Deloitte. 2012. *The internal audit fraud challenge, prevention, protection, detection*. Deloitte Limited. [Online] Available at: www.deloitte.com/assets/Dcom-UnitedKingdom/.../uk-ers-fraud.pdf (Accessed on 18 December 2013).
- Dintwe, S. 2013. The ineffectiveness of anti-corruption programmes in addressing public sector corruption: A corporative governance perspective. *Journal of Public Administration*, 48(4):553–567.
- DPSA (Department of Public Service and Administration). 2003. *Country corruption assessment report*. [Online] Available at: www.gov.za/documents/download.php?f=70185 (Accessed on 19 April 2014).
- Gloeck, J.D. and De Jager, H. 2005. Fraud profiles of public sector institutions in South Africa. *Southern African Journal of Accountability and Auditing Research*, 6:49–65.
- Hillison, W., Pacini, C. and Sinason, D. 1999. The internal auditor as fraud buster. *Managerial Auditing Journal*, 14(7):351–362.
- IoD (Institute of Directors in Southern Africa). 2009. *King report on governance for South Africa 2009*. Johannesburg: Institute of Directors.



- IIA (Institute of Internal Auditors). 2006. *The role of auditing in public sector governance*. Altamonte Springs, FL: Institute of Internal Auditors.
- IIA (Institute of Internal Auditors). 2009. *Internal auditing and fraud*. Altamonte Springs, FL: Institute of Internal Auditors.
- IIA (Institute of Internal Auditors). 2012. *The role of auditing in public sector governance*. 2nd edition. Altamonte Springs, FL: Institute of Internal Auditors.
- IIA (Institute of Internal Auditors). 2013. *The International Professional Practice Framework (IPPF)*. Altamonte Springs, FL: Institute of Internal Auditors. [Online]. Available at: <https://na.theiia.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx> (Accessed on 14 January 2014).
- IIA, AICPA and ACFE (Institute of Internal Auditors, American Institute of Certified Public Accountants and Association of Certified Fraud Examiners). 2008. *Managing the business risk of fraud: A practical guide*. [Online] Available at: <http://www.theiia.org/media/files/fraud-white-paper/fraud%20paper.pdf> (Accessed on 20 March 2014).
- Jackson, R.A. 2008. Reputations at risk. *Internal Auditor*, LXIV(III):64–70.
- Kassem, R. and Higson, A. 2012. The new fraud triangle model. *Journal of Emerging Trends in Economics and Management Sciences*, 3(3):191–195.
- Marais, M. and Odendaal, E.M. 2008. Fraud examination: Do auditors need the knowledge and skills? *Southern African Journal of Accountability and Auditing Research*, 8:35–44.
- Murdock, H. 2008. The three dimensions of fraud. *Internal Auditor*, LXXV(4IV):81–83.
- Murphy, P.R. and Dacin, M.T. 2011. Psychological pathways to fraud understanding and preventing fraud in organisations. *Journal of Business Ethics*, 101:601–618.
- National Treasury. 2005. *Treasury Regulations for departments, trading entities, constitutional institutions and public entities: Issued in terms of the Public Finance Management Act, 1999*. [Online] Available at: http://www.treasury.gov.za/legislation/pfma/regulations/gazette_27388.pdf (Accessed on 16 May 2014). National Treasury. 2009. *Internal Audit Framework*. 2nd edition. Pretoria: National Treasury.
- National Treasury. 2011. Duty to report known or suspected corrupt transactions. [Online]. Available at: <http://www.treasury.gov.za/legislation/pfma/circulars/Duty%20to%20Report%20Corrupt%20Transactions.pdf> (Accessed on 17 April 2014).
- National Treasury. 2012. *Draft Treasury Regulations. Regulation Gazette, Issued in terms of the Public Finance Management Act, 1999*. [Online] Available at: <http://www.treasury.gov.za/legislation/pfma/regulations/Draft%20Treasury%20Regulations%20for%20public%20comment.pdf> (Accessed on 12 March 2014).
- National Treasury. 2013. *Fraud prevention plan*. [Online] Available at: <http://oag.treasury.gov.za> (Accessed on 23 January 2014).
- Norman, C.S., Rose, A.M. and Rose, J.M. 2010. Internal audit reporting lines, fraud risk decomposition and assessments of fraud risk. *Accounting, Organisations and Society*, 35: 546–557.
- PricewaterhouseCoopers. 2011. *Fighting fraud in the public sector*. New South Wales: PricewaterhouseCoopers International Limited. [Online] Available at: http://www.pwc.com/en.../fighting_fraud_in_the_public_sector_june2011.pdf (Accessed on 3 December 2013).
- Rae, K. and Subramaniam, N. 2003. Quality of internal control procedures: Antecedents and moderating effect on organisational justice and employee fraud. *Managerial Auditing Journal*, 23(2):104–124.
- Ramos, M. 2003. Auditors' responsibility for fraud detection. *Journal of Accountancy*, 195(1): 28–35.
- RSA (Republic of South Africa). 1996. *Constitution of the Republic of South Africa, 1996*. Pretoria: Government Printer.
- RSA (Republic of South Africa). 1999. *Public Finance Management Act, 1 of 1999*. Government Gazette, 19814:28 and 56, 2 March. Pretoria: Government Printer.

- RSA (Republic of South Africa). 2004. *Prevention and Combating of Corrupt Activities Act, 12 of 2004*. *Government Gazette*, 26311:466, 28 April. Cape Town: Government Printer.
- SAIGA (Southern African Institute of Government Auditors). 2002. *Public Sector Fraud Survey*. [Online] Available at: <http://www.saiga.co.za/research-psfs.htm> (Accessed on 26 February 2014).
- Shawyer, A. and Walsh, D. 2007. Fraud and peace: Investigative interviewing and fraud investigation. *Crime Prevention and Community Safety*, 9:102–117.
- Svare, J.C. 2009. Fraud in a down economy. *Internal Auditor*, LXVI(V):33–36.
- Transparency International. 2013. *The 2013 corruption perceptions index measures: The perceived levels of public sector corruption in 177 countries and territories*. [Online]. Available at: <http://cpi.transparency.org/cpi2013/> (Accessed on 20 March 2014).

AUTHOR'S CONTACT DETAILS

Mr K.N. Motubatse
Auditing
Tshwane University of Technology
Tel: 012 382 0602
E-mail: MotubatseKN@tut.ac.za

